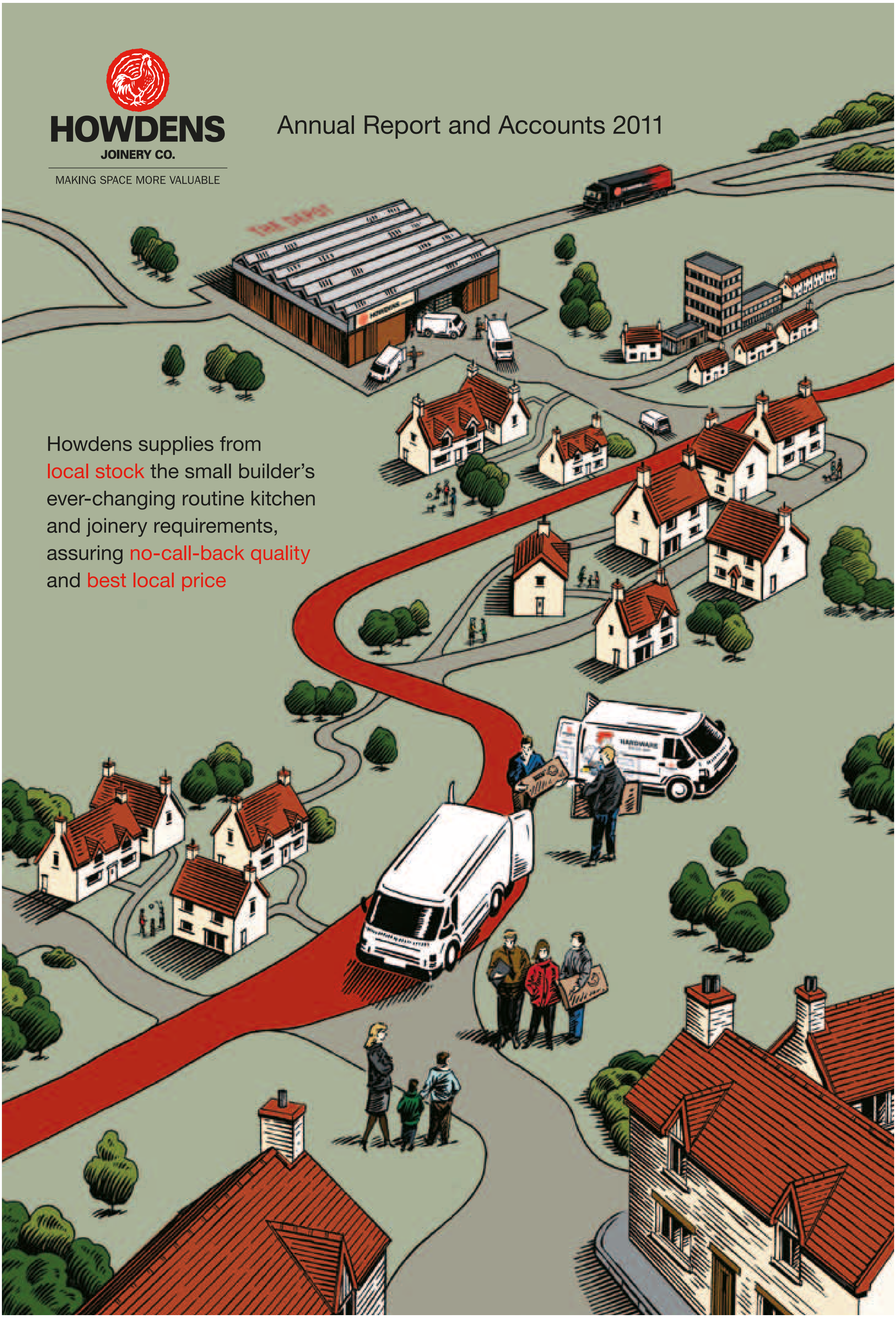
HOWDENS
JOINERY CO.

MAKING SPACE MORE VALUABLE

Annual Report and Accounts 2011

Howdens supplies from local stock 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

The business review

The financial statements

Financial highlights

"The outstanding results we are reporting reflect the strength of Howdens' business model, which is focused entirely on the kitchen and joinery requirements of small builders."

Howden Joinery UK depots revenue

£838.7m

2010: £795.1m

Operating profit

£114.3m

2010: £107.4m

Net cash

£57.1m

2010: £35.0m

Continuing operations[1] (£m unless stated)	**2011**	**2010**	
Revenue			
– Group	853.8	807.9	↑
– Howden Joinery UK depots	838.7	795.1	↑
Gross profit	508.3	483.0	↑
Gross profit margin	59.5%	59.8%	↓
Operating profit	114.3	107.4	↑
Profit before tax	110.0	100.9	↑
Loss before tax from discontinued operations – exceptional item	(8.3)	–	
Earnings per share			
– Basic earnings per share from continuing operations	13.4p	11.1p	↑
– Basic earnings per share from continuing and discontinued operations	12.1p	11.1p	↑
Dividend per share – proposed	0.5p	–	↑
Net cash at end of period	57.1	35.0	↑

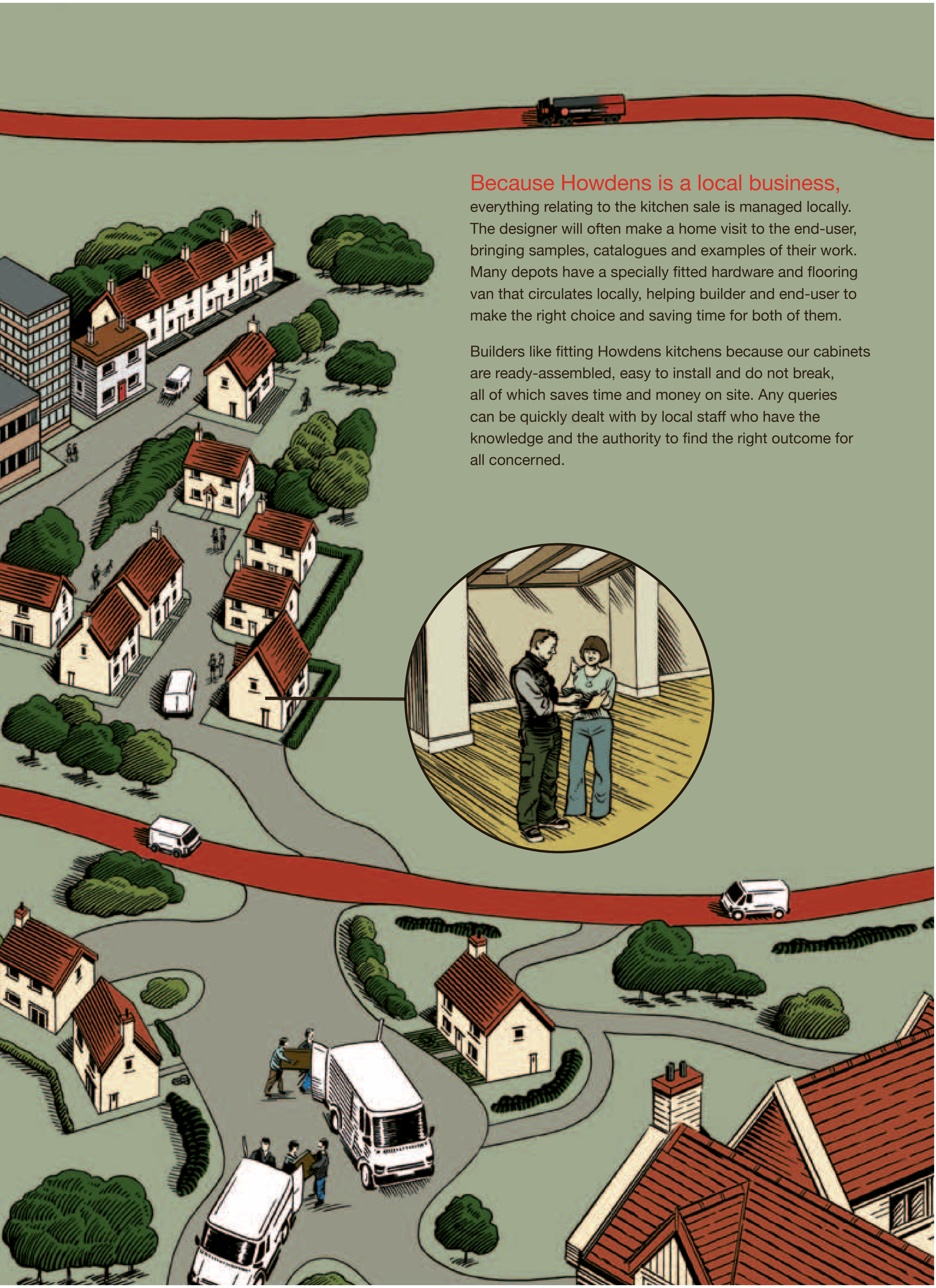
[1] There were no exceptional items from continuing operations in 2010 and 2011, or from discontinued operations in 2010. Exceptional items are explained further in note 6 to the Financial Statements.

Howdens exists to serve the fundamental need

to have a working kitchen in every home. The business is centred on the manufacture and sale of kitchens and joinery to small builders who install them in homes in their local area.

Every Howdens kitchen is professionally designed and planned so that as well as looking good it fits perfectly into, and makes best use of, the available space. We employ over 1,000 skilled designers, based in local depots across the country, who work with builders and their clients to ensure the kitchen meets their needs and fits their budget.

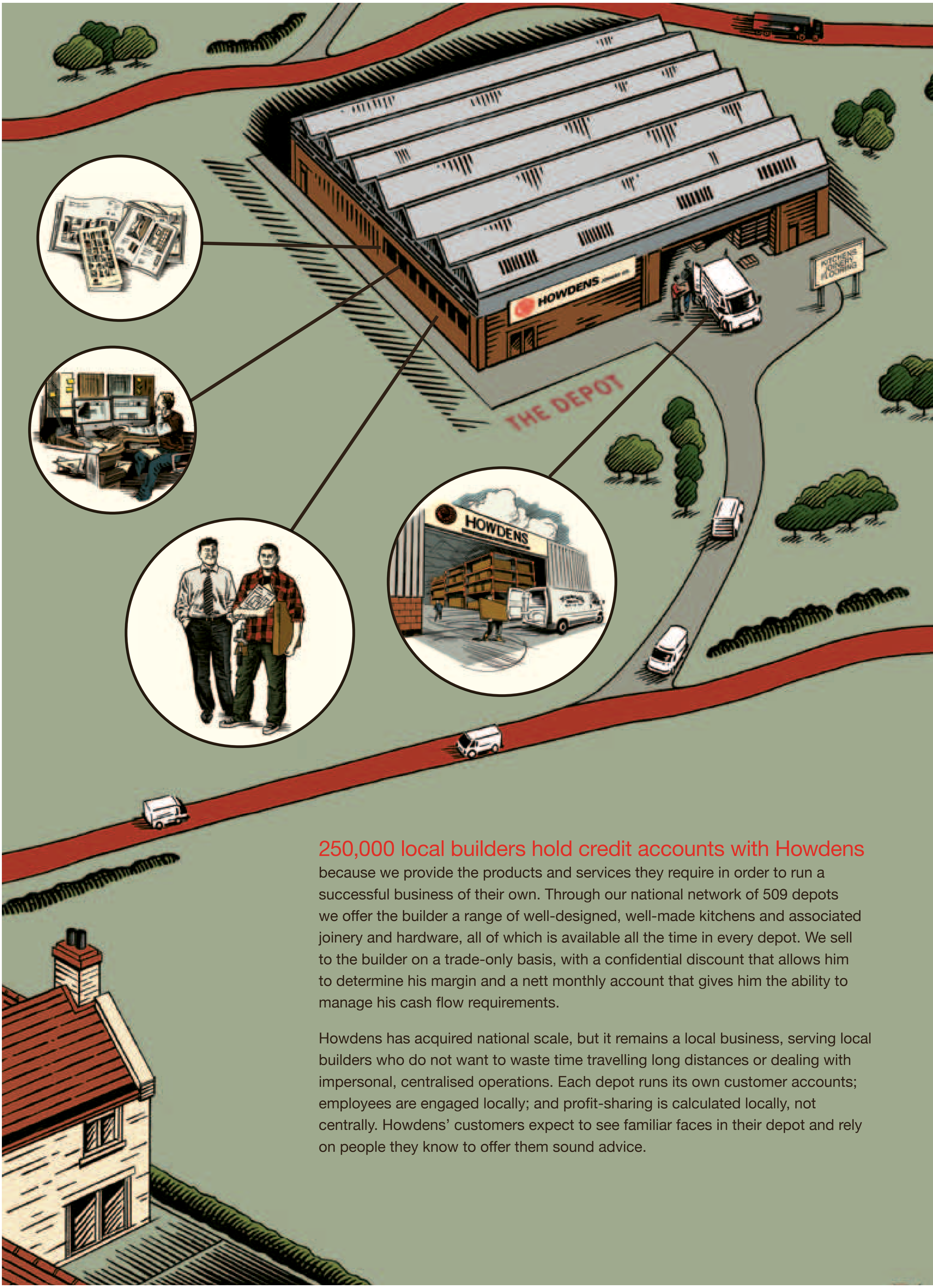
The end-purchaser of the kitchen may be an owner-occupier, a private landlord, a small developer, a housing association or a local authority. In each case, we help the builder to help them choose the Howdens kitchen, joinery, flooring and appliances that will suit them.



Because Howdens is a local business,

everything relating to the kitchen sale is managed locally. The designer will often make a home visit to the end-user, bringing samples, catalogues and examples of their work. Many depots have a specially fitted hardware and flooring van that circulates locally, helping builder and end-user to make the right choice and saving time for both of them.

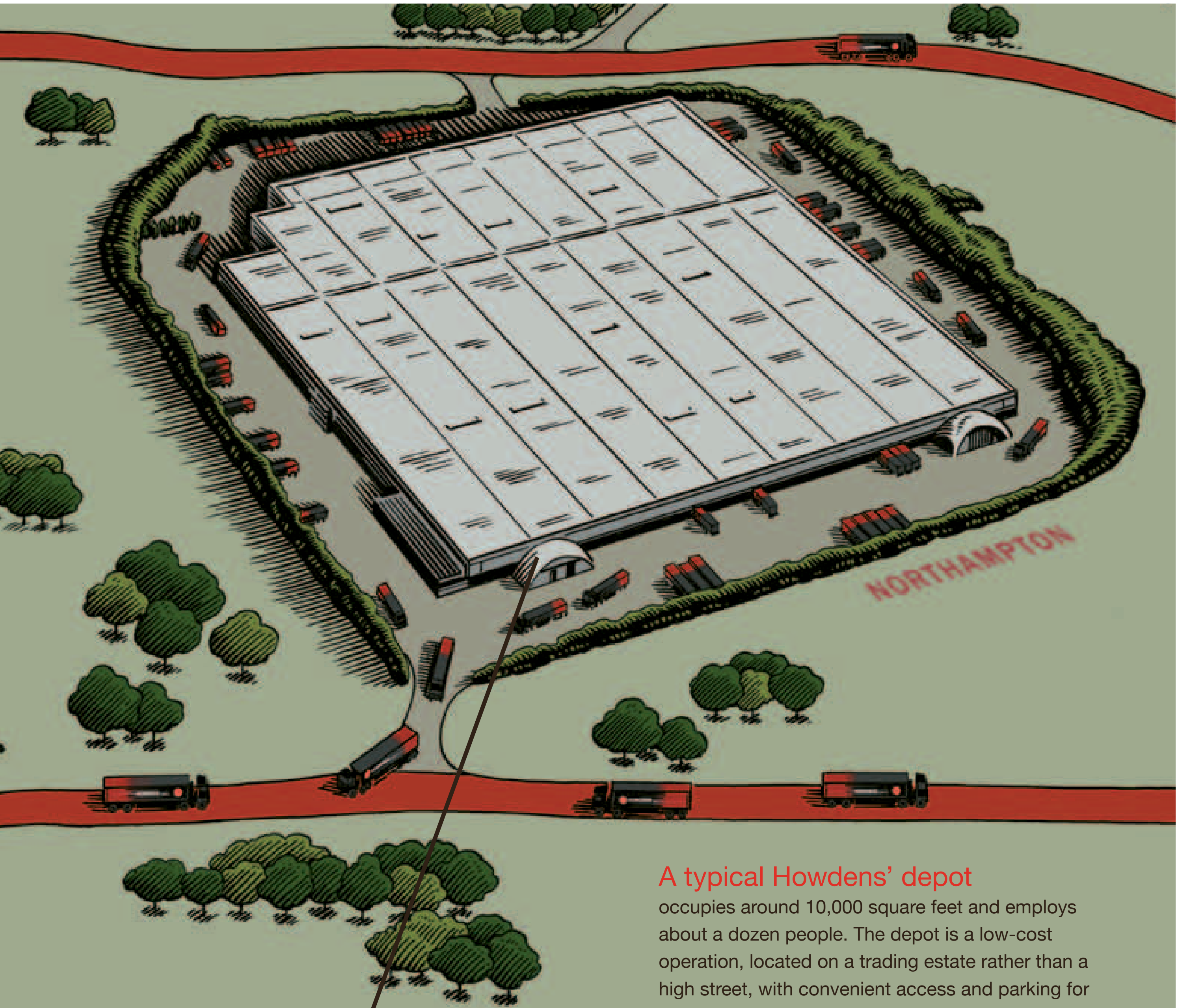
Builders like fitting Howdens kitchens because our cabinets are ready-assembled, easy to install and do not break, all of which saves time and money on site. Any queries can be quickly dealt with by local staff who have the knowledge and the authority to find the right outcome for all concerned.



250,000 local builders hold credit accounts with Howdens

because we provide the products and services they require in order to run a successful business of their own. Through our national network of 509 depots we offer the builder a range of well-designed, well-made kitchens and associated joinery and hardware, all of which is available all the time in every depot. We sell to the builder on a trade-only basis, with a confidential discount that allows him to determine his margin and a nett monthly account that gives him the ability to manage his cash flow requirements.

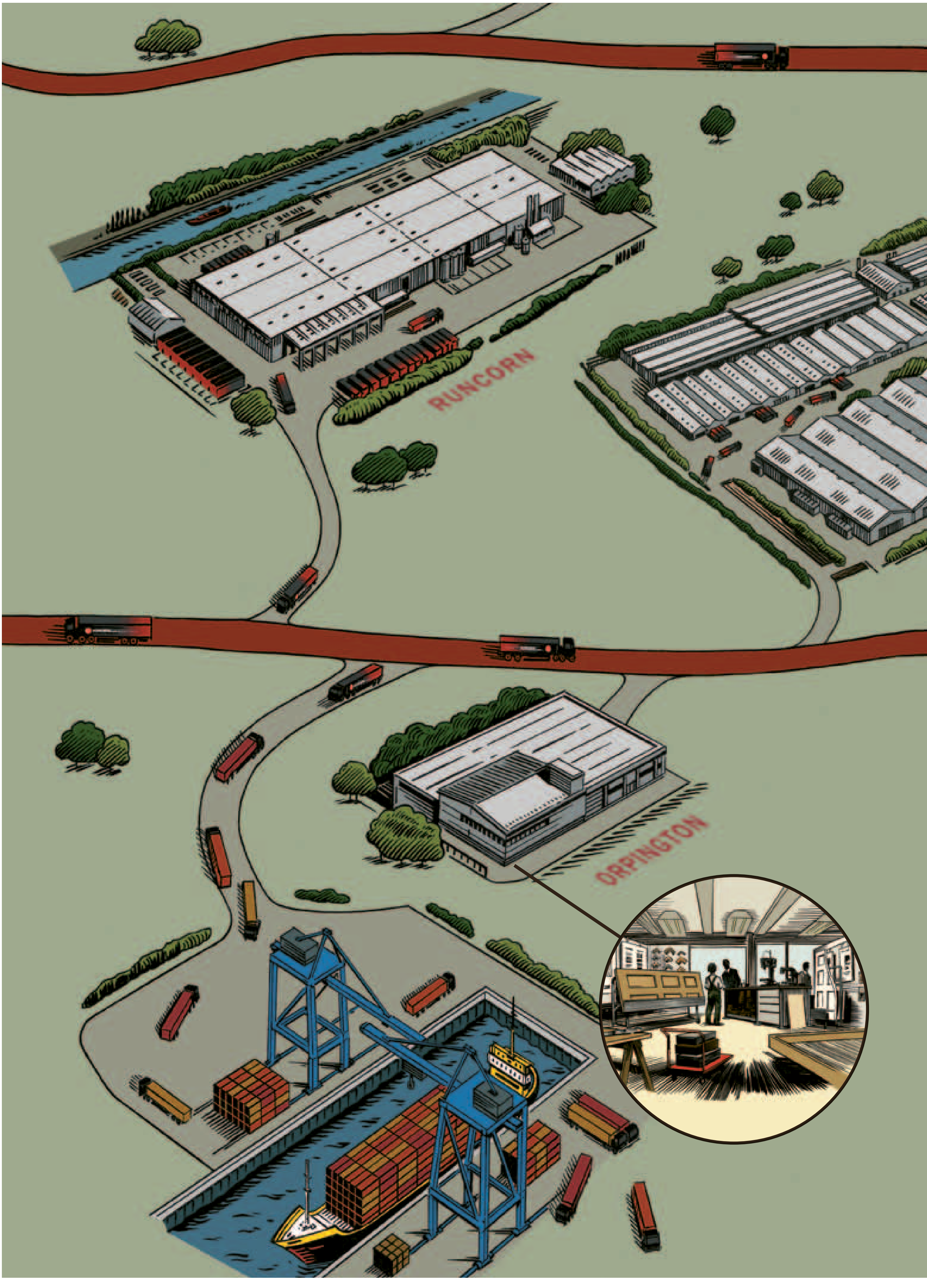
Howdens has acquired national scale, but it remains a local business, serving local builders who do not want to waste time travelling long distances or dealing with impersonal, centralised operations. Each depot runs its own customer accounts; employees are engaged locally; and profit-sharing is calculated locally, not centrally. Howdens' customers expect to see familiar faces in their depot and rely on people they know to offer them sound advice.

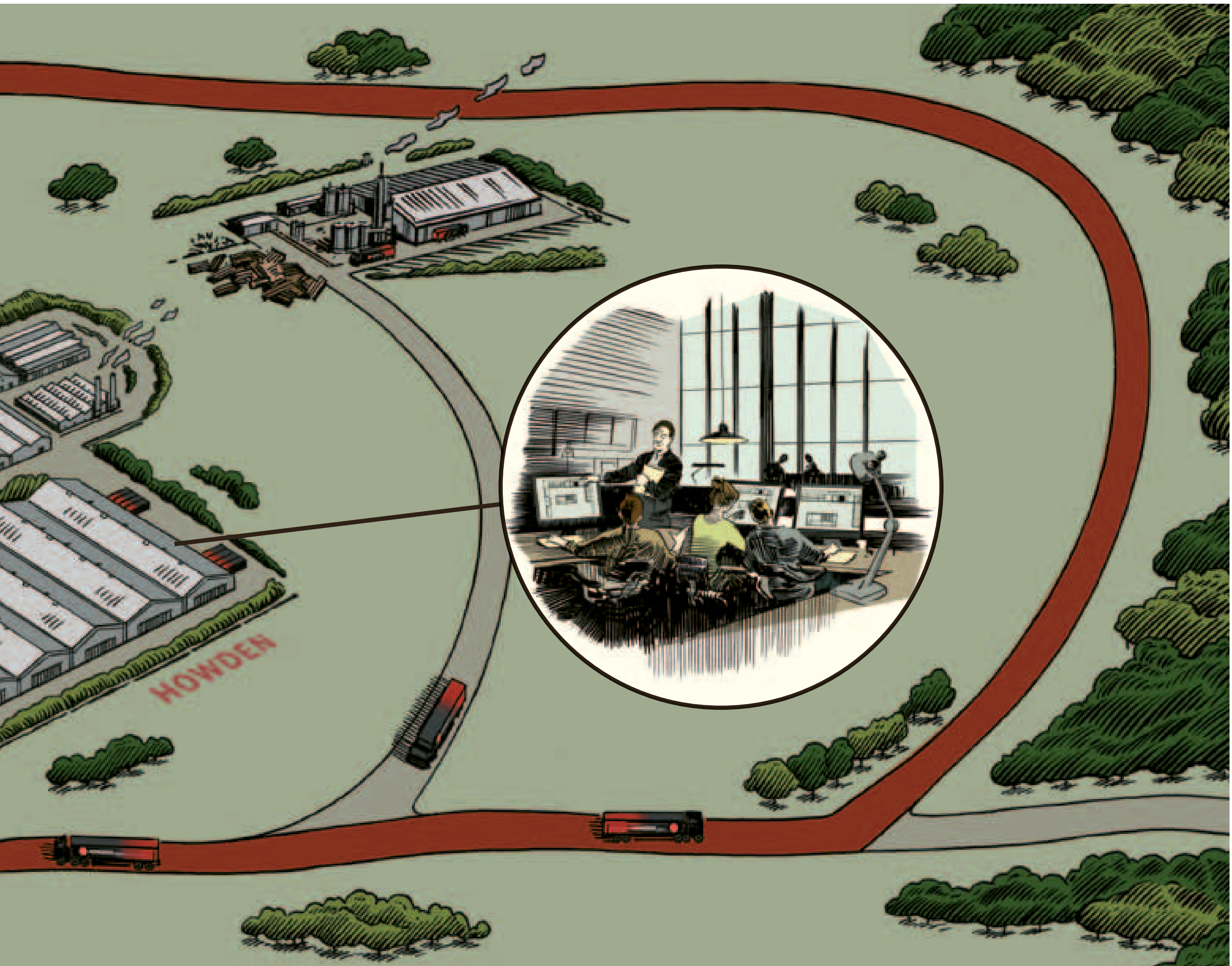


A typical Howdens' depot

occupies around 10,000 square feet and employs about a dozen people. The depot is a low-cost operation, located on a trading estate rather than a high street, with convenient access and parking for the builder. Rent averages £5 per square foot and the typical depot fit-out cost is around £170,000.

The depot is able to keep everything in stock, and Howdens is able to refine stock levels, because each depot manager can use local knowledge to tailor re-order requirements to suit the needs of his or her customers. Our main distribution centre, in Northampton, also houses our marketing department, whose role is to spread the news about our product, both within the business and more widely to our customers and end-users, and to gather useful feedback about it from all parties.


RUNCORN
ORPINGTON



Howdens employs its own manufacturing workforce

in two factories – one in Howden, Yorkshire and one in Runcorn, Cheshire – where we make all our own cabinets, using raw material from trees grown in managed forests in Scotland. Howdens' rigid cabinet manufacturing capacity is the largest in Europe and our production facilities are among the leading employers in their local communities.

Last year we produced over 3.5 million kitchen cabinets and 860,000 worktops. Through manufacturing products ourselves, we gain flexibility and speed to market, specialised knowledge, credibility with our customers and end-users, control over product quality and accuracy and security of supply.

Our product design team, based at our Yorkshire factory, is responsible for the look and functionality of all our ranges. The team works closely with our sales force, our production engineers and our specialist suppliers to make sure all the products we sell meet our demanding specifications and the needs of the builder. When we buy in kitchen fascias, appliances, joinery and hardware, our aim is to source as cost-effectively as possible while maintaining high standards of product quality and environmental performance.

Our promise to the builder, and to the end-user, is of no-call-back quality. We have set up a special facility in Orpington where we test products and appliances and think about how to improve their performance and ease of fit and use. Orpington is a point of reference both for depots seeking specialist product advice and for our manufacturing, planning and marketing people looking to make sure that new product developments are well-founded.

Chairman's statement

In a climate of continuing economic uncertainty, Howdens significantly outperformed the market, delivering increases in sales, profit, earnings per share and cash at the year end.

RESULTS

I am pleased to report that in 2011 Howden Joinery Group's continuing focus on its distinctive business model, and its willingness to invest in its growth and development, were again reflected in good results.

In a climate of continuing economic uncertainty, Howdens significantly outperformed the market, delivering increases in sales, profit, earnings per share and cash at year end. Despite market conditions the business succeeded in maintaining a strong gross margin of 59.5% (2010: 59.8%).

The inherent profitability of Howdens' business model (described in the coloured section at the front of this Report and in the Chief executive's review) and the ability of the Group to generate cash are the keys to its resilience, and to its prospects.

As a growing business in an increasingly complex and sophisticating market, reinvestment is a strategic priority for Howdens. At the same time, the Group also still has significant, ongoing legacy commitments relating both to pension deficit funding and to the rent and rates associated with a diminishing number of leases of unoccupied properties. Taken together, these legacy commitments, together with sums paid to terminate leases, required a £63 million cash contribution from the business during 2011.

Against this background, the Board has decided to resume payment of the dividend, and is recommending a final dividend of 0.5 pence per share. In reaching this decision, the Board has taken account of a number of factors, including its desire to signal its confidence in the longer term prospects of the business and to reward shareholders. In recommending this prudent level of dividend, we have taken into account the opportunities we see to invest in the growth of the business through the opening of new depots and investment in our UK manufacturing operation, and fund deals to terminate leases on legacy properties, both of which should deliver good returns; the need to contribute to the legacy pension deficit; and our desire to maintain a strong balance sheet given prevailing economic conditions, all of which we believe to be in the best interest of shareholders. It is expected that similar considerations will influence the Board's approach to the dividend in respect of the current financial year.

BOARD

In May 2011 we welcomed Mark Allen, CEO of Dairy Crest Group plc, to the Board as a non-executive director. Mark succeeds Ian Smith, who made an important contribution to the Board for which we are very grateful.

The Board welcomes the increased focus on the appointment of women to board and senior management roles in public companies that accompanied the publication of the Davies Report. We believe that it is in the interests of Howden Joinery Group and of its shareholders for us to build a stable, cohesive and representative Board; and our Nominations Committee will continue to seek diversity of mindset as well as of gender and background when considering new appointments.

DEVELOPMENT AND EMPLOYMENT

Howdens' management team have identified many opportunities for further growth. Over the coming years we plan to continue to expand the depot network, to improve individual depot performance and to take advantage of our manufacturing skills and capacity to drive further efficiencies.

Even in a challenging economic environment Howdens has been able to grow and create jobs, especially in areas associated with new depot openings and the development of new product. It is in the nature of our business to value the technical and commercial skills that are practised by local builders and tradespeople. We actively seek to promote the development of these skills in the workplace and interest in them in the wider community. To this end, we have taken on 168 apprentices; a further 29 are currently being recruited. We also believe that it is important to support young people who want to learn traditional joinery skills. To this end we funded bursaries for 20 apprentice joiners in 2011, as well as offering structured support to a number of colleges offering relevant NVQ courses.

MANAGEMENT AND STAFF

The results that we are reporting for 2011 are a tribute to the judgement and decisiveness of our management team and to the hard work and commitment of every member of our staff. I would like to take this opportunity to thank them all on behalf of the Board.

The respect for service and consideration for others that lie at the heart of Howdens are also exemplified by our staff in their lives beyond the depot, office or factory gate. We are extremely proud to record that, in 2011, the many and varied efforts of our employees raised approximately £814,000 for over 2,000 different causes in their local communities across the country.

OUTLOOK

For the rest of 2012, we expect market conditions to continue to be challenging and we remain cautious about the outlook. As in recent years, we will quickly and appropriately adapt to the market and economic conditions we encounter.

Whilst mindful of the challenges presented by the external environment and by the ongoing obligations of the business, the Board is confident that the business is well positioned to take advantage of the many opportunities for further growth and improvement that will undoubtedly arise.

Will Samuel
Chairman

29 February 2012

The inherent profitability of Howdens' business model and the ability of the Group to generate cash are the keys to its resilience, and to its prospects.

Chief executive's statement

Our results demonstrate the benefits of the investment we have already made in service and efficiency, and of the hard work that has been evident in every area of the business.

The results we are reporting for 2011 reflect the inherent profitability of the business, and its capacity to generate cash, which has allowed us to grow and develop as well as meet our legacy obligations. They also demonstrate the benefit of the investments we have already made in service and efficiency, and of the hard work that has been evident in every area of the business.

In this review I would like to discuss three themes:

First, the reasons why the Howdens' model is so successful;

second, the plans we have to develop the business; and

third, in the shorter term, our approach to the market in the months ahead.

I'll start at the beginning, with the Howdens' model, which is based on a number of well-defined elements.

First, and principally, it is trade only, which means a constant focus on serving one customer – the small builder. We must not forget that we supply builders, who in turn supply people like us. Only Howdens can offer: a well-designed range of rigid cabinets, frontals and joinery that are easy to install, saving the builder time and therefore money; a quality of construction that means our kitchens do not break, look good and work well, saving more time and money (we call it "fitability"); a confidential discount that allows builders to determine their own margin and make a living; and a nett monthly account that allows them to manage their cash flow.

Second, we promise small builders everywhere that all our ranges are available locally, all the time, so they can pick up a complete kitchen when they need it, and they can finish their job and get paid by their customers, which means they can pay us.

Third, Howdens is a local business. We have 509 local depots, because builders do not want to waste time driving to and fro – they want to get on with the job. Their account is with their local depot. The depot staff know what each account customer needs. And so there are no misunderstandings, and no call centres, which saves everybody a lot of time, as well as money.

"Local" also means that each Howdens' depot is fully accountable for its own performance. Depot managers hire their own staff, refine their own stock to suit local needs, market it themselves to their own customers, and adjust their own pricing to suit local conditions. They are wholly responsible for their own sales and their own margin.

Depot managers and staff are all incentivised to drive more sales and more margin, as efficiently as possible. Their bonus is based on a share of their locally generated profit less any stock loss – there is virtually no stock loss.

It is therefore not surprising that depot managers and staff are keen, willing and able to open new accounts and make sure that they trade. Last year they opened 76,000 new accounts, which equated to 38,000 net new accounts in just one year. The total number of credit accounts now stands at almost 250,000.

On any given day, you can observe the combination of around £80 million of stock, spread across 509 depots, with 1,000 kitchen planners capable of planning up to 3,000 kitchens per day, 600 depot-based telesales people, 700 sales reps out on the road looking for new customers, and 250,000 existing customers also out on the road looking for their next job to be getting on with – all of which makes Howdens a business to be reckoned with.

Fourth, we run Howdens as a focused and therefore low-cost operation, with high volumes and predictable sales. We have invested in our own manufacturing capability to ensure better service, greater efficiency, and no waste – whether of money, people, process or space.

Our trade depots are typically 10,000 square feet in size, with rent of around £5 per square foot. They are located on trading estates – not retail parks. We do not have glossy showrooms. Our depots open early in the morning and are shut on Saturday afternoons and Sundays. So altogether, they are not like High Street retailers at all, and their costs are very different too.

As I have remarked before, the Howdens' model only works if it is implemented as a whole, which means all of the elements are non-negotiable.

Our model was designed when the business began in 1995. Its aim is to enable the business to find solutions to complexity efficiently and profitably, because we are engaged in a highly complex activity – that of getting kitchens into homes and making sure they work.

At Howdens, we work very differently to our competitors. As I have pointed out, we are trade only, from local stock, from 509 locations, open 5 ½ days a week, with around 6,000 SKUs kept in low-cost warehousing, offering everyday low prices and a nett monthly account for our customers.

The alternative to this is either complete retail, or a mixture of trade and retail. One could find oneself offering home delivery of a complete kitchen, with a four to six week lead time, which at Howdens' volumes would mean delivering 400,000 kitchens to 400,000 different addresses. You might offer installation, which is a further cost. You would definitely need a showroom, with retail rent and rates, and you would find yourself paying for seven-day working, as well as offering seasonal discounts, and asking your customers for cash upfront – and you would be running a large national advertising campaign.

The Howdens' model only works if it is implemented as a whole, which means all of the elements are non-negotiable.

Chief executive's statement continued

There are major differences between the way Howdens operates and the model employed by our competitors, and not all of them are readily apparent.

In comparison, the Howdens' model has many advantages. We are only dealing with 6,000 SKUs to 509 locations, not 400,000 kitchens to 400,000 addresses, or home delivery, or installation. Because we keep all items in stock, we do not have to worry about order lead times or what choice our customer will make. The sale is only invoiced when the product is picked from stock in the warehouse, which by the way is located just behind the counter where the customer is standing.

If, however, you were selling a complete kitchen via a retail model, your purchaser could pick any combination of SKUs, so you would find yourself dealing with many possible permutations. From the moment it is ordered, the requirements are set in stone and you have to run with them. Multiply your many differing orders by the number of addresses you are delivering to, and the possibility of mistake or re-delivery, and as you will readily appreciate you are in a world of extraordinary complexity and cost.

By contrast, Howdens' sales are local, and service recovery is local, and therefore fast. There is no lead time because our products are always in stock. In terms of stock management, we can forecast our needs accurately and manage product lifecycles efficiently. This means that for product we manufacture ourselves, we can set up for long runs; and for product we buy in from elsewhere, the same applies – so we are popular with our suppliers too.

Also, choosing a Howdens kitchen is a different experience for our customers. They can change their mind and choose a different worktop, or sink, or tap, or cabinet, right up to the point of collection. The sale has been neither invoiced nor picked. There is no pressure on the purchaser, and no administrative confusion for us.

Finally, of course, we can collect the money owing to us.

There are major differences between the way Howdens operates and the model employed by our competitors, and not all of them are readily apparent.

In essence, Howdens maintains simplicity all the way along the line until the builder installs the SKUs to provide a very complex and sophisticated product in the home. The combination of Howdens and small builders means there is extra value for everybody.

The Howdens' model has proved its worth over sixteen years, and we see no reason to change it – which does not mean it is inflexible. On the contrary, the model has enabled Howdens to survive and thrive in very different conditions. First, from 1995 to 2006, as the business grew rapidly; and then during the critical years from 2006 to 2008, when we faced enormous challenges that included restructuring the Group, reshaping our manufacturing capability, managing our legacy property portfolio, funding our commitments to landlords and pensioners, and trading successfully through the banking crisis and subsequent recession.

Since 2008, we have all been living in uncertain times. As the economy has struggled, and incomes have fallen, costs have continued to rise. Markets have shrunk. House building outside London is virtually at a standstill. Retailers are facing difficulties.

Meanwhile, other changes are afoot. Whatever the market conditions, kitchens are constantly becoming more sophisticated. They have to be more complex in order to deal with our increasing demands. For example, we all take it for granted that surfaces in our new kitchen will be more durable, as well as more attractive, than in our last kitchen.

Also, we live in a world of increasing regulation. In recent years it has focused on the kitchen. Every year we see new directives governing such factors as raw materials, electrical elements, food preparation, child safety, recycling, water consumption and so on.

We have also noticed changes in the way kitchens are bought. People only buy kitchens when they really want them, and they don't just want a kitchen – they want one that works. So they take their time to make sure they are getting the best design, the best functionality, the best service and the best value.

Our customers are not buying kitchens solely on price. We are seeing an increase in average selling prices, driven both by owner-occupiers seeking to maximise the value of their homes, and by landlords seeking to maximise their rents. Also, sophisticating kitchens require more product knowledge. We are seeing an increased level of trust from builders keen to benefit from our knowledge, as well as from the other aspects of our offer, including the attractive terms I have described, and our planning facilities, which are second to none.

As we have always said, builders follow the work and right now, proportionately, we are seeing more money spent by the private sector and less by the public sector.

I mentioned at the start of this review that continuing investment had been a critical factor in our ability to outperform the market and to continue to take market share in these challenging times. But what we have invested in?

The short answer is that we have invested in serving one customer. That means making sure that we can offer our customer both service and efficiency, which together are the drivers of margin and market share.

In order to improve service, we have invested in customer awareness. We provide each of our 250,000 account customers with catalogues, videos, samples and plans of kitchens, worktops, joinery and flooring to support their sales.
We have also invested in focused advertising aimed at the end-user or consumer, rather than at our customer, the small builder, because we have observed that this helps the builder to market the whole range of Howdens' products to an expanding population of aware consumers.

Serving one customer means making sure that we can offer the builder both service and efficiency, which together are the drivers of margin and market share.

Chief executive's statement continued

We have also made significant investments in product, with the emphasis on innovation, quality, range and availability.

We have also invested in people in order to improve both service and efficiency as our business has grown. We have employed more dedicated sales staff, and our van fleet has expanded to include 110 depot-based vans, each of which is set up to display and advise on our range of hardware and flooring. We also have more people focused on product design and new product development. Altogether, we created nearly 300 jobs last year. We currently have around 6,500 people working in the business as a whole, roughly 20% of whom work in manufacturing and supply, with 80% in depot sales and support.

As well as having more people, we have also invested in having motivated people. Every Howdens' employee knows they have a special responsibility, not just to their depot or their production line, but to their colleagues, to their own households, to their local communities, to the builders we serve and to the families in whose homes our kitchens are installed.

That responsibility is rewarded with targeted incentives that are integral to our culture and to our ability to offer better service and greater efficiency to our customers, and to deliver sustainable margin to investors.

We have also made significant investments in product, with the emphasis on innovation, quality, range and availability – so that we can deliver a constant flow of market-leading new product.

Last year we introduced five new kitchen ranges: Burford Grey, which was an immediate success; Burford Maple, which was popular, but not popular enough to satisfy our need for volume; Tewkesbury Skye, which is performing well; and two colours, cream and white, of a new design with an integrated handle which is selling very well. All of these ranges have different price points and all represent the very best of modern kitchen style.

Last September, we introduced a two-year warranty for all our Lamona appliances, and it has proved very successful. We sold 130,000 Lamona ovens during the year. The most popular type of oven is our basic conventional one, the white model of which sells to builders in a pack with a hob and extractor for £170.

It is worth noting that, no matter how good it looks, the kitchen is much more than the triangle of functional food preparation. A whole range of things go on in the kitchen – debating, reading, teaching, homework, not to mention entertaining, arrivals, departures and phone calls. The kitchen can be a computer room, a television room, a home cinema, a doctor's office or a vet's surgery. And we store a lot of things in the kitchen – usually important things. So a kitchen is a special place. It is the heart of our homes, and a home is more than just a house. In Howdens we try always to remember that point.

Our investment in product extends beyond new kitchen ranges.

It includes a new, more stylish cabinet interior as standard; concave curves and a taller wall cabinet in all our best-selling ranges; a wider range of flooring; and a co-ordinated range of joinery doors which are exclusive to Howdens.

It is hard to exaggerate the pace of our recent product development. The last three years have seen remarkable progress – not only in terms of look but also of technical detail that combines to give a bespoke feel, which coupled with availability and price mean that Howdens has a winning proposition.

I mentioned that kitchens are becoming more sophisticated and I would like to be clear about why that is an advantage for Howdens. Sophistication is not the same as complication, and Howdens is not "going upmarket". I mean that Howdens is increasingly attractive to many more end-users because we can offer them the combination of range, design, quality, workability and availability that they simply cannot find, or want to pay for, elsewhere. A key margin driver for Howdens is that we understand how to make simple elements very efficiently and then, through design skill and technical innovation, make them capable of being combined by the builder, in the home, to produce a highly desirable kitchen.

When I say we have invested in product, I mean we have also invested in product availability, all the way back up the supply chain, so that we can keep our promise to the builder that everything he needs will always be in his local Howdens' depot.

It follows that we have also invested in process. As previously reported, we have already committed £20 million to new production lines at Howden and Runcorn, and it is worth reflecting on the importance of manufacturing to Howdens.

We manufacture all our own cabinetry, most of our worktops and some frontals, and this brings many benefits.

In this sophisticating kitchen market, by having control of as much of the process as possible we can increase our speed to market. We also have our own bespoke machinery and tooling, making specialised products that are exclusive to Howdens – not making general products for anyone else – and the manufacturing process is therefore highly efficient. There is no waste – there is no "just in case" in this business. We are making the required quantity of a precisely specified product.

Accuracy of manufacture is very important, especially when it concerns kitchen units. When the builder is fitting a long run of units into an exact space in the kitchen, if each one is slightly smaller or larger than it should be, the result is chaos. However, because we know that precision fit is important, and we are in complete control of the process, we can focus on being as accurate as it is possible to be.

Furthermore, manufacturing supports our reputation with our customers. Builders do not like surprises with product.

A key margin driver is that we understand how to make simple elements very efficiently and then, through design skill and technical innovation, make them capable of being combined by the builder, in the home, to produce a highly desirable kitchen.

Chief executive's statement continued

In this market, we need to be quick on our feet. The way Howdens is organised means we are very close to where sales happen, and that is a source of competitive advantage.

They prefer to buy from manufacturers, and feel they know what they are getting, from people with credibility and a track record.

By manufacturing product ourselves, we are also investing in supporting the margin of the business as a whole – and growing it, compared to others – because of the inherent efficiencies of not producing for anyone else.

There is also the matter of security of supply. This is extremely important to a business that makes over 3.5 million cabinets and 860,000 worktops last year.

We have also invested in the systems that control the manufacturing process, and by so doing have supported our ability to increase productivity and reduce waste. For example, we have invested in robots at the end of the production line, which have helped us gain more efficiency in the smooth transition from manufacturing to warehouse.

Our investment in systems underpins our sales activity too.

For example, we have invested in the latest CAD technology that means we can offer the builder an industry-leading design service to support his sale, and he can fit a properly planned kitchen as quickly and efficiently as possible.

We were pleased to note that last October, during our peak trading period, our systems allowed us to process £100,000 worth of sales in one minute.

Finally, we have invested in space. By that I mean that we have continued to open new depots in new places. Today we have 509 of them. We added 20 new depots last year, and 55 in the last three years. The breakeven point for a new depot's annual turnover is typically around £600,000, so depots can move into profit over one to two years, and then keep on growing.

We have taken opportunities to improve service and efficiency wherever and whenever they have occurred. We are redoubling our efforts to find those opportunities within the business as well as making sure that our operations run effectively from day to day.

We know the importance of vigilance and we monitor everything, all the time – sales, margin, stock, cash, and the performance of every part of the business. In this market, we need to be quick on our feet. The way Howdens is organised means we are very close to where sales happen, and that is a source of competitive advantage.

Vigilance also means responsiveness in every area. If a depot has an IT problem, we see it the moment it happens, and will set about fixing it immediately. If a customer account does not trade for 15 months, we close it, so that we keep a clean account base and know that we are tracking only active customers. We control credit by means of our nett monthly account, which is tightly managed, so that our total cost of credit, including debt recovery and bad debts, still remains less than 1.5% of sales.

What this all adds up to is that Howdens outperforms because we are clear about what we are doing. We design and build a professional product, with an up-to-the-minute design, that requires a professional fit, and we sell it to professional fitters who can go and pick it up from local stock day in, day out; and because we give them a truly reliable service, and a confidential discount, they can make a living out of it.

As we have made clear, Howdens still has onerous legacy commitments. Thanks to our expert property team, we have made great progress with our legacy portfolio. Since 2008, we have freed ourselves from some £300 million of total costs for premiums of £70 million, and have reduced the number of properties concerned from 89 to 19.

However, we still have significant pension obligations, which continue to consume large sums of cash on an annual basis and require the business to continue to deliver high margins and high levels of cash. We believe that Howdens can meet these obligations, because the business is well-founded, and has prospects. So we plan to stick to the model that we know works, and to grow the business on that basis.

Certainly we have scope for more depots. In the past, we have envisaged a total of at least 650. We now believe it is likely to be more than that, probably around 700. We have analysed the performance of new depots and have concluded that they drive growth – they do not cannibalise the trading of older ones to any significant or lasting extent.

We have already improved performance across our existing depots through what we call BDP, or "best demonstrated practice", to drive better service to our customers.

We also have scope for more product innovation. Our design and marketing teams are probably the best in the country, and they are helping to raise our customers' expectations of what we can do. We also have the opportunity as well as the capacity, the technology, and the knowledge to manufacture more products ourselves in order to derive all the benefits I described earlier – speed to market, specialised knowledge, credibility with customers and end-users, product quality, accuracy of fit, flexibility to respond to market needs and security of supply. For all these reasons, it follows that we are actively seeking more manufacturing opportunities, but only if they will support and grow margin throughout our business.

We also have the opportunity to grow in France. We have traded 10 depots in France since 2004 and they performed well in 2011. They grew sales, introduced new product and developed their management skills. So it now seems reasonable to contemplate extending our test. We may open one or two more depots this year to see if we can replicate success more quickly. Unfortunately, the inherent costs of doing business in France mean that any operation there is unlikely to be as profitable

We plan to stick to the model that we know works, and to grow the business on that basis.

Chief executive's statement continued

The business has momentum and morale, and it is well positioned for any improvement in trading conditions.

as in the UK. However, over time we have found that there are small builders in France who are happy to sell our product, and we observe that the market is moving our way, bringing the potential for market share gains as the Howdens' proposition becomes more widely known.

For the moment, however, we should take a short-term view of the business as a whole. As I have said, we are in very uncertain times. The market is down, by as much as 30% over the last four years according to some reports. Budgets are being reshaped and targets redrawn all over Europe. It is still unclear what all this means. We take the view that in the current circumstances, and given the as yet unknown impact of events including the Queen's Diamond Jubilee and the Olympics, we should advance with caution.

So we are going to proceed as follows:

We intend to open a similar number of depots this year as in 2011, and we will do so in tranches. If market conditions improve, we will open a few more, but in any event we will adapt to market conditions and take a prudent approach, as we have done in the past.

We will continue to invest in new product development and at the same time we will, as usual, review our slower-selling ranges and pursue greater stock efficiency so that we can maximise the potential of our best-sellers.

We will keep operating and capital costs under close review to ensure that we can respond rapidly to any change, good or bad, in market conditions.

I would underline that this is a tactical view, and in our opinion the only sensible approach in this period of uncertainty.

It does not change our ambitions for Howdens at all. We have built a business that is growing. It makes products that are relevant and highly regarded. It delivers high margins. It is inherently low-cost and generates cash. It is well-invested. It has momentum and morale, and it is well positioned for any improvement in trading conditions.

There is always more work to do. We are always learning new things and using them to refine our successful model so that it becomes even more effective. What we are seeking to do, as we take Howdens forward, is to find more solutions to complexity by investing in even better service and even greater efficiency – the drivers of margin – and by staying focused on our one customer, the small builder, and via the builder the end-user at the centre of the home.

Because of all of the actions we have taken and the path we are following, we are well placed for this year and for the future beyond.

Matthew Ingle
Chief Executive

29 February 2012

Review of operations and finance

FINANCIAL RESULTS FOR 2011

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

Total Group revenue increased by £45.9m to £853.8m.

Revenue	2011 £m	2010 £m
Howden Joinery UK depots	838.7	795.1
Howden Joinery French depots	15.1	12.8
Group	853.8	807.9

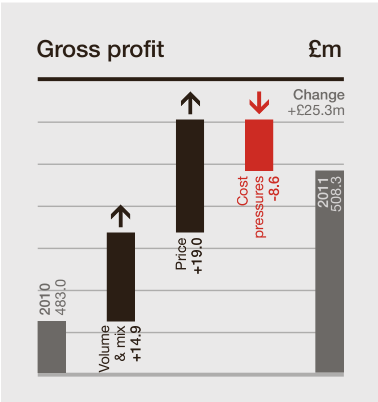
Howden Joinery UK depot revenue rose by 5.5% to £838.7m, increasing 3.1% on a same depot basis.

In demanding market conditions, this growth was achieved through a number of factors, including a significant increase in the number of customer accounts. The value of kitchen (furniture, worktops, sinks & taps and appliances) sales rose partly as a result of a higher proportion of mid and higher priced ranges being sold. Also, the value of door sales increased as the mix changed and the volume of sales of joinery and flooring increased substantially. In addition, selling prices were increased to help offset higher input costs.

Sales by our ten French depots of £15.1m were up over 15% in constant currency terms.

Gross profit rose by £25.3m to £508.3m. As a result, the gross profit margin for the year of 59.5% was little changed (2010: 59.8%), despite higher input prices.

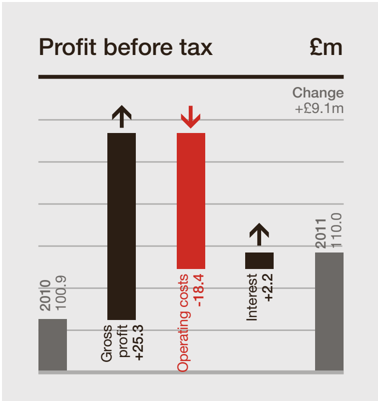
Selling and distribution costs, and administrative and other operating expenses, increased by £18.4m to £394.0m. This reflects the costs of new depots, investment in growth, including additional staffing in existing depots, new product introduction and increased marketing expenditure, and the impact of inflation, particularly on payroll costs.



It should be noted that within operating costs there were certain credits in 2011 totalling around £5m that were one-off in nature. For example: improved debt collection has allowed us to revise our provisioning policy for bad debt; in a number of instances, we achieved better than expected terms when negotiating revised property leases; and a change of electricity supplier to our depots and the introduction of smart meters means that we can more precisely account for energy costs.

Operating profit from continuing operations increased by £6.9m to £114.3m, an operating margin of 13.4% (2010: 13.3%).

The net interest charge fell by £2.2m to £4.3m, due mainly to the reduced finance expense in respect of pensions and the lower level of debt during 2011. The net result was profit before tax from continuing operations rising by £9.1m to £110.0m. For 2012, the finance expense in respect of pensions will increase by £4m.



There was an exceptional loss attributable to discontinued operations before tax of £8.3m, in respect of the provision relating to legacy properties and associated costs.

The tax charge on profit before tax from continuing operations was £28.9m, an effective rate of tax of 26.3%. There was a tax credit of £0.5m in respect of the loss from discontinued operations.

Basic earnings per share from continuing operations were 13.4p (2010: 11.1p). Basic earnings per share from continuing and discontinued operations were 12.1p (2010: 11.1p).

Review of operations and finance continued

At 24 December 2011, the pension deficit shown on the balance sheet was £136.9m (25 December 2010: £135.7m). The impact of a decrease in the discount rate and lower than expected asset returns was mostly offset by the Company's contribution made as part of the 2009 agreement to clear the actuarial deficit. The triennial actuarial review of the pension scheme as at 1 April 2011 is being undertaken currently on behalf of the trustees.

There was a net cash inflow from operating activities of £40.2m. This included payments relating to legacy properties totalling £29.4m and a cash contribution to the Group's pension schemes, in excess of the operating charge, of £33.3m.

Excluding the legacy property payments, underlying working capital movements caused a cash outflow of £9.4m. Within this, stock levels at the end of the year were £13.0m higher than at the end of 2010. This was partly offset by an increase in creditors of £3.9m, the level of debtors being virtually unchanged despite sales growing in the year. In respect of debtors, we have seen an improvement in the age-profile of debtors and a reduction in the level of bad debt write-off.

Also included within net cash flows from operating activities was tax paid totalling £22.5m.

Payments to acquire fixed and intangible assets totalled £19.6m (2010: £18.2m).

Reflecting the above, there was a net cash inflow of £22.1m in 2011, the Group having net cash of £57.1m at the end of the year (25 December 2010: £35.0m net cash). Excluding the payments relating to legacy properties and the pension deficit contribution, there was a cash inflow of £84.8m.

Dividend

As a growing business in an increasingly complex and sophisticating market, reinvestment is a strategic priority for Howdens. At the same time, the Group still has significant, ongoing legacy commitments relating both to pension deficit funding and to the rent and rates associated with a diminishing number of leases of unoccupied properties. Taken together, these legacy commitments, together with sums paid to terminate leases, required a £62.7m cash contribution from the business during 2011.

Against this background, the Board has decided to resume payment of the dividend, and is recommending a final dividend of 0.5p per share.

In reaching this decision, the Board has taken account of a number of factors, including its desire to signal its confidence in the longer term prospects of the business and to reward shareholders. In recommending this prudent level of dividend, it has taken into account: the opportunities we see to invest in the growth of the business, through the opening of new depots and investment in our UK manufacturing operations, and fund deals to terminate leases on legacy properties, both of which should deliver good returns; the need to contribute to the legacy pension deficit; and our desire to maintain a strong balance sheet given prevailing economic conditions, all of which the Board believes to be in the best interest of shareholders.

It is expected that similar considerations will influence the Board's approach to the dividend in respect of the current financial year.

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 Howden Joinery.

Since then, this investment in growth has not only seen a step-up in capital expenditure but also increased expenditure in a number of other areas to support the growth of the business and its performance in demanding market conditions.

Depot network

During the course of 2011, 20 new depots were opened, bringing the total trading at the end of the year to 509. In addition, two depots were relocated and seven depots were extended.

Staffing levels were increased in existing depots of all ages to facilitate their growth, numbers growing by over 170 during the year. A significant proportion of these were related to the introduction of hardware/flooring vans (see below).

Product and marketing

We continue to enhance our product offering. During the course of the year, we introduced five new kitchen ranges: the popular Burford range was extended with two new colourways, Grey and Maple; two integrated handle designs were introduced; and a new colourway, Skye, was added to the Tewkesbury family. In addition, we updated a number of existing ranges.

In response to the increasing sophistication of kitchens, we enhanced our kitchen cabinetry. Foremost amongst a number of developments were the introduction of extra tall wall units and a light oak cabinet to replace the previous beech cabinet.

Supporting sales of our Lamona kitchen appliances, we introduced a two-year guarantee across the range.

In our door and joinery collection, we introduced a number of products based on our best selling Burford and Greenwich ranges. In our flooring collection, we enhanced this further with improvements to the laminate and timber offering.

To support the upgrading of our joinery products, early in the year we introduced a small number of hardware and flooring vans that can display products and support the depots in the field. After the initial trial, the vans were combined and the fleet of vans was increased in two phases, so that now over 110 depots have a hardware/flooring van supporting their sales and marketing. This means that, along with depot sales representatives, we now have 700 field employees servicing our more than 250,000 account holders and looking for new business opportunities.

Throughout the year, we held a proactive series of roadshows with our kitchen designers and other depot staff to help inform our new product development programme. These roadshows considered how sales of various product categories could be improved, learning from successful existing products and identifying gaps in our offering. New products were presented to our depot staff at a series of major events, prior to their introduction. These events 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 were placed for a new cabinet production line at each site. Work has begun on these at the supplier's plant, with the first phase of assembly in our factories due to begin in the second quarter of 2012. In addition, a project automating assembly lines at Runcorn, begun in 2010, has been completed.

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

General

New central computers and data storage systems were installed in our main data centre in Northampton and back-up data centre in Harrogate.

A major IT project to simplify and upgrade SAP systems dealing with financial control, credit control and supply chain management, that had been introduced originally in 2004, was successfully completed.

Review of operations and finance continued

LEGACY PROPERTIES

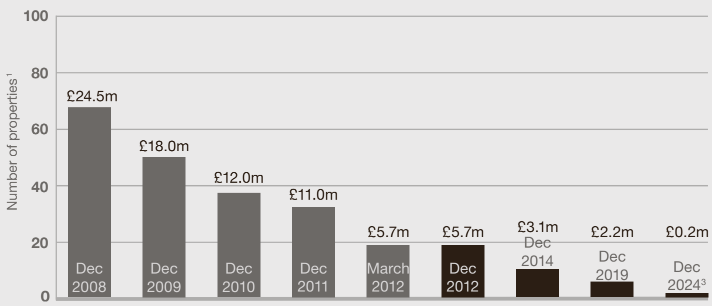
The Group continues to reduce its legacy property portfolio.

During 2011, the leases of 17 properties were terminated, at a cost of £17.9m, mitigating future liabilities that would have totalled over £55m. In addition, two leases expired during the year. Since the year-end, the leases of two properties have been terminated at a cost of £7.6m, mitigating future liabilities that would have totalled nearly £20m.

As a result, the number of legacy properties now stands at 19, compared with 40 at the end of 2010. Included within this are nine properties that are fully or part 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 mitigating action is taken, is shown below:

Reducing our legacy property liabilities – net annual rent and rates[2]



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

Estimated future costs associated with these properties were originally provided for in 2009 and previous years. An additional amount of £7.7m was provided for in 2011.

CURRENT TRADING AND OUTLOOK FOR 2012

Howden Joinery UK depot sales in the first two periods of 2012 (to 17 February) were up 1.6% on the same periods last year, with sales on a same depot basis up by 0.1%, the pattern and volume of sales in the two periods being in line with our expectations.

Taking into account last year's initiative to target the busy post-Christmas trading period of the non-trade kitchen market, which pulled sales forward in to the first two periods of 2011, and forward looking indicators of depot activity, it seems that trading conditions and our performance remain much as they were in 2011, at this early stage of the year.

For the rest of 2012, we expect market conditions to continue to be challenging and we remain cautious about the outlook. As in recent years, we will quickly and appropriately adapt our business model to the market and economic conditions we encounter.

The Group remains committed to its view that the number of depots in the UK can be increased from its current level of 509 and now believes that this number could be at least 700. During the course of 2012, we are currently planning to open around 20 depots as part of our investment in the next stage of Howdens' longer term growth and development.

Since its inception in 1995, Howden Joinery has grown rapidly and has gained a significant share of the UK kitchen market. Today, it sells some 400,000 kitchens a year. Even in these challenging market conditions, we would expect our market share growth to continue, as the business continues to benefit from the growth of our depots that have yet to reach maturity and we open new depots.

Note: The 2012 financial year will include a 53rd week, ending 29 December 2012. It is estimated that the impact of the additional week will be to increase operating costs by around £6m, revenue remaining unchanged as our depots are closed between Christmas and the New Year. Because of the timing of month-end creditor payments, the impact on cash flow is estimated to be £25m.

KEY FINANCIAL PERFORMANCE INDICATORS

The Group uses a number of financial performance indicators to measure operational and financial activity in the business. These are shown in the financial highlights on the first page of this Annual Report. Non-financial indicators are discussed further in the corporate social responsibility report on pages 27 to 32.

Total sales growth

Growth in sales of the UK Howden Joinery depots is key to enhancing shareholder value. This measure, along with monitoring our programme of depot openings, tracks the ability of the Group to grow the business.

Operating profit

The Group targets steady growth in operating profit before exceptional items over the medium term.

Earnings per share (EPS)

We believe that EPS, while not perfect, is an accessible measure of the returns we are generating as a Group for our shareholders, and also has the merit of being auditable and well understood. The key measure of short-term financial performance is basic earnings per share before exceptional items.

Depot openings

The business model is based on individual depots providing kitchens to small builders within a local community. The continuing drive to open new depots in new localities is therefore key to the Group's growth prospects. We have the ability to adjust the rhythm of the opening programme in line with economic conditions.

PRINCIPAL RISKS AND UNCERTAINTIES

The process for identifying and managing risks is set out on pages 56 to 57. The Board considers that the Group's principal risks and uncertainties, together with an indication of actions taken to manage and mitigate them, are as detailed below. They do not comprise all risks associated with the Group, and are not set out in any order of priority. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse affect on the Group's business in the future.

Market conditions

The Group's products are predominantly sold to small local builders for installation in public and private housing, mainly in the repair, maintenance and improvement markets.

The Group's results are consequently dependent on levels of activity in these markets, which are impacted by many factors including general economic conditions, consumer confidence, interest rates and credit availability, unemployment, demographic trends and, in the short term, weather. A severe downturn in market conditions could impact on our ability to achieve our sales and profit forecasts. This could in turn put pressure on our cash availability and banking covenants.

We monitor the market closely and can take swift management action as necessary in response to adverse changes, with the aim that the business is aligned to market conditions and, consequently, that we should have sufficient cash facilities for business needs and adequate covenant headroom.

Failure to implement the Group's business model and culture

The future success of the business depends on the successful implementation of the Group's business model and locally-enabled, entrepreneurial culture.

In particular, if the Group fails to implement its business model in the locally enabled, decentralised manner envisaged, there may be an adverse affect on the Group's future financial condition and profitability.

Led by the actions of the Board and Executive Committee, the business model and the Howdens' culture are at the centre of the activities and the decision-making processes of the Group, and are continually emphasised. The Executive and senior management regularly visit our depots and factories, and hold regular events during which they reinforce the importance of the Group's business model and culture.

Review of operations and finance continued

Throughout the business, successful implementation of the Group's business model and culture forms the basis of the incentive structure.

Failure to maximise exploiting the growth potential of the business

The Group considers that there is significant potential for growth, and has identified this as a strategic opportunity and aim.

If the growth opportunities are not understood and exploited in line with our business model, or if current structures and skills within the Group are not aligned to meet the challenges of growth, there may be an adverse affect on the Group's ability to obtain maximum benefit from this growth potential.

The Group places continuing focus on the opportunities, challenges and additional requirements related to growth. The potential for growth is incorporated into Group strategic plans and budgets, and existing structures and skills are reviewed in the context of growth and adjusted where necessary.

Continuity of supply

The Group's business model requires that every depot can supply product from local stock.

Any disruption to the relationship with key suppliers or interruption to manufacturing operations could adversely affect the Group's ability to implement the business model.

With suppliers, the Group tries to maintain dual supply wherever possible to mitigate the effects if a key supplier was unable to deliver goods or services. We also enter into long-term contracts to secure supply of our key materials. Good supplier relations are maintained by prompt settlement of invoices, regular communication, and an annual supplier conference. Within our manufacturing operations, we adopt best practice health & safety and fire prevention procedures. Business continuity plans are in place for key production processes. The Group continues to make significant investment in its manufacturing facilities, to enable manufacturing capacity to match our expected growth as well as providing further cabinet production capacity which will provide additional cover in the event of an interruption to manufacturing operations.

Loss of key personnel

The skills, experience and performance of key members of the Group's management team make a large contribution to the Group's success.

The loss of a key member of the Group's management team could adversely affect the Group's operations.

The Group uses the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions, and incentivised to continue their careers with the Group.

Input price pressure

The Group's gross margin performance drives profitability.

The Group's financial success could be adversely affected by increasing commodity prices, inflationary pressures and currency fluctuations.

The Group adopts a number of measures to mitigate input price pressure. As well as conducting regular reviews of the market and of price trends, these measures include negotiation with suppliers, consideration of longer-term supply deals, "make vs. buy" decisions where appropriate, and product pricing decisions. The Group also has an ongoing review process to drive efficiency and identify opportunities to reduce costs in the supply base to protect margin and profitability.

Financial position

The growth of the business relies in some part on our ability to open new depots, develop and introduce new product, and to invest in manufacturing capacity.

If the Group's financial position was to deteriorate, limiting financial resources to meet its obligations and to fund the growth and development of the business, this would impact on future growth.

The Group regularly forecasts its cash availability and its compliance with banking covenants, with the aim that there is sufficient cash and/or available credit under our banking facility to meet planned future expenditure and investment requirements. These forecasts are closely monitored throughout the year, reviewed against actual performance, and actions are taken to realign the position where necessary.

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

The Group holds financial instruments for one principal purpose – to finance its operations. The Group does not currently use derivative financial instruments to reduce its exposure to interest or exchange rate movements. The Group finances its operations by a mixture of cash flows from operations and longer-term loans from banks. Treasury operations are managed within policies and procedures approved by the Board.

The main risks arising from the Group's financial instruments are funding and liquidity risk, interest rate risk, counterparty risk and foreign currency risk discussed below.

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

Funding and liquidity

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

During 2011, the Group had a £160m asset-backed bank facility which is due to expire in May 2014.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout the 2011 year. The covenants are tested every four weeks and are based around: (i) fixed charges; (ii) tangible net worth; and (iii) earnings before interest, tax, depreciation and amortisation (EBITDA) for Howden Joinery Limited.

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

The current economic conditions create uncertainty around the Group's trading position, particularly over the level of demand for the Group's products and the exchange rate between sterling and both the Euro and the US dollar. The Group's latest forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance and show that the Group will operate within the terms of its borrowing facility and covenants for the foreseeable future.

The cash drawdown against the bank facility at the year-end was £3.8m and, after taking into account other utilisation of the facilities for terminable indemnities, the Group was left with £144.7m of available funds.

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings may be managed when necessary by borrowing on a fixed rate basis and entering into rate swaps, rate caps and forward rate agreements. The Group's policy objective has been to undertake transactions of this nature only when net debt exceeds £150m. Net debt has not exceeded £150m during the year.

Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a minimum Standard and Poor's/Moody's long-term credit rating of AA- and a short term credit rating of A-1/P-1. Investments mainly consist of bank deposits and certificates of deposit. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

Review of operations and finance continued

Principal exchange rates versus UK pound (£)	2011 Average	2011 Year-end	2010 Average	2010 Year-end
United States dollar (US$)	1.60	1.57	1.55	1.54
Euro (€)	1.15	1.20	1.17	1.18

Foreign currency risk

The most significant currencies for the Group are the US dollar and the Euro. It is difficult to pass the prescribed tests under IAS 39 "Financial Instruments: Recognition and Measurement" to ensure the ability to hedge account for derivative currency transactions. As the resultant volatility cannot be avoided in the profit and loss account, it is the view of the Board that routine transactional conversion between currencies are completed at the relevant spot exchange rate. This policy is reviewed on a regular basis.

The net impact of exchange rates on currency transactions in the year, compared to the previous year, was £nil. The Group does not have many overseas assets/liabilities, so the impact of currency translation is not material.

Set out in the table above are the principal exchange rates versus the UK pound affecting the Group's profits.

NEW ACCOUNTING STANDARDS

No new accounting standards which have an implication for the Group came into effect during the year.

CAUTIONARY STATEMENT

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

By order of the Board

Mark Robson
Chief Financial Officer

29 February 2012

Corporate social responsibility report

Howden Joinery Group's business is centred on the manufacture and sale of kitchens and joinery to trade customers. With over 400,000 of our kitchens being fitted in homes around the UK every year, we recognise that the Company has an important role to play in the wider community.

We describe our responsibilities under five headings:

- Responsibility to manufacture safe and sustainable product
  - Our kitchens must not only function properly and comply with regulations and legislation but they must be produced in a way which is mindful of the wider environmental impact both of our own operations and the product we sell.
- Responsibility to our staff
  - With over 6,300 employees, we recognise the importance of our business to our staff and their families.
- Responsibility to customers and suppliers
  - Our 250,000 trade account holders rely on our products and services to ensure the growth and prosperity of their own businesses.
  - Our international supply base of over 200 suppliers provides opportunities and employment in a wide range of trades.
- Responsibility to local communities
  - Each of our sites is an integral part of the community in which it operates, and helping those communities to flourish is important to everyone who lives and works in them.
- Responsibility to future generations
  - Through apprentice programmes and college support schemes, we aim to help both our own staff and also the next generation of builders and tradespeople.

We are clear that these responsibilities must be reconciled with the pursuit of our commercial interests. This report describes the actions we have taken over the past year to ensure that our commitment to all our stakeholders is identifiable and sustainable and continues to progress along with our business. For ease of reading and comparison, the report is in a similar format to previous years, and, unless otherwise stated, the report covers the entirety of our business.

MEASURING OUR ACHIEVEMENTS

The Group continues to measure its performance in respect of environmental issues through the use of a number of Key Performance Indicators (KPIs). These relate to:

- our use of wood
- how we manage our waste
- our ability to offer energy efficient products to consumers.

These KPIs, which are discussed in detail below, help us to ensure that the action we take to reduce our environmental impact is targeted where it will have most benefit, and that our progress is measurable and motivational for all those involved.

RESPONSIBLE MANUFACTURING IN THE UK

We operate two manufacturing facilities in the UK – one at Runcorn in Cheshire and one at Howden in Yorkshire. Manufacturing at scale in the UK benefits our domestic workforce and the communities in which they live and work.

During 2011, our UK-based manufacturing teams produced over:

- 3.5 million kitchen cabinets;
- 860,000 kitchen worktops and breakfast bars; and
- 2.3 million kitchen frontals

and we continue to look for further opportunities to make use of our manufacturing knowledge and resources.

MANAGING OUR IMPACT ON THE ENVIRONMENT

Wood

Manufactured product

As a supplier of kitchen and joinery products, wood obviously plays a central role in what we do. It is therefore our policy to always try and source wood in a way that is good for the environment as well as good for our business. Our preferred option is to buy wood which is certified by either the UK Forest Stewardship Council (UK FSC) or by the European Programme for the Endorsement of Forest Certification (PEFC). These respected, independent schemes enable us to source wood and paper products from suppliers that use sustainable methods to manage their forests.

To monitor the effectiveness of this policy, we set ourselves an annual KPI which is:

"To ensure that 100% of our wood product used in our manufacturing processes comes from certified sources"

In 2011, we used 209,000 cubic metres of chipboard and 13,000 cubic metres of MDF in our manufacturing process. As has been the case every year since 2006, all of this came from certified sources.

We also aim to source all our cardboard packaging from either recycled or certified sources. In 2011, we used 3,000 tonnes of cardboard packaging for our manufactured products, all of which came from recycled sources (2010: 3,300 tonnes from recycled sources). It is our intention to aim for a similar high standard in the future.

All of the kitchen ranges which are manufactured at our factories are certified by the UK FSC and over 99% of all products which we manufacture in-house are FSC compliant (2010: 99%).

Bought-in product

As well as manufacturing product in the UK, we continue to source joinery products and kitchen frontals from a range of suppliers in the UK, Europe and elsewhere in the world. Ethical and environmental sourcing is an important factor in our international supply chain, and we expect all our suppliers to exercise high standards in this area.

- In 2011, as in 2010, 92% of our European timber based product suppliers were certified as sourcing timber from a sustainable supply.
- Regular supplier audits and continuous improvement programmes have continued throughout 2011 in accordance with our schedule. Our Supplier audit programme operates across all our key suppliers and incorporates measures relating to environmental, health & safety and ethical performance, as well as including the latest legislation where appropriate, e.g. the Bribery Act. In 2011, all our key suppliers were audited and, as in 2010, all achieved an A rating in this programme.
- The increasing focus on environmental matters by our customers, particularly those working with local authority and housing association properties, means that we are constantly required to review our products, our supply chain and our logistical and operational processes to ensure that we address their concerns appropriately.
- Howden Joinery has been certified by the FSC and the PEFC since February 2008. At the end of 2011, 19 of our 38 kitchen ranges (50% of our kitchens) were fully compliant with FSC requirements (compared to 43% in 2010). We aim to maintain a similar proportion in 2012.

Energy

Our efforts to reduce energy use across the business are recognised by our accreditation under the Carbon Trust Standard. For over 10 years prior to the introduction of the Carbon Trust accreditation, the Group's manufacturing facilities had enjoyed accreditation under the standard's predecessor, the Energy Efficiency Accreditation Scheme.

As well as assessing the Group's overall reduction in energy usage over a three-year period, the Standard also looks at general energy management systems across the business and the ways in which energy reduction is encouraged across all sites. The Carbon Trust's assessors also noted our commitment to supply energy efficient products to our customers where possible.

This section of our report highlights activity in specific areas of energy consumption (such as manufacturing and vehicle fleets) as well as elsewhere in the business.

Manufacturing

- One of our key metrics for energy usage in the factories is the electricity we consume per cabinet produced. Our baseline measurement in 2008 was

3.62kWh per cabinet, and we are pleased that this figure has significantly decreased over the last three years. However, as we noted last year, it is unrealistic to expect a continuing absolute decrease. In 2011, we saw a slight increase in electricity consumption from 3.13kWh to 3.36kWh per cabinet, largely as a result of the increased use of automatic equipment in our factories. Our aim for 2012 is to keep this metric stable.

- All our Supply division sites – manufacturing, distribution or warehouse related – retained their ISO14001 accreditations during the year.

Truck fleet
The company operates a fleet of 104 trucks. This fleet remains considerably smaller than it was four years ago as we continue to work with our haulier partners through traffic sharing arrangements and maximise the use of backhaul capacity. All of our trucks remain Euro 5 compliant.

We have decided to implement a new tracking system across the truck fleet, starting in 2012. By monitoring and directing improvements in driving style, this system will help drive fuel efficiency (and hence reduce CO2 emissions).

Car fleet
We are committed to improving the ecological performance of our car fleet. As planned, over 85% of the vehicles driven by our managers and sales representatives have now been replaced with more eco-friendly vehicles and the remainder will be replaced this year, Where possible, we will continue to introduce the latest eco-friendly models as they are launched by our vehicle supplier.

IT
Further to a specific review of energy efficiency in 2010, a number of energy saving initiatives were introduced within our IT department and data centre resulting in a 60% reduction in electricity utilisation over a 12 month period. Whilst we do not expect to achieve similar savings in 2012, the team continue to search for innovative ways in which energy saving measures can be adopted.

Products
Our KPI in this area, which we set for a three year period (2010-2012), was aimed at improving the efficiency of our best selling own-brand appliance products both in terms of energy consumption and water usage. The targets were:

"To improve the efficiencies of our best selling own-brand electric ovens by reducing the kilowatt consumption per hour by 5% or more over the next 3 years."

"To reduce the water consumed per cycle by 5% or more for our own-brand laundry and dishwashers over the next 3 years."

As we reported last year, excellent progress has been made over the last two years in respect of our ovens, with energy consumption in our own-brand "Lamona" appliances reduced by 10% overall and by 5% for our best selling ranges. However, we have yet to make similar progress to reduce water consumption, and we continue to test new developments with our best selling dishwashers and laundry appliances.

In addition to measuring our performance against our chosen KPIs, we are committed to gaining Energy Savings Trust certification for some of our appliances. We now have six appliances certified and recommended by the Energy Savings Trust (EST) (2010: 1) and we continue to seek certification for a number of other products, with new criteria for cooking appliances now established with the EST.

Waste

Our employees are encouraged to consider how we can improve our environmental performance in all areas by reducing consumption, reusing materials and recycling wherever possible.

- In 2011, we continued to recycle waste in line with our KPI:

"To recycle more than 95% of all manufacturing waste produced."

- Of the 37,900 tonnes of waste produced (2010: 44,800), 98% was recycled (2010: 98%)
- One element of waste from the manufacturing process is sawdust.
  - In 2011, we converted over 16,600 tonnes of sawdust into energy at our Howden and Runcorn sites, with the sawdust fuelling eight wood combustion boilers that burn this waste to heat our

factories. This equates to approximately 86k MWh of energy generated from sawdust in 2011.

  – In addition to this, we supplied over 5,000 tonnes of milled sawdust to a local manufacturer of animal bedding where the sawdust is recycled for use in bedding for horses, cattle and other livestock (2010: 3,000 tonnes).

- We continue with the initiative started in 2007 to recover and repair pallets which would otherwise have been scrapped. Last year we recovered or repaired more than 138,000 pallets (2010: 135,000).

SUPPORTING OUR WORKFORCE TO ACQUIRE AND PRACTISE CORE SKILLS

Employee responsibilities

We take our responsibilities as an employer seriously. We aim to provide a positive work environment for all our staff, whether they work in factories, warehouses, depots or offices. Our culture emphasises the importance of individual accountability, which means the personal responsibility of each of us towards those we work with every day. We are proud of this culture, which encourages openness and transparency within the business and has been vital to its growth and development since 1995. This culture is reinforced by our commitment to certain core principles:

- Recognising by reward the hard work of all employees;
- investing in training and development across the business; and
- ensuring that recruitment, career success and progression are solely determined by an employee's abilities and achievements.

Supporting learning and development in the community

Howden Joinery's heritage and culture means we place a high value on the whole range of skills – technical, commercial and interpersonal – that are practised by local tradespeople. We are keen to promote the use of these skills in the workplace and interest in them in the wider community.

Developing apprenticeships and training at Howdens

During 2011, we continued our partnership with The Real Apprenticeship Company to further promote the use of apprenticeships within the workplace. The Group currently employs 11 modern apprentices in our Supply division and 157 within the depot network, with a further 29 being recruited currently. In addition, during the last quarter of 2011, our training team achieved "BTEC Centre" status which allows us to offer all employees the opportunity to achieve either a BTEC level 2 Award in Trade Business Services or a BTEC level 3 Certificate in Trade Business Management through internal job related training. By the end of 2011, 144 employees had successfully been awarded the level 2 award. As well as supporting staff to gain internal and external accreditations, our staff have also benefited from our investment in internal courses, with over 70,000 training hours completed during the year. Courses are offered in subjects ranging from HR skills to manual handling, from diversity & inclusion to health & safety, from environmental awareness to LGV and fork-lift truck driving. We plan to continue this level of investment in training in 2012. We also intend to maintain a strong in-house delivery capability in training as we continue to encourage staff to achieve training qualifications themselves.

Encouraging apprentices and traditional skills in the community

As well as a commitment to developing our own staff, at Howdens we believe that one way of offering support to the local tradespeople we serve and keeping their traditional skills alive is to give young people the opportunity to learn traditional skills and understand how to deploy them professionally. In pursuit of that objective we continued with two initiatives in 2011 which we had first reported in our 2009 Annual Report.

First, we continue to encourage our depots to build on their relationships with construction departments in their local colleges of Further Education. As well as donating discontinued products on which students can practise, many depots also sponsor end of year awards and prizes.

In 2009, we started a separate programme of support for colleges offering NVQ/Diploma courses that include a kitchen installation module. Through this programme, we provide the colleges with sufficient equipment for both practice and examination installations. A further four colleges joined the programme this year and we hope to recruit more in 2012.

Our second initiative has been to work with ConstructionSkills, the Sector Skills Council and Industry Training Board for the construction industry, to put in place a bursary scheme for new apprentice joiners. The scheme, which is now in its second year of operation, was the first of its kind in the country for any industry, and aims to fund first year wages for around 20 new apprentice joiners. The intention is to create new opportunities for apprentices in companies which would otherwise be unable to afford to fund apprenticeships. Other than stipulating that the money be used for apprentice joiners, Howdens has no involvement in choosing either the apprentices or the companies involved. All 20 bursary placements have now been awarded (2010: 12), with the students progressing well with both their college work and their work experience. Importantly, the scheme has meant that some businesses that were previously sceptical about the value of apprentices are now willing to consider employing apprentices on an unfunded basis given the benefits they have seen in this type of training.

Health & Safety

The managers and directors in our operating divisions are personally responsible and accountable for the health & safety of their employees. The health & safety requirements of our two divisions, Trade and Supply, necessarily differ somewhat, and therefore each division reviews its own strategy, issues and performance on a regular basis.

In the depots

- There were 31 reportable health & safety incidents in our 509 depots during 2011 (2010: 16). Although there has been an increase in the number of incidents year on year, the 2011 figure is below that reported for 2009, and we are pleased that the overall trend in actual numbers over the last five years continues downward despite our growing headcount.
- To ensure we maintain a health & safety culture in the Trade division we continue to run a number of courses:
  - A total of 380 drivers completed our defensive driving course which runs for those staff across the depot network who are required to drive as part of their day-to-day role.
  - This year as part of a triennial update, 43 senior managers also attended and passed the “IOSH Safety for Senior Executives” course.

In our manufacturing, warehouse and distribution sites

- All our manufacturing, warehouse and distribution sites remain certified to OHSAS 18001.
- We had 16 reportable injuries during 2011 (2010: 14). This figure has been at a similar level for the last three years and shows a marked reduction over a five year period.
- We continue to support the knowledge and awareness of staff in this area, by encouraging staff to gain externally accredited health & safety qualifications (IOSH, NEBOSH and CIEH) as well as training operatives in the requirements of OHSAS 18001.
- Under the British Safety Council 5-star audit process, which measures performance against health & safety best practice, all three of our sites (Howden, Runcorn and our warehouse in Northampton) have achieved a 5-star rating. All achieved over 93% compliance and improved their performance on the prior year.
- In recognition of our achievements in health & safety, our Howden site was also proud to receive the British Safety Council’s prestigious International Safety Award for the third consecutive year and was one of only 33 companies worldwide to be awarded a “Distinction”.

Across the Group, there were no improvement or prohibition notices served on us during the year by the Health & Safety Executive (HSE), nor were there any prosecutions by the HSE or the Environment Agency.

PLAYING AN ACTIVE PART IN OUR LOCAL COMMUNITIES

As a locally driven business, our policy is to encourage staff at each of our sites to support and engage with local community activities.

Corporate social responsibility report continued

In 2011, our staff were responsible for 2,229 donations to local good causes (2010: 2,100), amounting to some £814k across the Group (2010: £793k). Cash and stock donations, together with employee fund raising activities, typically supported local schools, village halls, care homes, hospices, sports clubs, youth groups and many other community activities.

Over seven years ago we formed a partnership with Leonard Cheshire Disability. Like Howdens, Leonard Cheshire Disability is a locally focused organisation. Since its foundation in 1948, Leonard Cheshire Disability has benefited from the work of volunteers from local communities, with over 1,000 volunteers per year recruited to support a network of services across the UK. For the past five years Howden Joinery Group has funded many areas of Leonard Cheshire Disability's volunteer recruitment and training programme, including as of this year the "Can Do" Initiative.

The "Can Do" project offers social support and mentoring to groups of young disabled people across the country. For many of these young people (mostly aged 16-25), the support network they have always relied on will invariably cease after they finish school or college. The objective is to prevent social exclusion by including them in local activities and supporting them to find long-term volunteering positions that in a few cases may lead to employment.

Every year our staff take up various fundraising challenges to raise funds for Leonard Cheshire Disability. Howdens usually fields a big team for the Great North Run, and 2011 saw a record entry of 30 people. For the third year in a row these runners have raised sufficient funds to buy an adapted minibus for one of the charity's homes. We also entered two teams for a new mixed ability triathlon (Tri-Together) in south London as well as individual entries in The London Marathon and The Royal Parks Half Marathon.

In June another record was set with the level of support and funds raised for the charity in the annual "Tea For Ability Week". Depots collected donations for the complimentary tea or coffee they supply all year round as well as for promotional mugs donated by Howdens.

Inspired by working with their residents, our inclusive kitchen research with Leonard Cheshire Disability has enabled us to offer relevant, affordable kitchens to people of all abilities. In 2011, we donated another four activity kitchens as well as revisiting four kitchens installed in previous years to carry out modifications and / or improvements following feedback from residents and staff. Four further, similar projects have already been designed and are ready for installation.

One of these, a first for Leonard Cheshire Disability, involves the conversion of an outbuilding at one of their homes into a large multi-ability semi-commercial training kitchen. Young people with learning disabilities will be able to take part in accredited catering courses led by professional staff, with the possibility that some students could go on to attain qualifications and employment.

We are proud of the fact that our staff, our customers and all our stakeholders take such an active part in giving something back to their local communities. In celebration of their generosity, we continue to publish our "Truly Local" books – pocket-sized illustrated books that tell the stories of people everywhere who enrich our lives on a daily basis through their engagement with their local community. We are lucky in the fact that these books represent only a fraction of the good work carried out by our staff and customers and their families as part of their daily lives.

Matthew Ingle
Chief Executive

29 February 2012

Board of directors

NON-EXECUTIVE CHAIRMAN

Will Samuel

Will was appointed a non-executive director and Chairman designate in July 2006 and became Chairman in October 2006. He is Senior Advisor to Lazard & Co Ltd, Chairman of Ecclesiastical Insurance Group plc, Deputy Chairman of Inchcape plc and a non-executive director of the Edinburgh Investment Trust plc. He was also appointed a Senior Adviser to the Financial Services Authority (FSA) in January 2012. Prior to this he was a director of Schroders plc, Co-Chief Executive Officer at Schroder Salomon Smith Barney (a division of Citigroup Inc) and Vice Chairman, European Investment Bank of Citigroup Inc and Chairman of H P Bulmer plc. He is a Chartered Accountant.

CHIEF EXECUTIVE

Matthew Ingle

Matthew was appointed Chief Executive in October 2005. He set up Howden Joinery in 1995 and has been responsible for its growth into a successful business today. Prior to joining the Company he had been Managing Director of the Magnet Trade operation. He was elected to the Board of the Company in 1998.

CHIEF FINANCIAL OFFICER

Mark Robson

Mark joined the Board in April 2005 as Chief Financial Officer. Mark spent the previous six years as Group Finance Director at Delta plc. Prior to this, he had held a number of senior financial positions with ICI between 1985 and 1998. He is a Chartered Accountant and qualified with Price Waterhouse.

NON-EXECUTIVE DIRECTORS

Mark Allen

Mark was appointed a non-executive director in May 2011. Mark is CEO of Dairy Crest Group plc. After a brief period at Shell between 1986 and 1991, Mark joined Dairy Crest in 1991 as a general manager and, after being promoted through a variety of roles including Sales & Operations Director and two divisional Managing Director roles, he was appointed to Dairy Crest's main Board in 2002, becoming Chief Executive in 2006. He is Chairman of The Prince's Rural Action Programme and a Trustee for The Prince's Countryside Fund.

Angus Cockburn

Angus was appointed a non-executive director in October 2006. He has been Group Finance Director of Aggreko plc since 2000, having previously been Managing Director of Pringle of Scotland and Regional Finance Director Central Europe for Pepsico Foods. He is a Chartered Accountant and qualified with KPMG Peat Marwick.

Tiffany Hall

Tiffany was appointed a non-executive director in May 2010. Currently Group Marketing Director at BUPA, Tiffany was previously Head of Marketing at British Airways. She was also Chairman of Airmiles and BA Holidays. Prior to that, she held various positions at British Airways including Head of Global Sales and Distribution and Head of UK Sales and Marketing. Tiffany was previously a non-executive director of Think London.

Michael Wemms

Michael was appointed a non-executive director in November 2006. Michael was Chairman of House of Fraser plc from 2001 until November 2006 and was an executive director of Tesco plc from 1989 to 2000. He is a non-executive director of Moneysupermarket.com plc. He was Chairman of the British Retail Consortium from 2004 until 2006.

Directors' report

The directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 24 December 2011. Comparative figures relate to the 52 weeks ended 25 December 2010.

PRINCIPAL GROUP ACTIVITIES, BUSINESS REVIEW AND RESULTS

The principal activity of Howden Joinery Group Plc and its subsidiaries is the sale of kitchens and joinery products, along with the associated procurement, manufacture and distribution of these products. Further information on our business and the Howden model can be found on pages 2 to 7.

The Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the following sections which are incorporated in this report by reference:

- Chairman's statement on pages 8 to 9.
- Chief executive's statement on pages 10 to 18.
- Review of operations and finance on pages 19 to 26 (including a review of principal risks and uncertainties and key performance indicators) and the illustrated business model on pages 2 to 7.
- Corporate social responsibility report on pages 27 to 32 containing environmental matters, social & community issues and additional information on employees.
- Corporate governance report including Going Concern statement on pages 52 to 59.
- Audit Committee report on pages 60 to 63.

The full results for the period are shown in the financial statements on pages 64 to 116.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 30 to the financial statements.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in the table of parent company and principal subsidiary undertakings on page 117. There have been no significant events since the balance sheet date.

DIVIDEND

The Board recommends the payment of a final dividend of 0.5 pence per ordinary share to be paid on 22 June 2012 to ordinary shareholders on the register on 25 May 2012 (2010: nil). No interim dividend was paid during the year (2010: nil).

SHARE CAPITAL AND CONTROL

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 25. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 28. Shares held by the Howden Joinery Group Plc Employee Share Trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles may be amended by special resolution of the shareholders. The business of the Company is managed by the Board who may exercise all the powers of the Company subject to the provision of the Articles of Association, the Companies Act and any ordinary resolution of the Company.

There are a number of agreements that take effect, alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these which is considered to be significant in terms of likely impact on the business of the Group as a whole, is the bank facility (as described in note 22) which requires majority lender consent for any change of control. Should such consent not be forthcoming, a change of control would trigger a mandatory repayment of the entire facility.

The directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

ESSENTIAL CONTRACTS

The mission of the Group relies on product of "no-call-back quality" being in stock at all times in order to service the needs of the builder. The Group benefits from a number of contracts which are key to providing the volume of product required to enable the Group to fulfil this mission but is nevertheless confident that other commercial solutions would be available should these contracts be terminated.

Contracts with key personnel are discussed in the review of principal risks and uncertainties on page 24.

DIRECTORS AND THEIR INTERESTS

Details of the directors in office on 24 December 2011 are shown on page 33.

All of the directors, with the exception of Mark Allen, will retire at the Annual General Meeting in accordance with the UK Corporate Governance Code and each will offer themself for re-election in accordance with Article 118 of the Articles of Association.

In accordance with Article 117 of the Articles of Association, Mark Allen will retire at the Annual General Meeting and will offer himself for re-election in accordance with Article 118 of the Articles of Association.

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

Information on the directors' service agreements, options and interests of the directors and their families in the share capital of the Company, is set out in the separate Directors' remuneration report on pages 37 to 51. Details of indemnity provisions made for the benefit of directors are given in the Corporate governance report on pages 52 to 59.

SUPPLIERS' PAYMENT TERMS

The Group and Company's policy, in relation to all its suppliers, is to settle its terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The number of days' purchases outstanding for payment by the Group at the period end was 48 days (2010: 44 days) and nil (2010: nil) for the Company.

FIXED ASSETS

There is no material difference between the book value and the current open market value of the Group's interest in land and buildings.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Kitchen and joinery products and services donated to various charities, as well as charitable donations made during the period amounted to £814k (2010: £793k).

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

SUBSTANTIAL SHAREHOLDINGS

As at 29 February 2012, the Company had been notified in accordance with Chapter 5 of the Disclosure & Transparency Rules of the following voting rights as a shareholder of the Company:

Standard Life Investments Ltd	12.89%
Jupiter Asset Management Ltd	5.28%
Blackrock Inc	5.08%
JP Morgan Asset Management (UK) Ltd	4.99%
Cazenove Capital Management Ltd	4.91%
Old Mutual Asset Managers (UK) Ltd	4.11%
EES Trustees International Ltd (as Trustee of Howden Joinery Group Employee Benefit Trust)	3.88%
Legal & General Assurance (Pensions Management) Ltd	3.87%

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

ACQUISITION OF THE COMPANY'S OWN SHARES

At the end of the year, the directors had authority under the shareholders' resolutions of 16 May 2011 to purchase through the market 63,391,533 of the Company's ordinary shares at prices ranging between 10p and the higher of (a) 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System. The authority expires at the conclusion of the next AGM or 18 months from the date of passing.

EMPLOYEES

The average number of employees and their remuneration are shown in note 8 to the financial statements.

At the year end, the Group had 6,397 employees (2010: 6,156) throughout the United Kingdom and overseas and strives to engage its employees wherever possible in its business goals by means of regular regional and local staff meetings.

The Board remains committed to linking reward to business budgets and targets thereby giving employees the opportunity to share in the financial success of the Group. In keeping with the structure of the business, the Company is committed to applying this policy locally and, as a result, staff of all levels regularly benefit from achieving local targets throughout the year. The Board also recognises employees for their contribution through the use of employee incentive plans and share plans within overall remuneration.

The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race. The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people and welcomes and considers fully, applications by disabled persons, having regard to their particular aptitudes and abilities.

It is also the Group's policy to retain employees who may become disabled while in service and to provide appropriate training.

AUDIT INFORMATION AND AUDITORS

Each of the persons who is a director at the date of approval of this annual report confirm that:

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

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

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting is to be held at UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP on 16 May 2012.

By order of the Board

Caroline Bishop
Secretary

29 February 2012

Directors' remuneration report

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's Report for 2011 for which we will be seeking approval from shareholders at our AGM in May 2012.

The main objective of the Remuneration Committee's strategy is to maintain a remuneration package that motivates, retains and develops an executive team capable of delivering the strategic aims of our Company. Fundamental to our thinking is the need for an appropriate balance between the needs of the business, its shareholders and its executives. To do this we ensure that we take account of the views of our shareholders, remain responsive to governance guidelines, stay close to emerging government thinking and monitor the effectiveness of the executive team.

In the last year the Company continued to face an uncertain and challenging operational and economic environment and in view of this it is pleasing to report very strong performance during the year (reflected in our 9% profit growth over 2011) and over the period covered by the long-term incentive plan which vests this year (reflected by the significant growth in share price over the period).

Key Committee decisions

The Committee is comfortable that our pay decisions reflect performance whilst demonstrating responsibility and ensuring our arrangements appropriately reward our management team for delivering strong, sustainable performance and shareholder value.

During 2011, the Committee felt it was appropriate to return to the pre-2009 incentive framework to reflect the focus of the business on a growth led strategy. Accordingly, there were three key changes made to Remuneration for 2011:

- The CEO's salary remained at £538,000 for the 4th successive year. The CFO's salary was increased by 5% to £378,000.
- For 2011, the Threshold performance level at which the profit share component of the annual bonus begins to pay out was raised, and the profit share percentages were reduced.
- The CEO and CFO were invited to participate in the Co-Investment Plan. The matching ratio for this plan is 2:1, and it uses PBT growth over a three year period as a performance metric.

Summary of changes for 2012

For 2012, the Committee intends to retain the remuneration structure used in 2011 whilst making the following modifications:

- The CEO and CFO will both receive salary increases of 3%, taking their salaries to £555,000 and £389,300 respectively. This increase is in line with salary increases for the wider workforce.
- To reflect improved performance expectations, the Threshold performance level at which the profit share component of the annual bonus begins to pay out has again been raised, and the level of payout at Threshold has been reduced. The profit share percentages received for performance above Target have also been reduced.
- In assessing performance against the cash flow targets under the annual bonus, the Committee will also consider the working capital management over the year (measured by reference to stock and debtor days) in reviewing the outcome under this element of the plan.
- The Co-Investment Plan will be retained as the long-term incentive vehicle for 2012, with the targets remaining the same as for 2011.

Finally, I would like to mention that there have been some changes to the membership of the Committee. I would like to welcome Mark Allen who joined the Committee in May 2011. Ian Smith retired from the Committee following the 2011 AGM in May. On behalf of the Committee I would like to thank Ian for his valuable contribution to the Committee's work during his tenure.

This Directors' Remuneration Report sets out further details of the proposed changes and remuneration at Howden Joinery Group in general. The Remuneration Committee and I hope you find this report both informative and helpful.

On behalf of the Board

Michael Wemms
Chairman of the Remuneration Committee

Directors' remuneration report continued

COMPLIANCE

This Report sets out information on the remuneration of the directors of Howden Joinery Group Plc for the year ended 24 December 2011.

This report has been prepared in accordance with the UK Companies Act 2006, Statutory Instrument 2008/410 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations) and to meet the requirements of the Listing Rules of the UK Listing Authority. It describes how the Company has applied the principles relating to Directors' remuneration set out in the UK Corporate Governance Code issued by the UK Financial Reporting Council in May 2010.

The Regulations require our Auditors to report to shareholders on the audited information within this Report and to state whether, in their opinion, those parts of the Report have been prepared in accordance with the Companies Act 2006. The Auditors' opinion is set out on page 111 and the information in Part B of this Report has been audited by Deloitte LLP.

PART A

THE REMUNERATION COMMITTEE

The Remuneration Committee comprises four independent non-executive directors who have no personal financial interest, other than as shareholders, in the matters to be decided. During the year, the members of the Committee were:

- Michael Wemms (Chairman)
- Mark Allen (appointed to the Board on 31 May 2011)
- Angus Cockburn
- Tiffany Hall
- Ian Smith (retired from the Committee on 16 May 2011 and from the Board on 21 September 2011)

Under its terms of reference (published in the Governance section of Howden Joinery Group Plc website at http://www.howdenjoinerygroupplc.com and reviewed on an annual basis) the Committee is responsible for determining the broad policy and specific remuneration packages for executive directors, the Company Secretary and other members of the Executive Committee, including pension rights and, where applicable, any compensation payments. The Committee is also regularly updated on pay and conditions applying to other employees in the Company.

The Committee met three times during 2011 and attendance of the Committee is shown in the table in the Corporate Governance report. The meetings covered the following key areas:

- Approve salaries for the Executive Board members and Executive Committee.
- Review the developments in corporate governance best practice and competitive market practice trends during the course of the year.
- Review and approve the remuneration report to shareholders.
- Review and approve the Chairman's fees.
- Review and approve the terms and conditions of the annual bonus and long-term incentives awarded in 2011, including determining the appropriate performance targets.
- Review and approval of annual bonus payouts in 2011.
- Review and approval of share-based awards vesting in 2011.
- Review and approve the terms of reference of the Committee.
- Initial review of the ongoing appropriateness and relevance of the remuneration policy and incentives for 2012.
- Review of the balance between risk and reward to ensure that the incentives are compatible with the Company's risk policies and systems. The Committee concluded that the incentives did not expose the Company to any excessive risk and were appropriately managed.

The Committee's Chairman ensures that the Group maintains timely dialogue with its principal shareholders on executive remuneration. During the year, open channels of dialogue were maintained with our major shareholders and shareholder representation bodies.

The Committee regularly consults with the Chief Executive on matters concerning remuneration, although he is never present when his own reward is under discussion. The Company Chairman attends the Remuneration Committee by invitation except when his own remuneration is determined. The Company Secretary acts as secretary to the Committee but is never present when her own reward is determined. PricewaterhouseCoopers LLP (PwC) is the Committee's retained independent advisors and provided advice to the Committee during the year. PwC also provided tax advice to the Company during 2011.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The principal driver for the Remuneration Committee when setting total remuneration is to ensure that the remuneration provided to the executive directors and the senior management team continues to support the strategic imperatives of the business.

In determining the executive remuneration policy, the Committee considers factors which it deems necessary to ensure that senior executives of the Group are provided with appropriate incentives to encourage stronger performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company and the creation of shareholder value. As part of this, the Committee takes into account the pay practices throughout Howden Joinery Group, the external environment and prevailing best practice.

The Committee determines policy for current and future years, which is reviewed on an annual basis. Howden Joinery Group's remuneration policy is set out below:

- The remuneration package should be simple and support the transition of Howdens to maturity while continuing to encourage an entrepreneurial culture.
- Where possible, there should be a common and consistent remuneration policy throughout the business from the CEO down to the depot managers.
- Our policy is to position base salaries at the median level against companies of a similar size and complexity.
- Upper quartile levels of total remuneration should be available for truly superior performance with at least two-thirds of the executive directors' total potential reward being performance-related.
- Profit growth and cash management, which are within management's control and influence, are considered to be the key performance drivers of shareholder value. The Company's targets are considered achievable but still at the top-end of stretching performance.
- The overall reward policy encourages executives to own and invest in Howden Joinery Group shares aligning performance over the longer term. Executives are encouraged to invest in shares in the Company and to build and maintain a shareholding of at least one times salary over a reasonable time frame (two times salary for CEO). The table below confirms that the executive directors meet these shareholding requirements.

Executive director	Actual shareholding as at 24 December 2011 as percentage of salary*	Shareholding requirement as percentage of salary	Guideline met?
Matthew Ingle	487%	200%	Yes
Mark Robson	250%	100%	Yes

* Assuming a share price of £1.00

Directors' remuneration report continued

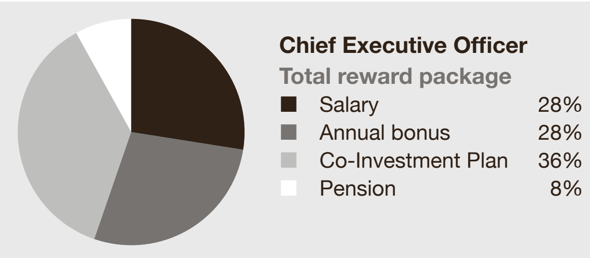
Howdens' remuneration for the senior management team places a strong emphasis on performance-related reward. The individual elements are designed to provide the appropriate balance between fixed remuneration and variable 'risk' reward, linked to the performance of the Group. In making decisions, the Committee takes into account a number of factors, including the strategy of the Company and the relationship between remuneration and risk, and affordability. The Committee also takes account of pay and conditions elsewhere in the Group and the external environment in which the Company is operating.

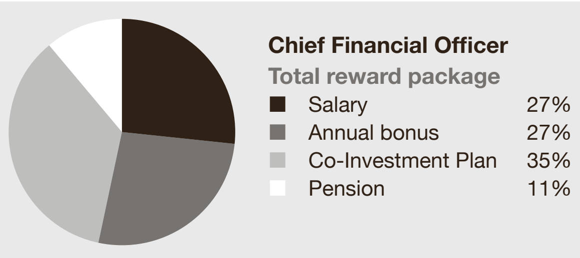
COMPONENTS OF EXECUTIVE DIRECTOR REMUNERATION

Summarised below are the key elements of the total reward package provided to executive directors for 2011 and the purpose of each element. All Executive Committee members participate in the same arrangements as the executive directors.

Element	Maximum value for executive directors	Purpose
Base salary	N/A	To recognise market value of role and individual's skill, responsibilities, performance and experience.
Annual bonus	200% of base salary. Any bonus in excess of 100% of salary is deferred into shares.	To reward annual profit and cash flow performance over the short term. The deferred element of the bonus aligns annual financial performance and bonuses with sustainable performance over the medium term.
Co-Investment Plan	Each invested share matched with up to two additional shares subject to the achievement of stretching performance conditions.	To reward improvements in shareholder value over the longer term and to align management and shareholder interests.
Pension & benefits	N/A	To provide a competitive level of benefits, providing short-term protection and long-term savings opportunities.

Individual elements of the package are designed to provide the appropriate balance between fixed remuneration and variable remuneration. The following charts show the target fixed/variable mix for the CEO and CFO in 2011 and illustrate that approximately two-thirds of the target package comprises variable remuneration.





Note that the fair value of the Co-Investment Plan does not account for the fact that participants need to have invested their own capital in shares to be eligible to receive a match.

Details of each individual element of the total reward package are given below:

i. Base salary

The Committee's policy is to position base salary for each director at the median level compared to market practice. Base salaries are reviewed annually and are determined by taking into account the performance of the individuals, changes in their responsibilities and information from independent remuneration consultants on the levels of salary for similar jobs having regard to the size of the Company – its turnover, market capitalisation and complexity. The Committee also takes into account internal relativities and the total remuneration of the executives compared to the market. Base salary is the only element of remuneration which is pensionable. In addition, benefits are provided to executive directors in accordance with market practice.

For 2011, the Committee felt it appropriate to again freeze the CEO's salary and to grant a 5% increase to the CFO. This delivered median positioning against the comparator group and reflects the increased scope of the role held by the CFO over 2010.

For 2012, the CEO and CFO will both receive salary increases of 3%, taking their salaries to £555,000 and £389,300 respectively. This increase is in line with salary increases provided to the wider workforce.

Executive director	2011 salary	Increase on prior year	2012 salary	Increase on prior year
Matthew Ingle	£538,000	0%	£555,000	3%
Mark Robson	£378,000	5%	£389,300	3%

ii. Incentive arrangements

Annual Bonus

Annual bonuses payable to executive directors in respect of 2011 comprised two elements. The first element related to pre-exceptional profit before tax (PBT), and the second element related to cash flow performance over the year. The maximum annual bonus a participant can receive under the combined elements is 200% of salary. Any bonus earned over 100% of salary will be deferred into shares, with 50% of the deferred amount released after one year and 50% released after two years subject to continued employment.

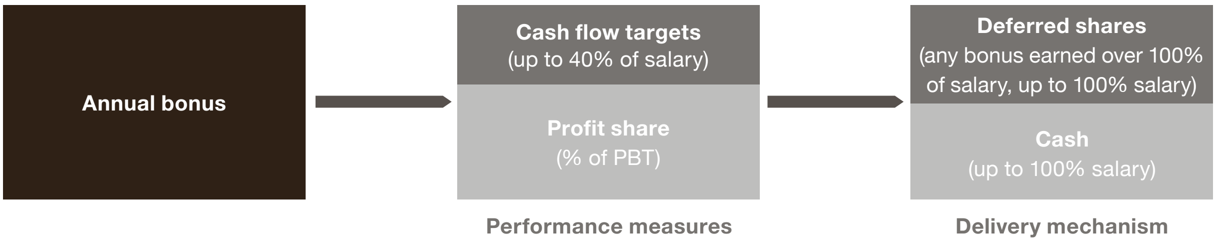
Under the PBT component, no bonus is payable for achieving below Threshold performance. In 2011, this was set at £80m PBT. At Threshold performance, 25% of salary can be earned rising to 77% of salary for achieving a Target level of PBT performance with straight-line vesting between these points. Above Target, the bonus is determined on a "profit share basis" whereby participants earn a bonus based on a fixed percentage of the Company's PBT. In 2011, the profit share percentages for the CEO and CFO were 0.45% and 0.31% respectively.

In respect of the cash flow element of the bonus, executives can earn up to 40% of salary based on achieving pre-determined cash flow targets. 15% of salary is payable for achieving Threshold performance and 40% of salary is payable for achieving Maximum performance, with payments determined on a straight-line basis between these points. No bonus in respect of the cash flow element will be paid below Threshold.

Cash flow targets are assessed again at the end of February 2012 to ensure that cash flow levels have been maintained beyond the December 2011 year end. Cash flow is defined as the difference between reported Net Debt at the end of the financial year and the beginning of the financial year.

Directors' remuneration report continued

A summary of the operation of the Annual Bonus Plan for 2011 is shown below:



The Group's performance against its financial targets, as it affected the payout of the bonus in respect of the performance year ending 24 December 2011, is shown in the table below:

Key performance indicator	Actual performance in 2011	Bonus as % of salary	
		M Ingle	M Robson
PBT	£110m	92	90
Cash inflow	£22m	40	40
Total bonus earned		132	130

Co-Investment Plan (CIP)
Under the Co-Investment Plan, in 2011 the CEO was eligible to invest up to the lesser of 650,000 shares and 150% of salary of his own shares into the plan for a period of three years. At the time of award, 650,000 shares equated to 133% of salary. The CFO was eligible to invest up to the same proportion of salary as the CEO. Both the CEO and CFO invested the full amount.

In return for this commitment, each invested share is matched with up to two additional shares which vest subject to the achievement of stretching PBT growth targets over the three year vesting period. The PBT targets are intended to focus management's attention on longer-term PBT growth than is addressed by the annual bonus, as this is key to unlocking shareholder value by generating sufficient profit growth to address legacy MFI issues. The targets are set out in the table below:

PBT growth	Number of matching shares that vest
12% p.a.	2
Straight-line vesting between these points	Straight-line vesting between these points
6% p.a.	0.5
Less than 6% p.a.	0

Incentives for 2012

- Annual Bonus
  In 2012 the bonus will continue to consist of a profit share and cash flow element.

  Under the profit share component, the minimum Threshold level of PBT performance will be increased to £99m (£80m in 2011) and the payout at this level of performance will be reduced to 10% of salary (25% in 2011). The level of payout for Target PBT performance will remain at 77% (as in 2011). Above target PBT, the CEO will be eligible to earn 0.43% of PBT (0.45% in 2011). The CFO will be eligible to earn 0.30% of PBT (0.31% in 2011). The profit share bonus will vest on a straight-line basis between Threshold and Target performance.

  Under the cash flow component, executives will again be able to earn up to 40% of salary subject to achieving predetermined cash flow targets on a sliding scale. In addition to cash flow, the Committee will also consider the working capital management over the year (measured by reference to stock and debtor days) in reviewing the outcome under this element of the plan.

  The maximum overall bonus opportunity will remain capped at 200% with any bonus earned in excess of 100% of salary being deferred into shares.

- Co-Investment Plan
  The CEO will again be eligible to invest up to the lesser of 650,000 shares or 150% of salary, with the CFO eligible to invest an equivalent proportion of salary. As per 2011, each invested share will be matched by up to 2 matching shares, dependent on PBT performance. The PBT targets that will be used to determine the vesting of matching shares will be kept the same as for 2011, with 2 matching shares vesting for 12% p.a. PBT growth and 0.5 matching shares vesting for 6% p.a. PBT growth.

Other existing arrangements

The following incentive plans (discretionary and all-employee) are also at the Committee's disposal. These plans were not operated in 2011:

- Long Term Incentive Plan (LTIP)
  A new LTIP was adopted by the Company at the AGM in 2009 on broadly similar terms to our previous plan but with rules (i.e. change of control and leavers) brought into line with current corporate governance best practice. Awards of restricted shares or share options may be made under the LTIP. There is no intention to use the plan in 2012 for executive directors.

- FreeShare Plan
  The FreeShare Plan was introduced in 2002. Executive directors may participate in the plan on the same terms as all other eligible employees. The plan is HMRC approved and is not subject to performance conditions other than continued employment. Under the FreeShare Plan all eligible employees were invited to accept an allocation of up to £200 of the Company's shares in September 2002 and again in May 2003. The shares are held in a Trust for a holding period being between three and five years after which the award of shares will vest and participants may withdraw their shares. No further allocations have been made since those dates. The FreeShare Plan will lapse in 2012, and will not be used going forward.

iii. Pensions

Executive directors can participate in the Howden Joinery Group Pension Plan (the Plan). The Plan is funded and HMRC approved. With effect from 1 September 2006 the basis changed to a hybrid defined benefit, occupational pension plan. Its main features are currently:

- The defined benefit pension accrues on a Career Average Revalued Earnings (CARE) basis at the rate of 1/50th of actual pensionable pay in each year (currently capped at £127,800); post-retirement increases are linked to the increase in the retail prices index with a maximum of 2.5%;
- members contribute 8% of pensionable pay to the CARE plan;
- in addition to the defined benefit section, the Company will match any voluntary member contribution made to the defined contribution top-up section to a maximum of 8% of pensionable pay. To recognise the impact of the change in the taxation of pensions on individuals, the member may opt to receive a salary supplement of 8% of salary in lieu of this defined contribution opportunity;
- life assurance cover of six times pensionable pay for those members with dependents and two times for those without dependents;
- pension payable in the event of ill health; and
- spouse's pension on death in retirement of 2/3 of deceased's pension.

Pensionable pay is limited to the member's basic salary. All plan benefits are subject to HMRC limits.

A pension supplement system operates concurrently with the Plan which recognises that pension entitlement in respect of the CARE part of the Plan has included maximum benefit restrictions which was £127,800 for 2011 (being based on the Earnings Cap applied prior to April 2006). This supplement is 30% of basic salary above the Plan Cap to reflect competitive market practice.

If a director chooses to opt out of membership of the pension plan, then the supplement payment will be 30% of total Basic Salary. The CEO had a fully funded pension position in 2006 and hence has chosen to opt out of membership of the Plan and consequently receives a salary supplement. Mark Robson continues to participate in the Plan.

iv. Service contracts

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

v. External appointments

It is recognised that executive directors may be invited to become non-executive directors of other companies and that exposure to such duties can broaden their experience and skills, which will benefit the Company.

Howden Joinery Group allows executive directors and other appropriate senior employees to accept a maximum of one non-executive appointment outside the Company, subject to permission from the Committee, provided this is not with a competing company nor likely to lead to conflicts of interest. No such appointments are currently in place. Executive directors may retain the fees paid to them in respect of their non-executive duties.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive director appointments are for an initial period of three years. They are subject to re-appointment annually in accordance with the UK Corporate Governance Code. Non-executive directors do not have contracts of service or notice periods and are not entitled to any form of compensation in the event of early termination for whatever reason.

The remuneration of non-executive directors, other than the Chairman, is considered by the Chairman and the Chief Executive. The Chairman's remuneration is determined by the Remuneration Committee while the Chairman is absent. A review was conducted in 2010 to ensure that remuneration for non-executive directors reflects the time commitment and responsibilities of their roles. The review resulted in no increase in the remuneration of the Chairman and non-executive directors.

Name	Basic Chairman/ non-executive fee	Chairman of Audit Committee	Member of Audit Committee	Chairman of Remuneration Committee	Member of Remuneration Committee	Total Fees
Will Samuel	£170,000	–	–	–	–	£170,000
Michael Wemms	£38,000[(1)]	–	£2,500	£8,000	£2,500	£51,000
Angus Cockburn	£35,000	£8,000	£2,500	–	£2,500	£48,000
Tiffany Hall	£35,000	–	£2,500	–	£2,500	£40,000
Mark Allen[(2)]	£35,000	–	£2,500	–	£2,500	£40,000
Ian Smith[(2)]	£35,000	–	£2,500	–	£2,500	£40,000

1. Michael Wemms receives an additional £3,000 as part of his basic fee to reflect his additional responsibilities as Senior Independent Director.
2. Ian Smith retired from the Board on 21 September 2011. Mark Allen was appointed to the Board on 31 May 2011. Both their fees were pro-rated to reflect the amount of time spent in the role during the year.

Directors' remuneration report continued

PART B – AUDITED INFORMATION

DIRECTORS' REMUNERATION

The following table sets out the directors' emoluments for the 52 weeks to 24 December 2011:

	Basic salary £000	Fees £000	Benefits[1] £000	Annual cash incentive[2] £000	Pension supplement[3] £000	52 weeks to 24 December 2011 £000	52 weeks to 25 December 2010 £000
Chairman							
Will Samuel	–	170	–	–	–	170	170
Executive directors							
Matthew Ingle	538	–	18	538	161	1,255	1,255
Mark Robson[4]	360	–	32	378	97	867	785
Sub-total	898	170	50	916	258	2,292	2,210
Non-executive directors							
Mark Allen	–	23	–	–	–	23	–
Angus Cockburn	–	48	–	–	–	48	48
Tiffany Hall	–	40	–	–	–	40	24
Ian Smith	–	29	–	–	–	29	40
Peter Wallis	–	–	–	–	–	–	15
Michael Wemms	–	51	–	–	–	51	51
Total	898	361	50	916	258	2,483	2,388

1 The benefits column incorporates benefits in kind which relate in the main to the provision of a fully expensed car or cash equivalent, private medical cover and use of the company driver.

2 Total bonus outcome for Messrs Ingle and Robson was 132% and 130% of salary respectively. Any amount earned in excess of 100% of salary will be deferred into shares, half of which will be held in trust for a further year and the remaining 50% will be held in trust for a further two years.

3 Pension supplements are paid every six months in arrears and the next payment is due in March 2012. The table above includes an accrued amount for the period from 1 October 2011 to 24 December 2011. Further details of the pension supplement are given on page 44.

4 Employee pension contributions are made on a salary sacrifice basis. Therefore the basic salary figure noted for Mark Robson is lower to take account of that.

DIRECTORS' SHAREHOLDINGS

The beneficial interests of the directors in office on 24 December 2011 and their families in the share capital of the Company are as follows:

	Ordinary shares of 10p each 24 December 2011	Ordinary shares of 10p each 25 December 2010
Will Samuel	40,000	40,000
Matthew Ingle	2,617,604	2,435,665
Mark Robson	943,592	717,181
Angus Cockburn	3,000	3,000
Michael Wemms	42,000	42,000
	3,646,196	3,237,846

There have been no changes to the directors' interests shown above since 24 December 2011 and the publication of the Company's preliminary results announcement on 1 March 2012.

SHARE OPTIONS

Details of share options of those directors who served during the year are as follows:

Director	At 25 December 2010	Awarded	Lapsed / expired Unexercised	Exercised	At 24 December 2011	Exercise price (pence)	Earliest date of exercise	Expiry date
Matthew Ingle								
2000 Share Option Plan (Section 3)	450,902	–	450,902	–	–	124.74	30 May 2004	29 May 2011
2000 Share Option Plan (Section 3)	275,483	–	–	–	275,483	106.50	26 May 2008	26 May 2015
2000 Share Option Plan (Section 2)	2,862,972	–	–	–	2,862,972	50.00	16 April 2012	16 April 2019
2000 Share Option Plan (Section 2)	2,862,972	–	–	–	2,862,972	25.00	16 April 2012	16 April 2019
Howden Joinery LTIP	1,333,333	–	–	–	1,333,333	80.70	25 March 2013	25 March 2020
Mark Robson								
2000 Share Option Plan (Section 3)	191,388	–	–	–	191,388	106.50	26 May 2008	26 May 2015
2000 Share Option Plan (Section 2)	1,915,743	–	–	–	1,915,743	50.00	16 April 2012	16 April 2019
2000 Share Option Plan (Section 2)	1,915,743	–	–	–	1,915,743	25.00	16 April 2012	16 April 2019
Howden Joinery LTIP	892,193	–	–	–	892,193	80.70	25 March 2013	25 March 2020
	12,700,729	–	450,902	–	12,249,827			

1 The options outstanding are exercisable at prices between 25 pence and 106.50 pence. In the period the highest middle market closing price was 127.5 pence per share and the lowest middle market closing price was 91.22 pence per share. The middle market price on 23 December 2011 (the last business day before the financial year end) was 99.7 pence per share.

2 Options granted under Sections 2 and 3 of the 2000 Share Option Plan Portfolio and those granted under the Howden Joinery Group LTIP are not normally exercisable unless challenging targets are met. These options have been divided into the following performance conditions:

- For the options granted in 2001, 50% of the award vested if EPS growth of 60% was achieved over the performance period, and 100% vested if EPS growth of 120% was achieved over the performance period. The options lapsed on expiry in May 2011.
- For the options granted in 2005 40% of the option became exercisable subject to growth in EPS, calculated on an IIMR basis, being equal to RPI + 40% over three years; increasing on a straight-line basis up to 100% of an option becoming exercisable where EPS growth equals or exceeds RPI + 100% over three years. Options lapsed on 26 May 2008 to the extent that these targets were not satisfied. Targets are not restated.
- For the options granted in 2009, options will vest if the Group achieves a cumulative pre-exceptional PBT of £90m over the three financial years ending 2009, 2010 and 2011.
- For the options granted in 2010, 15% of the options will vest if the Group achieves growth in pre-exceptional PBT equivalent to RPI over the performance period; 100% will vest if pre-exceptional PBT growth is equivalent to RPI + 8% is achieved.

Details of the Company's ordinary shares over which those directors who served during the year have conditional rights under the LTIP are as follows:

Director	Scheme interest at 25 December 2010	Awarded	End of the period for qualifying conditions to be fulfilled	Lapsed / expired	Vested	At 24 December 2011
Matthew Ingle						
2007 Co-Investment Plan	3,250,000	–	31 December 2010	3,250,000	–	–
2011 Co-Investment Plan	–	1,300,000	31 December 2013	–	–	1,300,000
Mark Robson						
2007 Co-Investment Plan	2,600,000	–	31 December 2010	2,600,000	–	–
2011 Co-Investment Plan	–	913,382	31 December 2013	–	–	913,382
	5,850,000	2,213,382		5,850,000	–	2,213,382

1 The 2007 Co-Investment Plan is a plan where each participant is permitted to invest a limited amount of shares on an annual basis for the purposes of the Plan. At the end of a three year performance period, each invested share will be matched by an award of up to three matching shares if 2010 PBT of £135 million is achieved; 25 percent of the maximum match (i.e. 0.75:1) will be earned for achieving 2010 PBT of £110 million and the awards will vest on a sliding scale between these two points. A further match of up to two shares will be made for achieving upper quartile Total Shareholder Return (TSR), measured against the FTSE 250 Index (excluding investment trusts). These awards lapsed in full on 31 December 2010 as the performance conditions were not met as at year end 25 December 2010.

2 For the 2011 Co-Investment Plan award, each invested share will be matched by an award of up to two shares if PBT growth of 12% is achieved over the three year performance period; 25% of the maximum match will be earned if PBT growth of 6% is achieved over the performance period. The awards will vest on a sliding scale between these two points.

3 The directors were required to defer a third of their annual bonus earned in 2008 into shares. These shares were bought out of taxed income and are held in Trust for three years. Mr Ingle has 570,416 shares held in Trust under this arrangement and Mr Robson 403,374 shares.

4 From 2009 onwards, the Directors have been required to defer any part of their annual bonus payment earned in excess of 100% of salary into shares. The shares are bought out of taxed income. Half of these shares will be held in trust for a further year and the remaining 50% will be held in Trust for a further two years. Mr Ingle has 142,350 shares held in Trust under this arrangement and Mr Robson 91,300 shares.

Directors' remuneration report continued

EXECUTIVE DIRECTORS' PENSIONS

The table below shows the accrued pension should the director leave employment as at the financial period end:

	Transfer value at 25 Dec 2010 £000	Real increase in accrued pension £000	Inflation £000	Increase in accrued pension £000	Transfer value of real increase in accrued pension (less directors' contributions) £000	Other changes to transfer value £000	Increase / (decrease) in transfer value less directors' contributions £000	Directors' contributions £000	Accrued pension at 24 Dec 2011 £000	Transfer value at 24 Dec 2011 £000
Matthew Ingle	507.4	–	2.2	2.2	–	178.3	178.3	–	44.8	685.7
Mark Robson	204.5	2.3	0.8	3.1	40.7	101.6	142.3	–	18.8	346.8

1 Matthew Ingle opted out of the pension plan on 5 April 2006 and consequently receives a 30% salary supplement from this date. Mark Robson receives a salary supplement of 30% on basic earnings over and above the earnings cap.

2 Employee pension contributions are paid on a Salary Sacrifice basis and therefore aggregate pension costs paid by the Company in respect of the directors' qualifying services were £30,060 (2010: £67,306). The amount paid in respect of the highest paid director was £30,060 (2010: £67,306).

3 Mr Ingle's and Mr Robson's transfer values were subject to a reduction further to a decision in 2009 by the Group's pension trustees to change the basis of any transfer value calculation under the Group's pension plan.

Name	Date pensionable service commenced	Pensionable service (complete years and months)
Matthew Ingle	12 April 1995	10 years 11 months
Mark Robson	12 April 2005	6 years 8 months

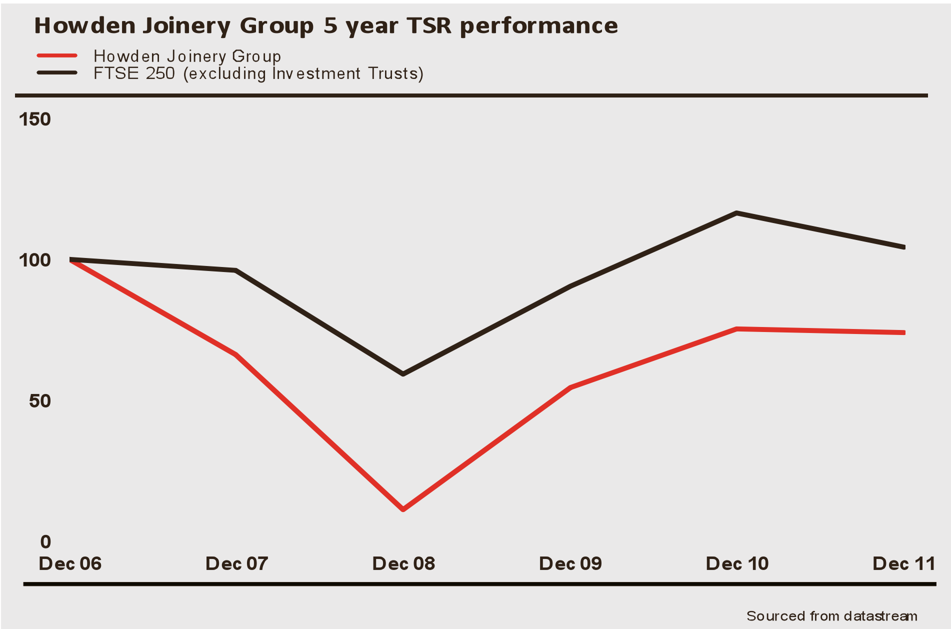
DIRECTORS' AWARD OF FREESHARES – SHARE INCENTIVE PLAN

The aggregate awards of free shares made to the executive directors under the Share Incentive Plan are as follows:

Executive	No of Shares
Matthew Ingle	311

DIRECTORS' REMUNERATION REPORT REGULATIONS 2002

Under the Directors' Remuneration Report Regulations 2002 ("the Regulators") the Company is required to include in this report a graph showing the Company's total shareholder return (TSR) performance over the most recent 5 years compared to an appropriate index. The graph below illustrates the Company's TSR performance relative to the constituents of the FTSE 250 index (excluding investment companies) of which the Company is a constituent.



Michael Wemms
Remuneration Committee Chairman

29 February 2012

Corporate governance report

INTRODUCTION AND STATEMENT OF COMPLIANCE

The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code that was issued in 2010 by the Financial Reporting Council (the 'Code') for which the Board is accountable to shareholders. Throughout the year ended 24 December 2011, the Company has been in compliance with the provisions set out in the 2010 UK Corporate Governance Code.

The Company has applied the principles set out in the Code, including both the main and supporting principles, by complying with the Code as reported above. Examples of how the principles and supporting principles have been applied are set out below and in the Remuneration Report and Committee reports. The Board received a formal briefing on the impact of the revised UK Corporate Governance Code in July 2010 and are aware of the importance of applying the Code in the spirit in which it was adopted.

HOWDENS' APPROACH TO CORPORATE GOVERNANCE

As a locally empowered, entrepreneurial business, Howden Joinery is reliant on a strong, effective and consistent governance culture throughout the business. To that end, the Board recognises that the importance of corporate governance lies not merely with following codes and popular trends but ensuring that appropriate structural safeguards are in place to minimise risk and ensure that the Company can achieve its long-term ambitions of stability and success.

THE BOARD

Role

The Board has responsibility for the overall management and performance of the Howden Joinery Group. This includes providing clear and effective leadership and setting the values and standards which are applied throughout the business. They are collectively responsible for challenging and assisting in the development of strategy and ensuring that there are sufficient resources in place to meet the strategic objectives which have been set.

The directors are also responsible for determining the nature and extent of significant risks and maintaining sound risk management and internal control procedures throughout the Group.

The Board reviews the performance of and provides counsel to the senior management in their day to day running of the business and is ultimately responsible for the safeguarding of its shareholders' interests and ensuring its own effectiveness.

Decisions reserved for consideration by the Board are detailed in a schedule which is reviewed annually. These include decisions about strategy, acquisition and disposals, risk management and internal control, capital projects over a defined level, annual budgets, Group borrowing facilities and consideration of significant financial and operational matters. The Board also considers legislative, environmental, health & safety, governance and employment issues.

Board composition

The Board is structured to ensure that there is a clear distinction between the strategic functions of the Board and the operational management of the Company. The Board currently comprises two executive directors, the Chairman and four non-executive directors. Details of the individual directors can be found on page 33.

Will Samuel was the non-executive Chairman during the whole period.

Executive directors

There were no changes to the executive directors during the period. Matthew Ingle and Mark Robson continued in their roles as Chief Executive Officer and Chief Financial Officer. Mr Ingle was appointed to the Board in 1998; Mr Robson in 2005.

Non-executive directors

The non-executive directors have been selected for the diversity of their backgrounds as well as their personal attributes and experience. The current board members bring a wide range of skills and experience to the Board and all actively contribute in discussion.

The Board considered that the following directors were deemed to be independent during the period:

- Mark Allen (appointed 31 May 2011)
- Angus Cockburn
- Tiffany Hall
- Michael Wemms (Senior Independent Director)

The Chairman, Will Samuel, was considered to be independent on appointment as outlined in the Code.

At the 2011 AGM held on 16 May 2011 the Board noted that, having served nine years as a non-executive director, Ian Smith would be presumed not to be independent for the purposes of provision B.1.1 of the Code. Whilst the Board considered it appropriate for Mr Smith to continue as director of the Company after that date to ensure a smooth transition of responsibilities and to help bring the strategy review of which he was part to a conclusion, Mr Smith nevertheless resigned as a member of the Audit, Remuneration and Nomination Committees from this point ensuring that the Company continued to comply with the terms of reference of such committees. At all times during this period the Company continued to adhere to provision B.1.2 of the Code which provides that at least half of the Board excluding the Chairman must be independent and to the provisions of the Code related to the composition of the Audit, Remuneration and Nomination Committees. In order to ensure a seamless transition, Mark Allen was appointed on 31 May 2011 and received a full induction into the Company. On 21 September 2011, Ian Smith resigned from his position as non-executive director.

The Company was early in adopting provision B.7.1 of the UK Corporate Governance Code and as such all of the directors were subject to re-election at the 2011 AGM. The Board is proposing that all of the directors will be subject to re-election at the 2012 AGM.

Division of responsibilities

The roles of Chairman and Chief Executive are separate and clearly defined. The Chairman is primarily responsible for leadership of the Board and has a pivotal role in creating the conditions for individual director and board effectiveness including ensuring a culture of openness and debate in the boardroom. The Chairman is responsible for setting the Board's agenda and works closely with the Company Secretary in this regard. He ensures that adequate time for discussion is afforded to all agenda items at meetings. It is also the responsibility of the Chairman to ensure effective communication with the shareholders. The executive directors, and in particular the Chief Executive, are responsible for satisfactory execution of the policies and strategy agreed by the Board.

In accordance with the Code, the Board has established Audit, Remuneration and Nominations Committees, each with defined terms of reference. The membership and terms of reference of these committees are reviewed annually and are available on the Group's website at http://www.howdenjoinerygroupplc.com/investors/governance/. The work of each of these committees is considered in detail below.

The Board has also established a Pensions Committee dealing with matters associated with the Group's pension scheme and a Disclosure Committee which considers matters which could give rise to an obligation to make a market announcement under the FSA Listing Rules.

In addition to these standing committees, the Group has an Executive Committee comprising those members detailed on page 120. The principal purpose of the Committee, which meets twice a month, or more frequently if required, is the implementation of the Group's strategy and operational plans. The Committee monitors the operational and financial performance of the business, as well as being responsible for the optimisation of resources and the identification and control of operational risk within the Group.

Attendance

The Board holds regular meetings and receives accurate and timely information. During 2011, the Board held seven formal Board meetings and a number of other meetings and teleconferences to discuss and review progress on issues affecting the Group during the year.

Corporate governance report continued

	Board		Audit Committee		Remuneration Committee		Nominations Committee	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
Will Samuel	7	7	–	–	–	–	2	2
Matthew Ingle	7	7	–	–	–	–	–	–
Mark Robson	7	7	–	–	–	–	–	–
Mark Allen	3	3	2	2	2	1	1	1
Angus Cockburn	7	7	3	3	3	3	2	2
Tiffany Hall	7	7	3	3	3	3	2	2
Ian Smith	6	5	1	1	1	1	1	1
Michael Wemms	7	7	3	3	3	3	2	2

Denotes Chairman

The table above shows the number of meetings individual directors could have attended (taking account of eligibility, appointment and retirement dates during the year) and their actual attendance. For the committees, only the attendance of members of that committee is shown, although other directors, where appropriate, have often also attended at the invitation of the chairman of the committee.

If a director is unable to attend a meeting, they are nevertheless provided with all the papers and information relating to the meeting and are able to discuss the issues arising directly with the Chairman and executive directors.

Diversity

The Board recognises the importance of ensuring that there is diversity of perspective, background and approach in its management team and on its Board. Since the business was established in 1995 it has sought to enable individuals to progress within the organisation regardless of age, gender, background or formal qualifications. We have appointed one female director and one male director to our Board since May 2010, which means that currently 14% of Board members are women.

We believe that it is in the interests of the business and of its shareholders for us to build a stable, cohesive and representative Board. The Nominations Committee will continue to seek diversity of mindset as well as of gender and background when considering new appointments in the period to 2015. More widely, we are committed to developing a long-term pipeline of executive talent that reflects the diversity of Howdens' business and of all its stakeholders. Currently 25% of the members of our Executive Committee are female.

Board evaluation

A formal review of the Board's effectiveness was conducted following the September Board meeting in accordance with the Board's formal process for reviewing its own effectiveness. Following the 2010 evaluation which was conducted by an independent, external facilitator, the 2011 review was undertaken by the Company Secretary. The review was conducted within a methodology previously agreed by the Board and comprised a series of interviews and a questionnaire.

The formal evaluation addressed key topics which included:

- the composition of the Board;
- the extent and quality of information provided to the Board and Committees;
- the conduct of Board meetings and processes;
- the extent to which the Board engages in strategic planning;
- talent management and continuity planning;
- the performance of the Chairman, of Board committees and of individual members;
- the quality of debate within the Board; and
- the extent to which actions arising from the 2010 evaluation exercise had been implemented effectively.

The report of the evaluation was presented to the Board in February 2011 and the Board accepted its findings and recommendations.

The Senior Independent Director met with the non-executive directors in the absence of the Chairman to assess the Chairman's performance.

There is a procedure for all directors to take independent external advice, at the Company's expense, in the course of their duties via the Company Secretary. Working with the Chairman, the Company Secretary is responsible for ensuring that Board procedures are followed and all directors have access to her advice and services.

Directors' indemnity & insurance

In accordance with the Articles of Association, the Company has provided indemnities to the directors (to the extent permitted by the Companies Act) in respect of liabilities incurred as a result of their office. In addition the Company maintains appropriate insurance cover against legal action brought against it or its subsidiaries, directors and officers. Neither the indemnity nor insurance provides cover in the event that the director is proved to have acted dishonestly or fraudulently.

AUDIT COMMITTEE

To view the Audit Committee terms of reference please refer to the Company website at: http://www.howdenjoinerygroupplc.com/investors/governance/audit/.

A detailed review of the work of the Audit Committee can be found in the Audit Committee report on pages 60 to 63.

REMUNERATION COMMITTEE

To view the Remuneration Committee full terms of reference please refer to the Company website at: http://www.howdenjoinerygroupplc.com/investors/governance/remuneration/.

Function

The Remuneration Committee is responsible for:

- advising on the remuneration packages of the executive directors;
- developing strategy and policy on executive remuneration;
- determining the remuneration packages of individual executive directors; and
- reviewing the remuneration of certain other senior executives who are not on the Board.

Full details of the Committee's composition, scope, function and how it carried out its duties are contained in the Remuneration Report on pages 37 to 51.

NOMINATIONS COMMITTEE

To view the Nominations Committee full terms of reference please refer to the Company website at: http://www.howdenjoinerygroupplc.com/investors/governance/nomination/.

Composition

In accordance with the Committee's terms of reference, the Nominations Committee consists of five members: the Chairman of the Board, who also chairs the Committee, and the independent non-executive directors.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive and external advisers may be invited to attend for all or part of any meeting, as and when appropriate.

Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the director remains independent.

More information on the Board's commitment to diversity in the Howdens' Board and senior management can be found on page 54.

Function

The Committee keeps under review the size, composition and structure of the Board, including succession, and makes recommendations to the Board for all new appointments and reappointments.

During 2011, the Nominations Committee met twice to consider:

- the reappointment of directors at the 2011 AGM;
- the performance of the Committee and the appropriateness of the Committee's terms of reference; and
- the appointment of Mark Allen as a new non-executive director to replace Ian Smith. Like Mr Smith, Mr Allen brings a broad-based mix of business skills to the Group,

Corporate governance report continued

along with his considerable experience at Board level and as CEO. The Committee appointed an Executive search agency to assist with the recruitment process.

The Board as a whole, rather than just the Nominations Committee, discussed the issue of succession and continuity planning as one of its agenda items during the year.

INDUCTION AND ONGOING TRAINING

As the only new appointment to the Board during the year, Mark Allen undertook the Group induction programme. Although each induction programme is tailored to the needs of the individual, the Group's induction programme for newly appointed directors is centred on familiarisation with the Group's operations. This includes meeting directors and executives individually, visiting operational locations, and discussions with the Company's external advisers. The director also receives a pack of introductory materials.

The Chairman meets with individual directors annually to discuss, amongst other things, individual training and development needs. Ongoing training and development for the directors includes attendance at formal conferences and internal events as well as briefings from external advisers. Directors are also encouraged to attend external seminars and briefings as part of their continuous professional development. The non-executive directors are also encouraged to meet with Howdens employees, such as depot managers, in order to maintain a broad purview of the business.

A record of ongoing training and development of directors is kept by the Company Secretary.

RELATIONS WITH SHAREHOLDERS

The Company considers its relationship with both institutional and private investors to be important and readily enters into dialogue with investors. The Company has consulted extensively with its principal shareholders in the course of 2011 in relation to the ongoing progress of the Company and also in relation to identifying appropriate executive incentive arrangements. The Company is aware of the stewardship obligations of institutional investors as set out in the UK Stewardship Code and will work with its institutional investors to ensure that they are able to satisfy these requirements.

All of the executive directors, the Chairman and the Senior Independent Director met with shareholders during the year and all of the directors make themselves available for meetings with shareholders as required.
The Company's website (www.howdenjoinerygroupplc.com) includes a specific investor relations section and provides an effective channel for communication with existing and potential investors. The Board receives regular reports from the CFO with regard to relations with the major shareholders and developments and changes in their shareholdings. The Board also commissions regular feedback reports from the Company's joint brokers, UBS and JP Morgan Cazenove.

The Annual General Meeting (AGM) provides shareholders with an opportunity to discuss the Group's progress and operations directly with the Board. At the AGM, the Company proposes separate resolutions on each substantially separate issue and the numbers of proxy votes cast for and against each resolution are made available to shareholders when voting has been completed. The notice of the AGM is sent to shareholders at least twenty working days before the meeting.

RISK AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. Such a system is, however, designed to manage rather than eliminate the risks of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable assurance against misstatement or loss. The UK Corporate Governance Code recommends that the Board at least annually reviews the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls and risk management. The Board has conducted reviews of the effectiveness of the system of internal controls through the processes described below and is satisfied that it accords both with the Code and with the Turnbull Guidance. During the course of its review of the system of internal control, the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant; therefore a confirmation in respect of necessary actions has not been considered appropriate.

A description of the Group's principal risk and uncertainties can be found on pages 23 to 26 of the Review of Operations and Finance.

Risk management

The Board can confirm that, for the 2011 financial year and up to the date of approval of the annual report and financial statements, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Group which is reviewed regularly by the Board and accords with the Turnbull Guidance. Under the guidance of the Chief Financial Officer, it is the responsibility of the Executive Committee to review the effectiveness of the risk management process and internal controls on behalf of the Board. The Executive Committee regularly reports to the Board on how risks are being managed. In addition, there is a mechanism in place to report significant control breakdowns or risk occurrences to the Executive Committee.

An ongoing process for the effective management of risk has been defined by the Board and is operated in the following stages:

- Each operating division and central function identifies key risks through the adoption of both a "bottom-up" and "top-down" process. These key risks are regularly reviewed by the senior management team in each division. The key risks to each business area's objectives are identified and scored for probability and impact. The key controls to manage the risks to the desired level are identified.
- A local database of risks and controls is maintained within each operating division and central service function. This is consolidated into a central register which becomes the key risk register for the Group. The Group Risk department facilitates the identification of these risks and provides an independent appraisal of the interpretation of the scoring mechanism, to ensure that the key risks are brought forward to the Executive Committee. The Executive Committee then reviews the key risks to assess the effectiveness of the risk management strategies.
- The senior management team within each division and within the central functions are responsible for the ongoing review of their functions' risk registers. Regular reporting on internal and external changes that affect the risks or their importance to the business, and any risk occurrences, are reported upwards through their register to the Executive Committee.
- Key risks and their management are regularly reported to and discussed at the Executive Committee.
- A review of the risk process and risk management systems is undertaken by the Audit Committee annually.
- Key risks arising within the business are formally discussed by the Group Board every six months given that overall risk is a matter reserved for the Board as a whole.
- In order to gain assurance that the Group's risk process is effective a periodic review of both the Audit and Risk Process is conducted by an appropriately qualified and experienced external assurance service provider. This is conducted every five years with the next review planned for 2012.

Internal control

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

- The Board reviews Group strategy and the executive management are accountable for their performance within the agreed strategy.
- The Group and its subsidiaries operate control procedures designed to ensure complete and accurate accounting of financial transactions, and to limit exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties in key areas and periodic Internal Audit reviews.

- The Audit Committee meets regularly and its responsibilities are set out above. It receives reports from the Internal Audit function on the results of work carried out under an annually agreed audit programme. The Audit Committee has full and independent access to the internal and external auditors.
- Internal Audit facilitates a process whereby operating entities provide certified statements of compliance with specified and appropriate key financial controls. These controls are then cyclically tested by the Internal Audit Department to ensure they remain effective, and are being consistently applied.
- The Audit Committee will annually assess the effectiveness of the assurance provided by the internal and external auditors. Every five years, an external assessment will be undertaken with regard to the assurance provided by the Internal Audit department. The next external review is due in 2012.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement on pages 8 to 9, the Chief Executive's statement on pages 10 to 18 and the Review of Operations and Finance on pages 19 to 26. The Review of Operations and Finance describes the financial position of the Group, its cash flows, liquidity position, borrowing facilities, and the Group's objectives, policies and processes for managing its commercial and financial risks. The Group's financial risk management objectives and its exposures to credit risk and liquidity risk in relation to financial instruments are described in note 30 to the financial statements.

As highlighted in note 30 to the financial statements, the Group meets its day to day working capital requirements through an asset backed lending facility 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 impact 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. 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 bank in due course.

After making 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 Annual Report and Accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and

explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings including the consolidation taken as a whole; and
- the review of operations and finance along with other documents which are incorporated into the Directors' Report, together include a fair review of the development and performance of the business and the position of the Company and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board
Matthew Ingle
Chief Executive

Mark Robson
Chief Financial Officer

29 February 2012

Audit Committee report

To view the Audit Committee terms of reference please refer to the Company website at: http://www.howdenjoinerygroupplc.com/investors/governance/audit/.

The Board is dependent on the Audit Committee to review the Group's internal financial controls, to assess the work and independence of the external auditor, the effectiveness of the internal audit function and risk management processes, and to ensure the integrity of the financial reporting. As such it is crucial that the Committee conducts itself in an informed and efficient way. This Report of the Audit Committee provides an overview of the make-up of the Committee and the matters it considered during the year.

ROLE OF THE CHAIRMAN OF THE COMMITTEE

As Chairman of the Audit Committee I have ultimate responsibility for approving the Committee's agenda, ensuring that key audit issues are reported to the Board in an effective and timely manner and maintaining key relationships with the Group's senior management, Head of Risk and Internal Audit, the Company Secretary and senior representatives of the external auditors. I have been a member of the Audit Committee since my appointment as a non-executive director in October 2006 and have chaired the Committee since March 2007.

I am a qualified chartered accountant and Finance Director at Aggreko plc and as such the Board considers that I have the requisite recent and relevant financial experience to satisfy Provision C.3.1 of the UK Corporate Governance Code. The Board also considers that I have the commercial, financial and audit experience necessary to address any complex accounting, audit and risk issues which may arise.

COMPOSITION

In compliance with the Code and the Committee's terms of reference, during the year the Audit Committee comprised wholly of independent non-executive directors: Angus Cockburn, Michael Wemms, Tiffany Hall, Ian Smith (until May) and thereafter Mark Allen. The quorum for business is two members. Subject to successful annual re-election to the Board as provided by the UK Corporate Governance Code, appointments to the Audit Committee are for a period of three years and are extendable by two additional three year periods. An induction programme is provided for new Audit Committee members as part of the wider induction into the Board.

We review membership of the Committee at regular intervals. The Board is satisfied that the current mix of financial and commercial experience of the Audit Committee is such that the Committee can effectively exercise its responsibilities to the Company in relation to risk and controls.

The Committee is permitted by its terms of reference to obtain independent external advice at the Company's expense.

The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code. We conducted the annual review of the Committee's terms of reference at our meeting in November 2011.

MEETINGS

We are required by our terms of reference to meet at least three times per year and have an agenda predominately linked to events in the Group's financial calendar. The agenda is approved by myself in my capacity as Committee Chairman on behalf of my fellow members. Each Audit Committee member has the right to require reports on matters of interest in addition to the annually recurring items such as the review of the external audit report and accounts, review of auditor effectiveness and review of conflicts of interest.

The Chairman of the Board along with the Chief Executive, Finance Director, the Head of Risk and Internal Audit, representatives from the Finance function and senior representatives of the external auditors may be invited to attend all or part of any meeting as and when appropriate. The Audit Committee reserves the right to request any non-members to withdraw from any meeting.

SUMMARY OF THE ROLE OF THE AUDIT COMMITTEE

We assist the Board in ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position.

The Audit Committee is responsible for:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the Company's internal financial controls and the Group's internal control systems;
- reviewing the Group's risk management processes and systems (although the Board as a whole remains responsible for overseeing the overall risk profile of the business);
- ensuring that information flows from the senior management and external auditors are such that the information the Committee receives is complete, accurate, timely and robust;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- making recommendations to the Board in relation to the appointment of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

We are also responsible for reporting to the Board, identifying any matters in respect of which we consider that action or improvement is needed, making recommendations as to the steps to be taken and monitoring the effectiveness of any resulting activity.

OVERVIEW OF THE ACTIONS TAKEN BY THE AUDIT COMMITTEE TO DISCHARGE ITS DUTIES

During the year, the Committee met three times and discharged its responsibilities through the following activities:

- reviewing the Group's 2010 annual report and financial statements, the half yearly financial report published in July 2011 and the interim management statements. As part of this review we received a report from the external auditor on their audit of the annual report and financial statements and review of the half yearly financial report;
- considering the processes in place to generate forecasts of cash flow and accounting valuation information, including the choice and consistent use of key assumptions. A description of the Group's significant accounting policies can be found in note 2 of the consolidated financial statements on page 69;
- reviewing the effectiveness of the Group's internal financial controls (with specific reference to controls in place on a divisional basis) and reviewing the disclosures made in the annual report and financial statements on this matter;
- reviewing the processes used by the Group for identifying, evaluating and mitigating risks;
- receiving reports from the external auditors on the conduct of their audit, their review of accounting policies, areas of judgement and their comments on the effectiveness of internal controls;
- reviewing the proposed plan of work presented by the external auditors, including terms of engagement and fees;
- reviewing the Group's policy on the engagement of the external auditor for non-audit work;
- undertaking an assessment of the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process. This included consideration of a report on the audit firm's own quality control procedures and the audit firm's annual transparency report;

Audit Committee report continued

- assessing the risk of a possible withdrawal of the external auditors from the market;
- holding confidential sessions with the independent auditors and the head of internal audit in the absence of executive directors and Company executives;
- evaluating the performance of the Internal Audit function and agreeing a programme of work;
- receiving reports from the Internal Audit function on its work and monitoring the status of actions taken in response to its findings;
- reviewing activity reported under the Group's whistleblowing policy;
- reviewing our own effectiveness as an Audit Committee as part of the Board's evaluation process;
- considering the revised guidance on Audit Committees issued by the Financial Reporting Council; and
- reviewing the Committee's terms of reference and recommending minor changes to the Board.

In addition to the above we regularly invite senior management from the business to come and talk about the financial controls in their business areas. We regularly hear from the Finance Directors of the two divisions on the control environments in their areas and during this year we had a session with external experts on the work they had performed in conjunction with Internal Audit on the Information Systems control environment. In order to ensure that the Committee members are up to date in their knowledge, we also had a technical update presentation from a leading expert in Deloittes about recent developments in the areas of governance, accounting and reporting.

EXTERNAL AUDITOR

As a Committee we are responsible for the development, implementation and monitoring of the Group's policy on external audit in line with relevant ethical standards and guidance. The current policy sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Group, subject to de minimis levels. All relevant fees proposed by the external auditors must be reported to and approved by the Audit Committee. No services were provided by the external auditor pursuant to contingent fee arrangements.

During the year, the external auditors provided tax advice relating to the Group's obligations in respect of former MFI properties and its overseas subsidiaries. We reviewed the nature and cost of this work during the year and approved the ongoing involvement of Deloitte LLP in this regard as it was concluded that they were best placed to supply such tax services in a cost effective manner due to the experience and qualifications of the individuals providing such services, their knowledge of the Company and its tax affairs and that the best interests of the Company were served by engaging them. Details of Deloitte LLP's fees for audit and non-audit work during 2011 are included in note 7 to the financial statements on page 77. We have reviewed the nature and cost of the non-audit work undertaken during the year and the safeguards Deloitte LLP has in place to protect their independence as auditors and we are satisfied this work has not impaired their independence.

The Audit Committee also has a policy in relation to the employment of former members of the external audit team. This policy states that, whilst the Company would not normally employ a former member of the external audit team, if appropriate, individual cases may be considered by the Chairman of the Committee and Chief Financial Officer.

We recognise that auditor independence is an essential part of the audit framework and the assurance it provides. To fulfil our responsibilities regarding the independence of the external auditors, we undertook a comprehensive review during 2011 encompassing the following:

- review of the independence of the external auditors and the arrangements which Deloitte LLP have in place to identify, report and manage conflicts of interest;
- review of the changes in key external audit staff for the current year and the arrangements for the day to day management of the

audit relationship. This included reviewing the role of the senior statutory audit partner who signs the audit report. In accordance with the ethical standards, the senior statutory audit partner will change at the end of the 2011 year end audit having held office for five years;

- consideration of the effectiveness of the external auditors through a review of their plan of work and the outputs arising from the audit;
- consideration of the overall extent of non-audit services provided by the external auditors, in addition to case by case approval of the provision of non-audit services as appropriate; and
- consideration of the likelihood of a withdrawal of the auditor from the market and note taken of the fact that there are no contractual obligations to restrict the choice of external auditors.

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

- the arrangements for ensuring the external auditor's independence and objectivity;
- the external auditor's fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements; and
- the content of the external auditor's reporting on internal control.

The external audit was last tendered in 2002. This resulted in a change to the Group's external auditor, with Deloitte LLP replacing the previous incumbent audit firm. During the year we discussed the re-tendering of the external audit but, as a result of our work above, and taking into account the tenure of the auditors, we concluded that the independence criteria under the relative standards continued to be met and accordingly it was not necessary to tender for the audit work. The Committee has therefore unanimously recommended to the Board that a proposal be put to the shareholders at the Annual General Meeting that Deloitte LLP be reappointed as external auditors and that the directors be authorised to fix their remuneration. At the year end the independent auditors formally confirmed their independence and objectivity had been maintained.

INTERNAL AUDIT

We are also required to assist the Board to fulfil its responsibilities relating to the adequacy of resourcing and plans of the Internal Audit department. During the year, we reviewed:

- Internal Audit's programme of work and progress made against planned activity;
- results of key audits and other significant findings including the adequacy and timeliness of management's response;
- the level and nature of non-audit activity performed by Internal Audit; and
- staffing, reporting and effectiveness of divisional audits.

The Group's whistleblowing policy contains arrangements for the Head of Internal Audit to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate. Issues raised and investigated under this policy were formally reviewed during the year.

OVERVIEW

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

I will be available at the Annual General Meeting to answer any questions about the work of the Audit Committee.

Angus Cockburn
Chairman of the Audit Committee

29 February 2012

Consolidated income statement

	Notes	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Continuing operations:			
Revenue – sale of goods	4	853.8	807.9
Cost of sales		(345.5)	(324.9)
Gross profit		508.3	483.0
Selling & distribution costs		(333.2)	(315.5)
Administrative expenses		(60.6)	(60.1)
Other operating expenses		(0.2)	–
Operating profit	7	114.3	107.4
Finance income	9	–	0.3
Finance expense	10	(1.2)	(1.5)
Other finance expense – pensions	10	(3.1)	(5.3)
Profit before tax		110.0	100.9
Tax on profit	11	(28.9)	(34.0)
Profit after tax		81.1	66.9
Discontinued operations:			
Loss before tax – exceptional item	6	(8.3)	–
Tax on loss – exceptional item	11	0.5	–
Loss after tax – exceptional item	6	(7.8)	–
Profit for the period attributable to the equity holders of the parent		73.3	66.9
Earnings per share:			
From continuing operations			
Basic earnings per 10p share	12	13.4p	11.1p
Diluted earnings per 10p share	12	13.0p	10.8p
From continuing and discontinued operations			
Basic earnings per 10p share	12	12.1p	11.1p
Diluted earnings per 10p share	12	11.8p	10.8p

Consolidated statement of comprehensive income

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Profit for the period	73.3	66.9
Items of other comprehensive income:		
Actuarial (losses)/gains on defined benefit pension scheme	(31.4)	40.5
Deferred tax on actuarial losses/(gains) on defined benefit pension scheme	8.5	(11.3)
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	(6.5)	–
Deferred tax on share schemes	0.3	–
Currency translation differences	(0.3)	(0.8)
Other comprehensive income for the period	(29.4)	28.4
Total comprehensive income for the period attributable to equity holders of the parent	43.9	95.3

Consolidated balance sheet

	Notes	24 December 2011 £m	25 December 2010 £m
Non-current assets			
Goodwill	14	2.5	2.5
Other intangible assets	15	4.7	4.8
Property, plant and equipment	16	81.7	80.8
Investments	17	–	2.0
Deferred tax asset	18	43.4	50.1
		132.3	140.2
Current assets			
Inventories	19	118.5	105.5
Trade and other receivables	20	95.3	95.0
Other assets	20	–	0.2
Cash at bank and in hand	20	59.4	38.6
		273.2	239.3
Total assets		405.5	379.5
Current liabilities			
Trade and other payables	21	(139.1)	(136.8)
Current tax liability		(16.9)	(18.9)
Current borrowings	22	(1.1)	(1.5)
		(157.1)	(157.2)
Non-current liabilities			
Non-current borrowings	22	(1.2)	(2.3)
Pension liability	23	(136.9)	(135.7)
Deferred tax liability	18	(4.8)	(5.3)
Provisions	24	(35.3)	(55.9)
		(178.2)	(199.2)
Total liabilities		(335.3)	(356.4)
Net assets		70.2	23.1
Equity			
Called up share capital	25	63.4	63.4
Share premium account		85.1	85.1
ESOP reserve		(22.8)	(26.0)
Other reserves		28.1	28.1
Retained loss		(83.6)	(127.5)
Total equity		70.2	23.1

The financial statements were approved by the Board on 29 February 2012 and were signed on its behalf by Mark Robson – Chief Financial Officer.

Consolidated statement of changes in equity

	Called up share capital £m	Share premium account £m	ESOP reserve £m	Other reserve £m	Retained loss £m	Total £m
At 26 December 2009	63.4	85.1	(27.5)	28.1	(222.8)	(73.7)
Accumulated profit for the period	–	–	–	–	66.9	66.9
Net actuarial gain on defined benefit scheme	–	–	–	–	29.2	29.2
Currency translation differences	–	–	–	–	(0.8)	(0.8)
Net movement in ESOP	–	–	1.5	–	–	1.5
At 25 December 2010	63.4	85.1	(26.0)	28.1	(127.5)	23.1
Accumulated profit for the period	–	–	–	–	73.3	73.3
Net actuarial loss on defined benefit scheme	–	–	–	–	(22.9)	(22.9)
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	–	–	–	–	(6.5)	(6.5)
Currency translation differences	–	–	–	–	(0.3)	(0.3)
Net movement in ESOP	–	–	3.2	–	–	3.2
Deferred tax on share schemes	–	–	–	–	0.3	0.3
At 24 December 2011	63.4	85.1	(22.8)	28.1	(83.6)	70.2

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £25.3m (2010: £26.2m), which have been purchased in the open market and which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes.

The Other reserve was created in the year to 30 April 1994, following a Group reconstruction.

Consolidated cash flow statement

	Notes	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Net cash flows from operating activities	26	40.2	51.5
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(19.6)	(18.2)
Interest received		–	0.3
Receipts from sale of property, plant and equipment and intangible assets		–	0.3
Redemption of investment	17	2.0	–
Net cash used in investing activities		(17.6)	(17.6)
Cash flows used in financing activities			
Interest paid		(1.0)	(1.3)
Receipts from release of shares from share trust		0.5	–
Decrease in loans		(1.1)	(7.1)
Repayment of capital element of obligations under finance leases		(0.4)	(1.4)
Decrease in other assets		0.2	0.5
Net cash used in financing activities		(1.8)	(9.3)
Net increase in cash and cash equivalents		20.8	24.6
Cash and cash equivalents at beginning of period		38.6	14.0
Cash and cash equivalents at end of period	26	59.4	38.6

For the purpose of the cash flow statement, cash and cash equivalents are included net of any overdrafts payable on demand. These overdrafts are excluded from the definition of cash at bank and in hand disclosed on the balance sheet. There were no such overdrafts at the current or prior period end.

Cash flows from discontinued operating activities are shown in note 26. There are no cash flows from discontinued investing or financing activities.

Notes to the consolidated financial statements

1 GENERAL INFORMATION

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 120. The nature of the Group's operations and principal activities are set out in the Directors' Report on pages 34 to 36.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Group's accounting period covers the 52 weeks to 24 December 2011. The comparative period covered the 52 weeks to 25 December 2010.

Statement of compliance and basis of accounting

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and on the going concern basis, as described in the going concern statement in the Corporate governance report on page 58. The principal accounting policies are set out below.

At the date of authorisation of these financial statements, the following standards, amendments to standards, and interpretations, which have not been applied in these financial statements, were in issue but not yet effective for the Group:

Improvements to IFRSs: 2010

IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

IFRS 7: Disclosures – Transfers of Financial Assets

IFRS 7: Offsetting Financial Assets and Financial Liabilities

IFRS 9: Financial Instruments

IFRS 10: Consolidated Statements

IFRS 11: Joint Arrangements

IFRS 12: Disclosure of interests in other entities

IFRS 13: Fair Value Measurement

IAS 1 (June 2011): Presentation of items of other comprehensive income

IAS 12: Deferred tax - Recovery of Underlying Assets

IAS 19: Employee Benefits

IAS 24: Related Party Disclosures (revised)

IAS 28 (revised May 2011): Investments in associates and joint ventures

IAS 27 (revised May 2011): Separate financial statements

IAS 32: Offsetting Financial Assets and Financial Liabilities

IFRIC 14: Prepayments of a Minimum Funding Requirement

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the Group's financial statements when the relevant standards come into effect.

Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired company. The acquired company's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is immediately recognised in the income statement.

Foreign currencies

Foreign currency transactions

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

Notes to the consolidated financial statements continued

Foreign operations

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, based on despatch of goods or services provided to customers outside the Group, excluding sales taxes and discounts. Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income from investments is recognised when the right to receive payment has been established.

Exceptional items

Certain items do not reflect the Group's underlying trading performance. If such items are significant in terms of size or nature, they would be classified as exceptional. Gains and losses on these discrete items, such as profits on disposal of assets, operations, and property interests, restructuring costs, and other non-operating items can have a material impact on the absolute amount of and trend in profit from operations and the result for the period. Therefore any material gains and losses on such items are analysed as exceptional on the face of the income statement. Where there are any immaterial amounts arising from such items during a period, they are not presented as exceptional items.

Current tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax

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

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

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

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases

Assets funded through finance leases are capitalised as property, plant and equipment, and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement.

Operating leases
Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement.

Lease incentives
Lease incentives primarily include up front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases
The Group has some leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the period of the lease term.

Investments
Investments are stated at cost less any provision for impairment.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units which is expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets – software
Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use. These costs are amortised over their expected useful lives, which are reviewed annually. The expected useful life is four years.

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

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

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

Freehold property	50 years
Long leasehold property	The period of the lease
Short leasehold property	The period of the lease
Fixtures and fittings	2–10 years
Plant and machinery	3–10 years

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

Capital work in progress is not depreciated.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Impairment of assets
The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

For goodwill assets that have an indefinite life and intangible assets not yet available for use, the recoverable amounts are estimated at each balance sheet date.

Apart from in the case of trade and other receivables, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For trade and other receivables which are considered to be impaired, the carrying amount is reduced through the use of an allowance for estimated irrecoverable amounts. Changes in the carrying value of this allowance are recognised in the income statement.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost includes an attributable proportion of manufacturing overheads based on budgeted levels of activity. Cost

Notes to the consolidated financial statements continued

is calculated using a standard cost which is regularly updated to reflect average actual costs. Provision is made for obsolete, slow-moving, or defective items where appropriate.

Discontinued operations
Cash flows, income and expenses that relate to a major component of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations, together with any related tax.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect is material.

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

The Group operates a defined benefit pension scheme. The Group's net obligation in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate used is selected so as to closely approximate the yield at the balance sheet date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. Because there are no AA rated bonds with maturity dates which are as long as those of the Group's retirement benefit obligations, the discount rate is derived using the rate of return of zero-coupon Gilts which have the same maturity as the Group's obligations, to which is added a premium which is calculated to account for the difference in risk between Gilts and AA rated bonds. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and expected return on assets.

All actuarial gains and losses as at 25 December 2004, the date of transition to IFRSs, were recognised. Actuarial gains and losses that arise subsequent to 25 December 2004 in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of comprehensive income.

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

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

Cash at bank and in hand and Cash and cash equivalents
Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents, which is the term used in the cash flow statement, comprises cash at bank and in hand, as defined immediately above, together with any overdrafts repayable on demand.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

Derivative financial instruments
The Group does not currently use derivative financial instruments to reduce its exposure to interest or exchange rate movements. The Group does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect the fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in this income statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility.

The Company expects that hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions.

Where the hedging relationship is classified as a cash flow hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Other payables

Other payables are stated at their fair value.

Share-based payments

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

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

Fair value is measured by use of a binomial model or a Black-Scholes model, according to the relative complexity of the type of share-based payment to be measured. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

Impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Post-employment benefits

The Group operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the scheme. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 23.

Provisions

Descriptions of the provisions held at period end are given at note 24. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability is accounted for in the period when such determination is made.

The property provisions require judgement and estimation in determining management's best estimate of the following main areas: the length of time it might take to find a tenant for a vacant property; the likely rent which could be achieved from letting a vacant property; the amount which the landlord of a property may accept as a lump sum in order to release the Group from its future obligations; the amount and timing of likely future increases in rent and other property costs; the extent, and hence the likely cost, of any associated legal and professional advice which will be required; future maintenance costs and dilapidations; and an estimate of future costs of capital in order to arrive at a suitable discount rate.

Income taxes

The Group recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made.

Allowances against the carrying value of inventories

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate

Notes to the consolidated financial statements continued

realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. Factors that could impact estimated demand and selling prices are the timing and success of product ranges.

Allowances against the carrying value of trade receivables

Using information available at the balance sheet date, the Group reviews its accounts receivable balances and makes judgements based on an assessment of debt ageing, past experience, or known customer circumstances in order to determine the appropriate level of allowance required to account for potential uncollectable trade receivables.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date, together with details of any impairment loss and details of the impairment loss calculation are included in note 14.

4 REVENUE

An analysis of the Group's revenue is as follows:

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Continuing operations		
Sales of goods	853.8	807.9
Finance income	–	0.3
Total revenue	853.8	808.2

There was no revenue from discontinued operations.

5 SEGMENTAL REPORTING AND OTHER GENERAL INFORMATION

(a) Basis of segmentation

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

The Howden Joinery business derives its revenue from the sale of kitchens and joinery products, along with the associated procurement, manufacture and distribution of these products.

(b) Other information

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Capital additions	18.7	19.2
Depreciation and amortisation	(17.6)	(18.2)

(c) Geographical information

The Group's operations are located in the UK and France. The Group has depots located in both the UK and France. The Group's manufacturing is located in the UK.

The following table analyses the Group's revenues from external customers by geographical market, irrespective of the origin of the goods:

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Revenues from external customers		
UK	838.7	795.1
France	15.1	12.8
	853.8	807.9

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

	24 December 2011 £m	25 December 2010 £m
Carrying amount of segment assets		
UK	397.3	372.0
France	8.2	7.5
	405.5	379.5

	24 December 2011 £m	25 December 2010 £m
Non-current assets (excluding deferred tax assets)		
UK	88.2	89.0
France	0.7	1.1
	88.9	90.1

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Additions to property, plant and equipment and intangible assets		
UK	18.4	18.9
France	0.3	0.3
	18.7	19.2

Notes to the consolidated financial statements continued

6 DISCONTINUED OPERATIONS – EXCEPTIONAL ITEM

	52 weeks to 24 December 2011 £m
Increase to property provision	7.7
Interest	0.6
Total exceptional item before tax	8.3
Tax on exceptional item	(0.5)
Total exceptional item after tax	7.8

The increase to the property provision in the year relates to future rent, rates, surrender fees and associated costs in respect of legacy properties. More details of the provision itself can be found at note 24 of this Annual Report. The original provision was created as a discontinued exceptional item in the 52 weeks to December 2008, and the events surrounding its creation are described in more detail on page 55 of the Annual Report for that period.

Interest relates to interest which would be payable if we lost a tax dispute with HM Revenue & Customs, relating to the legacy properties. The tax which is in dispute has already been provided for in prior periods.

Both of the above items relate to discontinued operations. There are no exceptional items relating to continued operations.

There were no exceptional items in the prior period.

7 OPERATING PROFIT

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

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Net foreign exchange gain	–	2.4
Depreciation of property, plant and equipment:		
– on owned assets	(16.2)	(15.4)
– on assets held under finance lease	(0.1)	(1.1)
Amortisation of intangible assets (included in administrative expenses):		
– on owned assets	(1.3)	(1.5)
– on assets held under finance lease	–	(0.2)
Cost of inventories recognised as an expense	(345.1)	(324.8)
Write down of inventories	(0.4)	(0.1)
Loss on disposal of fixed assets	(0.2)	–
Decrease in allowance for doubtful debts (note 20)	0.5	1.7
Staff costs (note 8)	(223.9)	(210.9)
Minimum lease payments under operating leases	(50.3)	(48.1)
Auditors' remuneration for audit services	(0.3)	(0.3)

All of the items above relate to continuing operations.

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

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Audit services		
Fees paid to the Company's auditor for the audit of the Company's annual accounts	(0.1)	(0.1)
Fees paid to the Company's auditor and their associates for other services to the Group:		
– the audit of the subsidiary companies pursuant to legislation	(0.2)	(0.2)
Total audit fees	(0.3)	(0.3)
Other services		
Audit related assurance	(0.1)	(0.1)
Tax compliance services	(0.1)	(0.1)
Tax advisory services	(0.2)	(0.2)
Total non-audit fees	(0.4)	(0.4)

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditors were used rather than another supplier and how the auditors' independence and objectivity were safeguarded are set out in the Corporate governance report. No services were provided pursuant to contingent fee arrangements.

8 STAFF COSTS

The aggregate payroll cost of employees, including executive directors, was:

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Wages and salaries	195.9	185.3
Social security costs	17.8	16.9
Pension operating costs (note 23)	10.2	8.7
	223.9	210.9

Wages and salaries includes a charge in respect of share-based payments of £2.7m (2010: £1.4m).

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

	52 weeks to 24 December 2011 Number	52 weeks to 25 December 2010 Number
	6,276	5,954

9 FINANCE INCOME

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Other interest receivable	–	0.3
Total finance income	–	0.3

Notes to the consolidated financial statements continued

10 FINANCE EXPENSES AND OTHER FINANCE EXPENSE – PENSIONS

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Finance expenses		
Interest payable on bank loans	(1.0)	(1.3)
Finance charge on remeasuring creditors to fair value	(0.2)	(0.2)
Total finance expenses	(1.2)	(1.5)

Further details of the finance charge on remeasuring creditors to fair value in the current period are given in note 24.

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Other finance expense – pensions		
Pensions finance expense	(3.1)	(5.3)

11 TAX

(a) Tax in the income statement

	Continuing operations		Discontinued operations		Total	
	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Current tax						
Current year	22.0	22.7	(0.3)	–	21.7	22.7
Adjustments in respect of previous years	(1.8)	(0.7)	–	–	(1.8)	(0.7)
Total current tax	20.2	22.0	(0.3)	–	19.9	22.0
Deferred tax						
Current year	6.1	11.2	(0.2)	–	5.9	11.2
Adjustments in respect of previous years	2.6	0.8	–	–	2.6	0.8
Total deferred tax	8.7	12.0	(0.2)	–	8.5	12.0
Total tax charged in the income statement	28.9	34.0	(0.5)	–	28.4	34.0

UK Corporation tax is calculated at 26.5% (2010: 28%) of the estimated assessable profit for the period. Tax for other countries is calculated at the rates prevailing in the respective jurisdictions.

(b) Tax relating to items credited to equity

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Deferred tax		
Actuarial gain/(loss) on pension scheme	(8.5)	11.3
Charge to equity re tax rate change***	6.5	–
Credit to equity on share schemes	(0.3)	–
Total tax credited to statement of recognised income and expense	(2.3)	11.3

The tax relating to items credited to equity all relates to continuing operations.

(c) Reconciliation of the total tax charge

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

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Profit/(loss) before tax		
Continuing operations	110.0	100.9
Discontinued operations	(8.3)	–
	101.7	100.9

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Tax at the UK Corporation tax rate of 26.5% (2010: 28%)	26.9	28.3
IFRS 2 share scheme charge*	(0.1)	–
Expenses not deductible for tax purposes**	2.4	3.5
Reassessment of deferred tax asset on general provisions	0.9	–
Change of tax rate***	(3.4)	1.6
Non-qualifying depreciation	0.8	0.6
Tax adjustments in respect of previous years	0.9	–
Total tax charged in the income statement	28.4	34.0

* Permanent differences arise in relation to share schemes, resulting from a difference between the accounting and tax treatments. In accordance with IAS 12, the excess of current and deferred tax over and above the related cumulative remuneration expense under IFRS 2 has been recognised directly in equity.

** The Group has assumed no tax relief for the payments and provisions made in association with the legacy properties until the tax position is agreed with HMRC.

*** On 19 July 2011 the House of Commons approved the Finance Bill which reduces the UK Standard rate of corporation tax from 28% to 26% with effect from 1 April 2011 and 25% from 1 April 2012. All deferred tax assets and liabilities have been recognised at 25% (2010: 27%).

12 EARNINGS PER SHARE

	52 weeks to 24 December 2011			52 weeks to 25 December 2010		
	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
From continuing operations						
Basic earnings per share	81.1	606.3	13.4	66.9	605.2	11.1
Effect of dilutive share options	–	16.7	(0.4)	–	12.2	(0.3)
Diluted earnings per share	81.1	623.0	13.0	66.9	617.4	10.8
From discontinued operations						
Basic loss per share	(7.8)	606.3	(1.3)			
Effect of dilutive share options	–	16.7	–			
Diluted loss per share	(7.8)	623.0	(1.3)			
From continuing and discontinued operations						
Basic earnings per share	73.3	606.3	12.1	66.9	605.2	11.1
Effect of dilutive share options	–	16.7	(0.3)	–	12.2	(0.3)
Diluted earnings per share	73.3	623.0	11.8	66.9	617.4	10.8

There were no discontinued operations in the prior period.

Notes to the consolidated financial statements continued

13 DIVIDENDS

No dividends were paid during the current or prior periods, and no dividend was proposed for the prior period. Details of the proposed final dividend for the 52 weeks to 24 December 2011 are given below:

	52 weeks to 24 December 2011 £m
Proposed final dividend for the 52 weeks to 24 December 2011 – 0.5 pence per share	3.0

The directors propose a dividend in respect of the 52 weeks to 24 December 2011 of 0.5p per share, payable to ordinary shareholders who are on the register of shareholders at 25 May 2012, and payable on 22 June 2012.

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting, and has not been included as a liability in these financial statements.

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

14 GOODWILL

Cost and carrying value	£m
At 26 December 2009, 25 December 2010 and 24 December 2011	2.5

The goodwill was recognised on the acquisition of the remaining 50% of Howden Joinery Supply Division (Asia) Limited (HJ Asia) during the period ended 27 December 2008. Prior to this, HJ Asia was a 50%-owned joint venture, with no associated goodwill.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash-generating unit (CGU) has been determined from a value in use calculation. The key assumptions for the value in use calculation are: the expected future net benefits of using HJ Asia to source products at a saving compared to sourcing from elsewhere; discount rates and growth rates.

The estimates of future sourcing benefits are revised annually and are based on a detailed analysis of planned sourcing via HJ Asia over the next twelve months, and management's assessments of the net savings to be made from sourcing via HJ Asia, after taking into account the associated overhead costs of running the HJ Asia business. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money. Because any Group borrowings are negotiated on the basis of the Group as a whole, management has chosen a discount rate which reflects their assessment of the Group's pre-tax weighted average cost of capital (2011: 7.0%; 2010: 8.1%). This is arrived at using the actual cost of the Group's current borrowings as a benchmark, which is then adjusted as necessary for any expected future changes. The growth rates assume no growth other than inflation (2011: 3.35%; 2010: 3.5%), which does not exceed the long-term growth rate for the market in which HJ Asia operates. The growth rate is felt to be appropriate in the current economic climate although management will continue to update this assumption in future periods in line with actual experience. The value in use calculations use this growth rate to perpetuity.

The whole of the goodwill is allocated to the HJ Asia CGU.

The Group has conducted sensitivity analysis on the impairment test of the HJ Asia CGU. Even with reasonably possible changes in the key assumptions, there is no indication that the carrying amount of the goodwill would be in excess of its recoverable amount.

15 OTHER INTANGIBLE ASSETS

The other intangible assets shown below all relate to software, as detailed further in the accounting policies note.

Cost	**£m**
At 26 December 2009	13.3
Additions	1.1
At 25 December 2010	14.4
Additions	1.2
At 24 December 2011	15.6

Amortisation	
At 26 December 2009	7.9
Charge for the period	1.7
At 25 December 2010	9.6
Charge for the period	1.3
At 24 December 2011	10.9

Net book value at 24 December 2011	4.7
Net book value at 25 December 2010	4.8

Details of intangible assets held under finance leases are given in note 16, together with the corresponding analysis of tangible assets held under finance leases.

Notes to the consolidated financial statements continued

16 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Short-term leasehold property £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	Total £m
Cost						
At 26 December 2009	21.2	22.1	158.4	66.0	1.1	268.8
Exchange adjustments	–	–	–	(0.1)	–	(0.1)
Additions	0.1	6.3	6.4	4.7	0.6	18.1
Disposals	–	(0.4)	(0.6)	(0.5)	–	(1.5)
Reclassifications	–	–	0.7	0.2	(0.9)	–
At 25 December 2010	21.3	28.0	164.9	70.3	0.8	285.3
Additions	0.1	3.2	5.3	4.5	4.4	17.5
Disposals	–	(0.4)	(6.2)	(0.2)	–	(6.8)
Reclassifications	–	0.1	0.6	–	(0.7)	–
At 24 December 2011	21.4	30.9	164.6	74.6	4.5	296.0
Accumulated depreciation						
At 26 December 2009	1.4	6.9	129.7	51.3	–	189.3
Exchange adjustments	–	–	–	(0.1)	–	(0.1)
Charge for the period	0.5	2.3	8.1	5.6	–	16.5
Disposals	–	(0.2)	(0.6)	(0.4)	–	(1.2)
At 25 December 2010	1.9	9.0	137.2	56.4	–	204.5
Charge for the period	–	2.0	9.1	5.2	–	16.3
Disposals	–	(0.1)	(6.2)	(0.2)	–	(6.5)
At 24 December 2011	1.9	10.9	140.1	61.4	–	214.3
Net book value at 24 December 2011	19.5	20.0	24.5	13.2	4.5	81.7
Net book value at 25 December 2010	19.4	19.0	27.7	13.9	0.8	80.8

The Group has pledged its property, plant and equipment to secure bank borrowings. More details are given in note 22.

At 24 December 2011, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £11.6m (2010: £5m).

Analysis of assets held under finance leases

	24 December 2011		25 December 2010		
	Plant, machinery & vehicles £m	Total £m	Plant, machinery & vehicles £m	Intangible assets £m	Total £m
Cost	0.7	0.7	4.3	0.6	4.9
Accumulated depreciation	(0.6)	(0.6)	(2.7)	(0.4)	(3.1)
Net book value	0.1	0.1	1.6	0.2	1.8

17 INVESTMENTS

	Other unlisted investment £m
At 26 December 2009 and 25 December 2010	2.0
Redemption of investment	(2.0)
At 24 December 2011	–

The change in investments during the period relates to the redemption at cost of the remaining part of the unlisted investment during the period. The part of the investment which was redeemed had a cost and carrying value of £2m. The £2m cash received on redemption is shown in the cash flow statement for the period.

18 DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements on them during the current and prior reporting periods:

	Retirement benefit obligations £m	Accelerated capital allowances £m	Other timing differences £m	Total £m
At 26 December 2009	55.1	2.2	10.8	68.1
Charge to income	(7.2)	(2.4)	(2.4)	(12.0)
Credit to equity	(11.3)	–	–	(11.3)
At 25 December 2010	36.6	(0.2)	8.4	44.8
(Charge)/credit to income	(8.2)	0.4	(4.1)	(11.9)
Credit to equity	8.5	–	0.3	8.8
Effect of tax rate change – Income statement	3.8	–	(0.4)	3.4
– Equity	(6.5)	–	–	(6.5)
At 24 December 2011	34.2	0.2	4.2	38.6

Deferred tax arising from accelerated capital allowances and short-term timing differences can be further analysed as a £9.2m asset and a £4.8m liability (2010: £13.5m asset and £5.3m liability).

The presentation in the balance sheet is as follows:

	24 December 2011 £m	25 December 2010 £m
Deferred tax assets	43.4	50.1
Deferred tax liabilities	(4.8)	(5.3)
	38.6	44.8

At the balance sheet date the Group had unused trading tax losses with a potential value of £13.2m (2010: £14.2m). No deferred tax asset has been recognised as it is not considered probable that future taxable profits will be available against which the unused tax losses can be utilised in the forseeable future. All of these losses may be carried forward indefinitely.

Notes to the consolidated financial statements continued

19 INVENTORIES

	24 December 2011 £m	25 December 2010 £m
Raw materials	3.7	3.9
Work in progress	2.8	2.9
Finished goods and goods for resale	123.5	112.9
Allowance against carrying value of inventories	(11.5)	(14.2)
	118.5	105.5

The Group has pledged its inventories to secure bank borrowings. More details are given in note 22.

20 OTHER FINANCIAL ASSETS

Trade and other receivables

	24 December 2011 £m	25 December 2010 £m
Trade receivables (net of allowance)	73.0	68.9
Prepayments and accrued income	21.0	23.0
Other receivables	1.3	3.1
	95.3	95.0

Trade and other receivables are not interest-bearing, and are on commercial terms. Their carrying value approximates to their fair value.

An analysis of the Group's allowance for doubtful receivables is as follows:

	24 December 2011 £m	25 December 2010 £m
Balance at start of period	9.2	10.9
Decrease in allowance recognised in the income statement	(0.5)	(1.7)
Balance at end of period	8.7	9.2

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 30. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. Interest is charged at appropriate market rates on balances which are in litigation.

Before accepting any new credit customer, the Group obtains a credit check from an external agency to assess the potential customer's credit quality, and then sets credit limits on a customer-by-customer basis. These credit limits are reviewed regularly. In the case of one-off customers, the Group's policy is to require immediate payment at the point of sale, and not to offer credit terms.

The historical level of customer default is low, and as a result the credit quality of year end trade receivables is considered to be high. The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on past experience, whether the credit quality of these amounts at the balance sheet date has deteriorated since the transaction was entered into, and therefore whether the amounts are recoverable or require provision. Regular contact is maintained with all such customers and, where necessary, legal action is taken to recover the receivable. An allowance for impairment is made for any specific amounts which are considered irrecoverable or only partly recoverable. There is also a separate allowance which is calculated as a percentage of sales. At the period end, the total bad debt provision of £8.7m (2010: £9.2m) consists of a specific provision of £4.2m (2010: £4.2m) which has been made against specific debts with a gross carrying value of £5.1m (2010: £4.8m), and a provision of £4.5m (2010: £5.0m) based on sales and on the historic default rate. To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in the income statement and the carrying values have been written down to their recoverable amounts.

£5.9m debts were written off in the period (2010: £7.4m). Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling £14.2m before bad debt provision (2010: £15.1m before provision) which are past due as at the reporting date. The Group has assessed these balances for recoverability and believes that their credit quality remains intact.

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

	24 December 2011 £m	25 December 2010 £m
0–30 days past due	6.9	8.0
30–60 days past due	1.3	1.4
60–90 days past due	0.7	0.7
90+ days past due	5.3	5.0
Total overdue amounts, excluding allowance for doubtful receivables	14.2	15.1

There were no trade receivables which would have been impaired at either period end were it not for the fact that their credit terms were renegotiated. The Group does not renegotiate credit terms.

Other assets
There are no other assets in the current period. Other assets in the prior period were funds held in escrow to meet future insurance claims from furniture insurance policies written on behalf of the Group's customers. These policies have now lapsed, and there is no need to hold the related assets. The balance at the prior period end was £0.2m, and those monies were held with financial institutions which had an AA- rating or higher, and had maturities of up to one year. Interest was paid at both fixed and floating rates based on LIBOR. The carrying amount of those assets approximated to their fair value.

Cash at bank and in hand
Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash at bank is either in current accounts or is placed on short-term deposit with maturity periods of less than three months. Interest on short-term deposits is paid at prevailing money market rates. The carrying amount of these assets approximates to their fair value. As explained in the accounting policy note, and as noted at the foot of the consolidated cash flow statement, this definition differs slightly from the definition of cash and cash equivalents, which is used in the cash flow statement, and which includes overdrafts repayable on demand.

Assets pledged as security
The Group has pledged its other financial assets to secure bank borrowings. More details are given in note 22.

Notes to the consolidated financial statements continued

21 OTHER FINANCIAL LIABILITIES

Trade and other payables

	24 December 2011 £m	25 December 2010 £m
Current liabilities		
Trade payables	68.1	64.1
Other tax and social security	38.2	32.6
Other payables	2.6	2.9
Accruals and deferred income	30.2	37.2
	139.1	136.8

Trade payables, other payables and accruals principally comprise amounts due in respect of trade purchases and ongoing costs. Their carrying value in both periods approximates to their fair value.

The average credit taken for trade purchases during the period, based on total operations, was 48 days (2010: 44 days).

The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier, and to abide by those terms on the timely submission of satisfactory invoices.

22 BORROWINGS

Total borrowings

	24 December 2011 £m	25 December 2010 £m
Current borrowings		
Bank borrowings	1.1	1.1
Current portion of finance lease obligations	–	0.4
	1.1	1.5
Non-current borrowings		
Bank borrowings	1.2	2.3
Non-current portion of finance lease obligations	–	–
	1.2	2.3
Total borrowings	2.3	3.8

Bank borrowings

The bank borrowings are repayable as follows:

	24 December 2011 £m	25 December 2010 £m
Current liabilities		
On demand or within one year	1.7	1.7
Less: prepaid issue fees set against cost of loan	(0.6)	(0.6)
	1.1	1.1
Non-current liabilities		
In the second year	1.7	1.7
In the third to fifth years inclusive	0.4	2.1
Less: prepaid issue fees set against cost of loan	(0.9)	(1.5)
	1.2	2.3
Total bank borrowings	2.3	3.4

All bank borrowings are in sterling and are drawn under the £160m (2010: £160m) committed bank facility. The terms of this facility are explained further in the final paragraph of note 30(a).

This facility is secured on the property, other assets, and investments of the Group. The carrying values of each of these classes of assets is as presented in the balance sheet and notes to these consolidated financial statements.

The available facility limit is calculated every week, based on the asset backing at the time, and can never exceed £160m. As at 24 December 2011, the Group had available £145m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (2010: £130m).

In March 2010 the facility was extended until May 2014. The loan carries interest at a rate of LIBOR plus a margin. For 12 months from March 2010, this margin was fixed at 250 basis points. From March 2011 to maturity, the margin will vary between 200 and 250 basis points and will be determined by the Group's rolling Adjusted Profit Before Tax.

Finance lease obligations

There are no finance lease obligations at the current period end. At the previous period end, there were finance lease obligations of £0.4m, which were all payable within one year from that period end. All of those finance lease obligations were in sterling. Each lease contract was at a fixed interest rate. The weighted average of the fixed rates on the various contracts was 6.9% at the previous period end. The finance lease obligations were unsecured and the average remaining lease term at the previous period end was 10 months.

At the previous period end, there were no reconciling items between the total future minimum lease payments and their present value.

Interest rate and fair value information for bank borrowings and lease obligations

The weighted average interest rates paid were as follows:

	52 weeks to 24 December 2011 %	52 weeks to 25 December 2010 %
Finance lease obligations	N/A	6.9
Bank borrowings	3.4	3.4

The directors estimate the fair value of the Group's borrowings are as follows:

	24 December 2011 £m	25 December 2010 £m
Finance lease obligations	–	0.4
Bank borrowings	2.3	3.4

Notes to the consolidated financial statements continued

23 RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plan

The Group operates a defined contribution scheme for its employees. The assets of this scheme are held separately from those of the Group and are under the control of the scheme trustees. This scheme began operation during 2006.

The total cost charged to income in respect of this scheme in the current period of £1.1m (2010: £1.1m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plan

The Group operates a funded pension scheme which provides benefits based on the pensionable pay of participating employees. The assets of the scheme are held separately from those of the Group, being invested with independent fund managers. Contributions are charged to the income statement so as to spread the cost of pensions over the employees' working lives with the Group. The present value of the defined benefit obligation, the related current service cost and past service cost are determined by a qualified actuary using the projected unit method. The most recent completed actuarial valuation was carried out at 5 April 2008 by the scheme actuary. At the current period end, the triennial actuarial valuation as at 5 April 2011 was in progress, but not completed. The actuary advising the Group has subsequently rolled forward the preliminary results of the 5 April 2011 valuation to 24 December 2011, and has restated the results onto a basis consistent with market conditions at that date.

Total amounts charged in respect of pensions in the period

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Charged to the income statement		
Defined benefit scheme – total operating charge	9.1	7.6
Defined benefit scheme – net finance charge	3.1	5.3
Defined contribution scheme – total operating charge	1.1	1.1
Total net amount charged to profit before tax	13.3	14.0
Charged/(credited) to equity		
Defined benefit scheme – net actuarial losses/(gains) net of deferred tax	22.9	(29.2)
Total pension charge/(credit)	36.2	(15.2)

Key assumptions used in the valuation of the scheme

	52 weeks to 24 December 2011	52 weeks to 25 December 2010
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.95%	2.80%
Rate of CARE revaluation capped at lower of RPI and 3%	2.55%	3.00%
Rate of increase of pensions in payment:		
– pensions with increases capped at lower of CPI and 5%	2.95%	2.80%
– pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.50%	3.00%
– pensions with increases capped at the lower of LPI and 2.5%	2.15%	2.50%
Rate of increase in salaries	4.35%	4.50%
Inflation assumption – RPI	3.35%	3.50%
Inflation assumption – CPI	2.65%	2.80%
Expected return on scheme assets (weighted average)	5.07%	6.30%
Discount rate	5.05%	5.50%

The following mortality tables were used:

	2011	2010
Mortality before retirement	Males AM00 Ultimate Females AF00 Ultimate	Males AM92 Females AF92
Mortality in retirement for current and future pensioners – 2011	Males PNMA00 U2008, long cohort with 1.0% p.a. underpin on the improvement factors Females PNMA00 U2008, long cohort with 0.5% p.a. underpin on the improvement factors	
2011 Mortality in retirement (for current and future pensioners)*	Males S1PMA, CMI 2010 core projections with a long-term improvement rate of 1.5% p.a. Females S1PFA, CMI 2010 core projections with a long-term improvement rate of 1.5% p.a.	

* The underlying S1PMA and S1PFA tables are also adjusted by scaling factors. Separate scaling factors apply to males and females and to the different categories of members.

The mortality assumption adopted by the Group in 2011 and 2010 is equivalent to the following life expectancies:

	2011		2010	
	Male (yrs)	**Female (yrs)**	**Male (yrs)**	**Female (yrs)**
Non-pensioner (age 45)	89.1	91.5	90.8	92.1
Pensioner (age 65)	88.2	89.2	88.8	90.9

Sensitivity to changes in assumptions

If there was an increase/decrease in the discount rate of 0.25%, there would be a corresponding decrease/increase in the scheme liabilities of around 5%, or £37m, and a decrease/increase in the current service cost of around 7% or £0.8m.

An increase of 0.25% to the inflation rate would increase scheme liabilities by around £16m, or 2%, and would leave the current service cost unchanged. A decrease of 0.25% to the inflation rate would decrease scheme liabilities by around £11m, or 1%, and would reduce current service cost by around £0.4m, or 4%.

The effect of changing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 2%, or £15m, and would leave the current service cost unchanged.

Analysis of scheme assets and the expected rates of return

	Expected rate of return		Fair value of scheme assets	
	52 weeks to 24 December 2011 %	**52 weeks to 25 December 2010 %**	**24 December 2011 £m**	**25 December 2010 £m**
Equities	6.25	7.55	272.3	267.7
Government bonds	2.55	3.85	172.4	83.3
Corporate bonds	5.05	5.50	84.6	107.1
Cash	2.55	4.50	5.1	57.7
Alternative growth assets	6.25	7.60	75.6	52.9
Property	6.25	7.60	30.8	26.2
Weighted average	5.07	6.30	640.8	594.9

The Group establishes the long-term expected rate of return on scheme assets by developing a forward-looking long-term return assumption for each asset class, taking into account factors such as market yield on bond investments of appropriate duration and the expected outperformance for other asset classes based on analysis of long-term historical trends. A single long-term assumption is then calculated as the weighted average of the actual asset allocation and the long-term assumption for each asset class.

The expected rate of return on cash at the end of 2010 was relatively high because much of the cash being held at that time was waiting to be reinvested in other asset categories, and so an expected rate of return was chosen which reflected the expected return on the other asset categories.

Notes to the consolidated financial statements continued

Balance sheet

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

	24 December 2011 £m	25 December 2010 £m
Present value of defined benefit obligations	(777.7)	(730.6)
Fair value of scheme assets	640.8	594.9
Deficit in the scheme, recognised in the balance sheet	(136.9)	(135.7)

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

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Present value at start of period	730.6	737.6
Current service cost	9.1	7.6
Interest cost	40.0	41.4
Contributions from scheme members	0.2	0.2
Actuarial losses/(gains)	12.9	(38.6)
Benefits paid	(15.1)	(17.6)
Present value at end of period	777.7	730.6

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

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Fair value at start of period	594.9	541.3
Expected return on assets	36.9	36.1
Contributions from scheme members	0.2	0.2
Contributions from the Group	42.4	33.0
Actuarial (losses)/gains	(18.5)	1.9
Benefits paid	(15.1)	(17.6)
Fair value at end of period	640.8	594.9

Movements in the deficit during the period are as follows:

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Deficit at start of period	(135.7)	(196.3)
Current service cost	(9.1)	(7.6)
Employer contributions	42.4	33.0
Other finance charge	(3.1)	(5.3)
Actuarial (losses)/gains gross of deferred tax	(31.4)	40.5
Deficit at end of period	(136.9)	(135.7)

The gross actuarial gain in the prior period includes an amount recognised on changing from using RPI to using CPI as the measure of inflation to be used in calculating future pension increases for some tranches of the Group pension scheme. This is explained in more detail at page 80 of the 2010 Group Annual Report.

Income statement

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

Amount charged to operating profit

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Current service cost	9.1	7.6
Net cost	9.1	7.6

The current service cost is included in the statutory accounts heading Staff costs.

Amount charged to other finance charges

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Expected return on pension scheme assets	(36.9)	(36.1)
Expected charge on pension scheme liabilities	40.0	41.4
Net charge	3.1	5.3

The actual return on scheme assets was £18.4m (2010: £38.0m).

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:

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Actuarial (loss)/gain on scheme assets	(18.5)	1.9
Actuarial (loss)/gain on scheme liabilities	(12.9)	38.6
Net actuarial (loss)/gain	(31.4)	40.5

Notes to the consolidated financial statements continued

History of scheme deficit and experience adjustments

	24 December 2011 £m	25 December 2010 £m	26 December 2009 £m	27 December 2008 £m	29 December 2007 £m
Present value of defined benefit obligations	(777.7)	(730.6)	(737.6)	(568.5)	(617.0)
Fair value of scheme assets	640.8	594.9	541.3	446.3	533.5
Deficit in the scheme	(136.9)	(135.7)	(196.3)	(122.2)	(83.5)

Experience adjustments on scheme liabilities – difference between actual and expected returns:

	24 December 2011	25 December 2010	26 December 2009	27 December 2008	29 December 2007	Cumulative since adoption of IFRS
Amount of experience (loss)/gain on scheme liabilities (£m)	(12.9)	38.6	(149.1)	73.8	79.0	(13.5)
Percentage of scheme liabilities	1.7%	5.3%	20.2%	13.0%	12.8%	

Experience adjustments on scheme assets – difference between actual and expected returns:

	24 December 2011	25 December 2010	26 December 2009	27 December 2008	29 December 2007	Cumulative since adoption of IFRS
Amount of experience (loss)/gain on scheme assets (£m)	(18.5)	1.9	62.1	(140.1)	8.2	(23.4)
Percentage of scheme assets	2.9%	0.3%	11.5%	31.4%	1.5%	
Total cumulative actuarial loss since adoption of IFRS – all recognised through the SOCIE (£m)						(36.9)

In accordance with the transitional provisions for adopting the amendments to IAS 19 issued in December 2004, the disclosures above relating to experience adjustments are shown prospectively from the period ended 24 December 2005, being the first annual period in which the Group adopted the IAS 19 amendments.

Expected future contributions

The Group's estimated contributions to the defined benefit scheme in the 53 weeks ending 29 December 2012 are £52m.

24 PROVISIONS

	Property provision £m	Other provision £m	Total £m
At 26 December 2009	84.4	2.4	86.8
Additional provision in the period	7.9	1.9	9.8
Provision released in the period	(0.4)	(1.0)	(1.4)
Utilisation of provision in the period	(37.5)	(1.8)	(39.3)
At 25 December 2010	54.4	1.5	55.9
Additional provision in the period	8.0	3.3	11.3
Utilisation of provision in the period	(29.4)	(2.5)	(31.9)
At 24 December 2011	33.0	2.3	35.3

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 £0.2m 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 10. There is a discussion of the main sources of estimation and uncertainty which apply to this provision in note 3. 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.

£7.7m of the additional provision in the year has been treated as an exceptional item and is explained further at note 6.

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

The other provision relates to amounts due in respect of product warranties.

25 SHARE CAPITAL

Ordinary shares of 10p each	52 weeks to 24 December 2011 Number	52 weeks to 25 December 2010 Number	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Allotted, called up and fully paid				
Balance at the beginning and end of the period	633,915,329	633,915,329	63.4	63.4

Notes to the consolidated financial statements continued

26 NOTES TO THE CASH FLOW STATEMENT

(a) Net cash flows from operating activities

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Group operating profit before tax and interest		
Continuing operations	114.3	107.4
Discontinued operations	(8.3)	–
Group operating profit before tax and interest	106.0	107.4
Adjustments for:		
Depreciation and amortisation included in operating profit	17.6	18.2
Share-based payments charge	2.7	1.4
Loss on disposal of property, plant and equipment and intangible assets	0.2	–
Discontinued exceptional items (before tax) – non-cash	8.3	–
Operating cash flows before movements in working capital	134.8	127.0
Movements in working capital and exceptional items		
Increase in stock	(13.0)	(19.2)
(Increase)/decrease in trade and other receivables	(0.3)	0.4
Decrease in trade and other payables and provisions	(25.5)	(15.3)
Difference between pensions operating charge and cash paid	(33.3)	(25.4)
Net cash flow – other exceptional items	–	–
	(72.1)	(59.5)
Cash generated from operations	62.7	67.5
Tax paid	(22.5)	(16.0)
Net cash flow from operating activities	40.2	51.5
Net cash flow from operating activities comprises:		
Continuing operating activities	40.2	51.5
Discontinued operating activities	–	–
	40.2	51.5

(b) Reconciliation of net cash

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Net cash at start of period	35.0	2.4
Net increase in cash and cash equivalents	20.8	24.6
Net decrease in current asset investments	(0.2)	(0.5)
Decrease in bank borrowings	1.1	7.1
Decrease in finance leases	0.4	1.4
Net cash at end of period	57.1	35.0

Represented by:	24 December 2011 £m	25 December 2010 £m
Cash and cash equivalents	59.4	38.6
Investments	–	0.2
Bank loans	(2.3)	(3.4)
Finance leases	–	(0.4)
	57.1	35.0

(c) Analysis of net cash

	Cash and cash equivalents £m	Current asset investment £m	Bank loans £m	Finance leases £m	Net cash £m
At 25 December 2010	38.6	0.2	(3.4)	(0.4)	35.0
Cash flow	20.8	(0.2)	1.1	0.4	22.1
At 24 December 2011	59.4	–	(2.3)	–	57.1

27 FINANCIAL COMMITMENTS

Capital commitments

	24 December 2011 £m	25 December 2010 £m
Contracted for but not provided for in the accounts	11.6	5.0

Operating lease commitments

The Group as lessee

Payments under operating leases during the period are shown at note 7. At the balance sheet date, the Group had outstanding lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as shown below:

	Properties		Other leases		Total	
	24 December 2011 £m	25 December 2010 £m	24 December 2011 £m	25 December 2010 £m	24 December 2011 £m	25 December 2010 £m
Payments falling due						
Within one year	43.0	41.5	11.7	7.9	54.7	49.4
In the second to fifth year inclusive	145.1	146.8	22.3	21.2	167.4	168.0
After five years	99.2	107.8	1.0	0.7	100.2	108.5
	287.3	296.1	35.0	29.8	322.3	325.9

The Group as lessor

The Group sublets certain leased properties to third parties. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	24 December 2011 £m	25 December 2010 £m
Payments receivable		
Within one year	1.1	1.3
In the second to fifth year inclusive	2.6	3.3
After five years	0.7	1.1
	4.4	5.7

Finance lease commitments are analysed in note 22.

Notes to the consolidated financial statements continued

28 SHARE-BASED PAYMENTS

1) Details of each scheme

The Group recognised a charge of £2.7m (2010: charge of £1.4m) in respect of share-based payments during the period. The Group has various share-based payment schemes which are all equity-settled. The main details of all schemes which existed during the period are given below:

a Performance Share Plan

This is a discretionary free share plan where participants have a contingent right to receive free shares with performance conditions attached.

The performance period is measured from the start of the financial period in which the awards are granted. The performance period is three years. Vesting occurs at the end of the performance period. The different subdivisions and performance conditions are as follows:

(i) 25% of the award vests if 2010 PBT of £110m is achieved. 100% vests if 2010 PBT of £135m is achieved. The awards vest on a sliding scale between these two points.

b Deferred Bonus Plan – 2010 restricted share award

The shares are held in trust and participants are entitled to dividends during the deferral period. A participant can remove the shares from the Trust at any time but as they would no longer be pledged as Invested Shares under the Co-Investment Plan, then unless replaced, the participant would forego the resulting match.

c Co-Investment Plan

This is a co-investment plan where each participant is permitted to invest a limited amount of shares on an annual basis for the purposes of the plan.

(i) 2007 award: PBT target. At the end of a three year performance period, each invested share will be matched by an award of up to three matching shares if 2010 PBT of £135m is achieved; 25% of the maximum match (i.e. 0.75:1) will be earned for achieving 2010 PBT of £110m and the awards will vest on a sliding scale between these two points.

(ii) 2007 award: TSR target. A further match of up to two shares will be made for achieving upper quartile Total Shareholder Return (TSR), measured against the FTSE 250 Index (excluding investment trusts).

(iii) 2011 award: 25% of the award will vest if PBT growth at the end of the 2013 financial year is at a rate of 6% p.a., based on the December 2010 accounts. 100% of the award will vest if PBT growth on the same basis is 12% p.a. or above.

d Executive Share Options

This is a discretionary share option plan. These options are granted with an exercise price equal to market value.

The vesting period is three years from the date of grant with an exercise period of seven years (i.e. a total life of ten years). In the information below, these options have been further subdivided according to their different performance conditions, in order to give more meaningful information. The different subdivisions and performance conditions are as follows:

(i) 40% vesting if EPS growth equals RPI + 40%, rising to 100% vesting for EPS growth of RPI + 100%.

(ii) 50% vesting if there is EPS growth of 60% over the performance period, and 100% vesting if there is EPS growth of 120% over the performance period.

(iii) EPS growth must equal RPI + 9%. If this is achieved there will be full vesting. If this is not achieved there will be no vesting.

(iv) 20% of the options will vest if the share price over 30 consecutive dealing days is 185p rising on a straight-line basis to 100% vesting if the share price over 30 consecutive days reaches 265p. Underpinning this is a requirement to achieve 20% annual compound growth over the performance period.

(v) Full vesting will occur if the Group's cumulative profit before tax is at least £90m over the three financial years ending December 2009, 2010 and 2011. If this is not achieved there will be no vesting.

e Long Term Incentive Plan
This is a discretionary plan under which the Group may grant different types of share award including market value and nil cost options, conditional awards of shares and restricted shares (where the employee is the owner of the shares from the date of award but subject to forfeiture). Unless otherwise specified all awards have substantially the same terms.

(i) Market value options, the vesting period for which is three years from the date of grant with an exercise period of seven years (i.e. a total life of ten years). Options will vest if cumulative PBT of £90m is achieved over the three financial years ending 2009, 2010 and 2011.

(ii) Market value which vest after a three year period from the date of grant. 15% of the options will vest if the Group achieves growth in pre-exceptional PBT equivalent to RPI over the performance period; 100% will vest if pre-exceptional PBT growth equivalent to RPI + 8% is achieved.

(iii) Conditional Share Award – shares will vest at the end of a three year period commencing on the date of grant subject to continuing employment.

(iv) 2011 Grant – 25% of the award will vest if PBT growth at the end of the 2013 financial year is at a rate of 6% p.a., based on the December 2010 accounts. 100% of the award will vest if PBT growth on the same basis is 12% p.a. or above.

f Share Incentive Scheme (FreeShares)
This is an 'all-employee' share incentive plan whereby participants receive a grant of free shares in the Group. If the employees are still employed by the Group three years after the grant, then the shares vest. Dividends are paid out on the shares between award date and vesting date. There are no other performance conditions attached to these awards.

2) Movements in the period

a Performance Share Plan – No conditions other than employment

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	970,015	–	1,099,061	–
Granted in period	–	N/A	–	N/A
Lapsed in period	(970,015)	–	(66,003)	–
Exercised in period	–	N/A	(63,043)	–
In issue at end of period	–	N/A	970,015	–
Exercisable at end of period	N/A	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	N/A		–	
Weighted average share price for options exercised during the period		N/A		0.63
Weighted average contractual life remaining for share options outstanding at the period end (years)	N/A		0.25	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	N/A		–	
– to	N/A		–	

Notes to the consolidated financial statements continued

b Deferred Bonus Plan – Restricted Share Award – 2010 grant

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	683,143	–	–	N/A
Granted in period	–	N/A	1,159,491	–
Lapsed in period	–	N/A	–	N/A
Exercised in period	(683,143)	–	(476,348)	–
In issue at end of period	–	N/A	683,143	–
Exercisable at end of period	N/A	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	N/A		–	
Weighted average share price for options exercised during the period		1.12		0.80
Weighted average contractual life remaining for share options outstanding at the period end (years)	N/A		0.25	
Weighted average fair value of options granted during the period (£)	N/A		0.79	
Range of exercise prices for options outstanding at the period end (£):				
– from	N/A		–	
– to	N/A		–	

c (i) Executive Co-Investment Plan – 2007 award, PBT target

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	6,150,000	–	6,150,000	–
Granted in period	–	N/A	–	N/A
Modified in period	(6,150,000)	–	–	N/A
Exercised in period	–	N/A	–	N/A
In issue at end of period	–	N/A	6,150,000	–
Exercisable at end of period	N/A	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	N/A		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	N/A		0.25	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	N/A		–	
– to	N/A		–	

c (ii) Executive Co-Investment Plan – 2007 award, TSR target

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	4,100,000	–	4,100,000	–
Granted in period	–	N/A	–	N/A
Lapsed in period	(4,100,000)	–	–	N/A
Exercised in period	–	N/A	–	N/A
In issue at end of period	–	N/A	4,100,000	–
Exercisable at end of period	N/A	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	N/A		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	N/A		0.25	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	N/A		–	
– to	N/A		–	

c (iii) Executive Co-Investment Plan – 2011 award

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)
In issue at beginning of period	–	N/A
Granted in period	4,121,495	–
Lapsed in period	–	N/A
Exercised in period	–	N/A
In issue at end of period	4,121,495	–
Exercisable at end of period	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–	
Weighted average share price for options exercised during the period		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.25	
Weighted average fair value of options granted during the period (£)	1.05	
Range of exercise prices for options outstanding at the period end (£):		
– from	–	
– to	–	

Notes to the consolidated financial statements continued

d (i) Executive Share Options – 40% vesting if EPS growth = RPI + 40% rising to 100% vesting if EPS growth = RPI + 100%

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	803,425	1.07	896,073	1.07
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	(92,648)	1.07
Exercised in period	–	N/A	–	N/A
In issue at end of period	803,425	1.07	803,425	1.07
Exercisable at end of period	803,425	1.07	803,425	1.07
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.07		1.07	
– to	1.07		1.07	

d (ii) Executive Share Options – 50% vesting if EPS growth is 60% and 100% vesting if EPS growth is 120%

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	1,053,941	1.27	1,328,009	1.27
Granted in period	–	N/A	–	N/A
Lapsed in period	(1,053,941)	1.27	(274,068)	1.27
Exercised in period	–	N/A	–	N/A
In issue at end of period	–	N/A	1,053,941	1.27
Exercisable at end of period	N/A	N/A	1,053,941	1.27
Number of options in the closing balance that were granted before 7 November 2002	N/A		1,053,941	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	N/A		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	N/A		1.25	
– to	N/A		1.32	

d (iii) Executive Share Options – Full vesting if EPS increases by RPI + 9%

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	2,107,273	1.03	2,289,007	1.00
Granted in period	5,000	1.03	–	N/A
Lapsed in period	(813,190)	1.08	(111,734)	0.63
Exercised in period	(547,890)	1.02	(70,000)	0.63
In issue at end of period	751,193	1.00	2,107,273	1.03
Exercisable at end of period	751,193	1.00	2,107,273	1.03
Number of options in the closing balance that were granted before 7 November 2002	751,193		2,107,273	
Weighted average share price for options exercised during the period		1.12		0.73
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.00		1.00	
– to	1.06		1.39	

d (iv) Executive Share Options – 20% annual growth over the performance period, and then 20% vesting if share price is over 185p for 30 consecutive days, up to 100% vesting if share price reaches 265p over 30 consecutive days

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	12,740	1.59	5,241,640	1.59
Granted in period	–	N/A	–	N/A
Lapsed in period	(12,740)	1.59	(5,228,900)	1.59
Exercised in period	–	N/A	–	N/A
In issue at end of period	–	N/A	12,740	1.59
Exercisable at end of period	N/A	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	N/A		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	N/A		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	N/A		1.59	
– to	N/A		1.59	

Notes to the consolidated financial statements continued

d (v) Executive Share Options – Cumulative PBT of £90m over three financial years ending 2009, 2010 and 2011

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	9,557,430	0.38	9,557,430	0.38
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	–	N/A
Exercised in period	–	N/A	–	N/A
In issue at end of period	9,557,430	0.38	9,557,430	0.38
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.33		1.33	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.25		0.25	
– to	0.50		0.50	

e (i) Long-Term Incentive Plan – Cumulative PBT of £90m over three financial years ending 2009, 2010 and 2011

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	12,412,032	0.37	12,507,032	0.37
Granted in period	–	N/A	–	N/A
Lapsed in period	(220,000)	0.37	(71,528)	0.37
Exercised in period	–	N/A	(23,472)	0.37
In issue at end of period	12,192,032	0.37	12,412,032	0.37
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		N/A		0.87
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.33		1.33	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.25		0.25	
– to	0.50		0.50	

e (ii) Long-Term Incentive Plan – 2012 PBT increase by between RPI and RPI + 8%

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	6,015,106	0.81	–	N/A
Granted in period	–	N/A	6,015,106	0.81
Lapsed in period	(129,368)	0.81	–	N/A
Exercised in period	–	N/A	–	N/A
In issue at end of period	5,885,738	0.81	6,015,106	0.81
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.33		2.33	
Weighted average fair value of options granted during the period (£)	N/A		0.44	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.81		0.81	
– to	0.81		0.81	

e (iii) Long-Term Incentive Plan – Conditional Share Award – subject to continuing employment

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	525,700	–	–	N/A
Granted in period	600,100	–	556,300	–
Lapsed in period	(77,000)	–	(28,000)	–
Exercised in period	(7,700)	–	(2,600)	–
In issue at end of period	1,041,100	–	525,700	–
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		1.09		0.79
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.75		2.33	
Weighted average fair value of options granted during the period (£)	1.05		0.81	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		–	
– to	–		–	

Notes to the consolidated financial statements continued

e (iv) Long-Term Incentive Plan – 2011 Grant – PBT to increase by between 6% – 12%

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)
In issue at beginning of period	–	–
Granted in period	1,099,845	1.09
Lapsed in period	–	–
Exercised in period	–	–
In issue at end of period	1,099,845	1.09
Exercisable at end of period	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–	
Weighted average share price for options exercised during the period		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.25	
Weighted average fair value of options granted during the period (£)	0.53	
Range of exercise prices for options outstanding at the period end (£):		
– from	1.09	
– to	1.09	

f Share incentive scheme (FreeShares)

	52 weeks to 24 December 2011 Number	52 weeks to 24 December 2011 WAEP (£)	52 weeks to 25 December 2010 Number	52 weeks to 25 December 2010 WAEP (£)
In issue at beginning of period	244,169	–	403,211	–
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	–	N/A
Exercised in period	(25,775)	–	(159,042)	–
In issue at end of period	218,394	–	244,169	–
Exercisable at end of period	218,394	–	244,169	–
Number of options in the closing balance that were granted before 7 November 2002	218,394		244,169	
Weighted average share price for options exercised during the period		1.09		0.78
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		–	
– to	–		–	

3) Fair value of options granted

The fair value of options granted is estimated on the date of grant using a Black Scholes model as they are not considered to be of such complexity that they require an alternative model. The key assumptions used in the models were:

	52 weeks to 24 December 2011	52 weeks to 25 December 2010
Dividend yield (%)	1.5	–
Expected share price volatility (%)	54	53
Historical volatility (%)	54	53
Risk-free interest rate (%)	3.0	3.4
Expected life of options (years)	4.8	6.5

Historical volatility is measured for each scheme over the period equal to the vesting period of the scheme. The figure arrived at is then used as the best estimate of expected future volatility.

29 RELATED PARTY TRANSACTIONS

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group had no other related party entities during the current or prior periods.

Remuneration of key management personnel

Key management personnel comprise the Board of Directors (including non-executive directors) and the Executive Committee. Details of the aggregate remuneration to these personnel is set out below:

	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Short-term employment benefits	6.4	6.1

Other transactions with key management personnel

There were no other transactions with key management personnel.

Notes to the consolidated financial statements continued

30 FINANCIAL RISK MANAGEMENT

(a) Capital risk management

The Group manages its capital structure to maximise the return to shareholders through the optimisation of its debt and equity balance, trading-off the benefits of financial leverage with the expected future costs of financial distress.

The capital structure of the Group consists of debt (including the borrowings disclosed in note 22 offset by cash and cash equivalents) and equity attributable to equity holders of the parent (including issued share capital and reserves as disclosed in the consolidated statement of changes in equity and in note 25).

The Board of Directors reviews the capital structure regularly, including, but not limited to, at the time of preparing annual budgets, preparing three year corporate plans, and considering corporate transactions. As part of this review, the Board reviews the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs, as well as the issue of new debt or the repayment of existing debt.

At the period end, the Group had a £160m committed bank facility secured against the assets of the Group and based on four sub-facilities (stock, trade receivables, property and a cash flow facility). The facility limit was the lower of £160m and the sum of the four sub-facilities. The property component (initially £17.4m) amortises at the rate of £141,667 each month, whereas the other components act as a revolving credit facility with no amortisation. Under the terms of the facility, none of the Group's principal subsidiary companies can sign up to additional secured borrowings, other than those expressly permitted within the terms of the facility. The facility (i) permits normal trade credit granted to it in the ordinary course of business, (ii) allows up to £20m of additional secured borrowings and (iii) allows up to £10m of finance lease borrowing. During the previous period the maturity of the facility was extended from May 2011 to May 2014. As part of the extension the facility was reduced from £175m to £160m alongside a revised interest rate structure. The Group's overall strategy remains unchanged from 2010.

(b) Significant accounting policies

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

(c) Categories of financial instruments

	24 December 2011 £m	25 December 2010 £m
Financial assets (current and non-current)		
Trade receivables	73.0	68.9
Cash and cash equivalents	59.4	38.6
Other assets	–	0.2
Financial liabilities (current and non-current)		
Trade payables	68.1	64.1
Borrowings	2.3	3.8

(d) Financial risk management

General

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures. The types of risk exposure, the way in which such exposure is managed, and the quantification of the level of exposure in the balance sheet is shown below (sub-categorised into credit risk, liquidity risk and market risk). The Group is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Group's financial performance.

The principles, practices and procedures governing the Group-wide financial risk management process have been approved by the Board and are overseen by the Executive Committee. In turn, the Executive Committee delegates authority to a central treasury function (Group Treasury) for the practical implementation of the financial risk management process across the Group and for ensuring that the Group's entities adhere to specified financial risk management policies. Group Treasury regularly reassesses and reports on the financial risk environment, identifying and evaluating financial risks. The Group does not take positions on derivative contracts and only enters into contractual bank deposit or lending arrangements with counterparties that have investment grade credit ratings.

Cash and cash equivalents
Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents, which is the term used in the cash flow statement, comprises cash at bank and in hand, as defined immediately above, together with any overdrafts repayable on demand.

Arrangements are in place to ensure that cash is utilised most efficiently for the ongoing working capital needs of the Group's operating units and to ensure that the Group earns the most advantageous rates of interest available. The prime consideration in the investment of cash balances is the security of the asset, followed by liquidity and then yield.

Management of trade receivables is discussed in note 20.

(e) Credit risk
The Group's principal financial assets are cash and cash equivalents, other assets, and trade and other receivables. The Group's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. The Group has adopted a policy of only dealing with creditworthy counterparties as a way of mitigating the risk of financial loss from defaults.

The Group's policy on dealing with trade customers is described in the accounting policies and in note 20. Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty.

The Group limits exposure to credit risk on liquid funds through adherence to a policy of minimum long-term counterparty credit ratings assigned by international credit-rating agencies (Standard & Poor's A and Moody's A1).

Full disclosure of the Group's maximum exposure to credit risk is presented in the following table:

	24 December 2011 £m	25 December 2010 £m
Trade receivables (net of allowance)	73.0	68.9
Cash and cash equivalents	59.4	38.6
Other assets	–	0.2
Total credit risk exposure	132.4	107.7

(f) Liquidity risk
Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 22 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Review of Operations and Finance contains a section describing the interaction of liquidity risk and the going concern review.

Notes to the consolidated financial statements continued

Maturity profile of outstanding financial liabilities

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The Group has no derivative financial liabilities. The tables have been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within 1 year			2 – 3 years			
At 24 December 2011	Capital £m	Floating interest £m	Fixed interest £m	Capital £m	Floating interest £m	Fixed interest £m	Total £m
Trade payables	68.1	–	–	–	–	–	68.1
Bank loan	1.1	0.1	–	1.2	–	–	2.4
	69.2	0.1	–	1.2	–	–	70.5

	Within 1 year			2 – 3 years			
At 25 December 2010	Capital £m	Floating interest £m	Fixed interest £m	Capital £m	Floating interest £m	Fixed interest £m	Total £m
Trade payables	64.1	–	–	–	–	–	64.1
Finance leases	0.4	–	–	–	–	–	0.4
Bank loan	1.1	0.1	–	2.2	0.1	–	3.5
	65.6	0.1	–	2.2	0.1	–	68.0

Note: it has been assumed that, where applicable, interest and foreign currency exchange rates prevailing at the reporting balance sheet date will not vary over the time periods remaining for future cash flows.

(g) Market risk

This is the risk that financial instrument fair values will fluctuate owing to changes in market prices. The significant market risks to which the Group is exposed are foreign exchange risk and interest rate risk. These are discussed further below:

Foreign exchange risk

The Group is exposed to several currencies, principally as a result of operating costs incurred in foreign currencies, and to a lesser extent from non-Sterling revenues. The Group's policy is generally not to hedge such exposures. The exposure of the Group's financial assets and liabilities to currency risk is as follows:

	24 December 2011 £m	25 December 2010 £m
Euro		
Trade receivables	2.6	1.9
Cash and cash equivalents	2.4	2.2
Trade payables	(8.9)	(11.8)
	(3.9)	(7.7)
US dollar		
Trade receivables	–	0.3
Cash and cash equivalents	3.7	3.5
Trade payables	(1.9)	(2.9)
	1.8	0.9
Hong Kong dollar		
Cash and cash equivalents	0.1	–
	0.1	–
Chinese Yuan		
Cash and cash equivalents	0.1	0.1
	0.1	0.1
Japanese Yen		
Trade payables	0.1	–
	0.1	–
Total	(1.8)	(6.7)

Interest rate risk

The Group is exposed to interest rate risk as the parent company has borrowed funds at floating interest rates. The Board has reviewed this risk of interest rate increases causing financial distress and concluded that hedging protection should only be considered if net borrowings or cash surpluses were to exceed £150m. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Payments on the Group's finance leases are fixed on inception of the lease contract, and as such are regarded as fixed rate borrowings.

Notes to the consolidated financial statements continued

(h) Financial instrument sensitivities

Financial instruments affected by market risk include borrowings, deposits, trade receivables and trade payables. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's financial instruments as at its year end to changes in market variables, being exchange rates and interest rates. The sensitivity analysis has been prepared on the basis that the components of net debt and the proportion of financial instruments in foreign currencies are all constant. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the year end date was outstanding for the whole year. As a consequence, this sensitivity analysis relates to the position as at the balance sheet date. The following assumptions were made in calculating the sensitivity analysis:

- Debt and other deposits are carried at amortised cost and therefore carrying value does not change as interest rates move.
- No sensitivity is provided for accrued interest as accruals are based on pre-agreed interest rates and therefore are not susceptible to further rate movements.
- Finance lease interest payments are fixed at the inception of the contract and are not subject to re-pricing. They have therefore been excluded from this analysis.
- Translation of foreign subsidiaries and operations into the Group's presentation currency have been excluded from the sensitivity.

Using the above assumptions, the following analyses show the illustrative effect on the income statement and equity that would result from reasonably possible changes in the relevant foreign currency or interest rates.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate non-derivative instruments at the balance sheet date. The Group holds no derivative financial instruments. Fixed rate liabilities are not susceptible to changes in interest rates, and are omitted from the analysis below. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points increase is used as this represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's net profit and profit and loss reserve would remain the same (2010: decrease by £0.1m).

For an decrease of 50 basis points, the current year figures would remain the same and the 2010 figures would increase by £0.1m.

Foreign exchange sensitivity

As noted above, the Group is mainly exposed to movements in Euro, US dollar, Chinese Yuan, and Japanese Yen exchange rates (the Hong Kong dollar being effectively pegged to the US dollar). The following information details the Group's sensitivity to a 10% weakening or strengthening in pounds Sterling against the Euro, the US dollar, the Hong Kong dollar, the Chinese Yuan, and the Japanese Yen. These percentages are the rates used by management when assessing sensitivities internally and represent management's assessment of the possible change in foreign currency rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

	24 December 2011 £m	25 December 2010 £m
10% weakening of Sterling to Euro	(0.4)	(0.8)
10% strengthening of Sterling to Euro	0.4	0.7
10% weakening of Sterling to US dollar	0.2	0.1
10% strengthening of Sterling to US dollar	(0.2)	(0.1)

The Group's sensitivity, on the basis above, to a strengthening or weakening of Sterling to the Hong Kong dollar, the Chinese Yuan and the Japanese Yen was less than £0.1m at both the current and prior period ends.

Independent auditor's report to the members of Howden Joinery Group Plc

We have audited the Group financial statements of Howden Joinery Group Plc for the 52 weeks ended 24 December 2011 which comprise 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 the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 24 December 2011 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the Corporate Governance Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

OTHER MATTER

We have reported separately on the parent company financial statements of Howden Joinery Group Plc for the 52 weeks ended 24 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Adam (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom
29 February 2012

Company balance sheet

	Notes	24 December 2011 £m	25 December 2010 £m
Fixed assets			
Investments	3	708.6	708.6
Deferred tax	4	0.2	–
		708.8	708.6
Current assets			
Debtors	5	13.9	12.8
Cash at bank and in hand		40.0	15.0
		53.9	27.8
Current liabilities			
Creditors: amounts falling due within one year	6	(490.0)	(419.0)
Net current liabilities		(436.1)	(391.2)
Total assets less current liabilities		272.7	317.4
Non-current liabilities			
Creditors: amounts falling due after more than one year	7	(1.2)	(2.3)
Provisions	8	(19.0)	(37.4)
Net assets		252.5	277.7
Equity			
Called up share capital	9	63.4	63.4
Share premium account	10	85.1	85.1
Retained earnings reserve	10	104.0	129.2
Total equity		252.5	277.7

These financial statements were approved by the Board on 29 February 2012 and were signed on its behalf by Mark Robson – Chief Financial Officer.

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

Notes to the Company balance sheet

1 SIGNIFICANT COMPANY ACCOUNTING POLICIES

General information

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006.

Basis of presentation

The Company's accounting period covers the 52 weeks to 24 December 2011. The comparative period covered the 52 weeks to 25 December 2010.

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Standards. The principal accounting policies are presented below and have been applied consistently throughout the current and prior periods. They have also been prepared on the going concern basis as described in the going concern statement in the Corporate governance report on page 58 of the Group's Annual Report.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Cash flow statement

The Company is exempt from the requirement of FRS 1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a consolidated cash flow statement which is shown as part of the consolidated Group accounts.

Related parties

The Company has taken advantage of paragraph 3(c) of Financial Reporting Standard 8 (Related Party Disclosures) not to disclose transactions with Group entities or investees of the Group qualifying as related parties.

2 PROFIT AND LOSS ACCOUNT

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. The Company result after tax for the 52 weeks to 24 December 2011 was a loss of £25.2m (52 weeks to 25 December 2010: loss after tax for the period of £20.8m).

The Company has no employees (2010: none), did not pay directors' emoluments (2010: £nil), and the fees payable to the Company's auditor for the audit of the Company's annual accounts (£10,000 in both current and prior periods) were borne by a fellow Group undertaking.

3 INVESTMENTS

Cost and carrying value	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Total £m
At 25 December 2010 and 24 December 2011	271.7	436.9	708.6

Details of principal subsidiary undertakings are given on page 117.

4 DEFERRED TAX

The deferred tax credited in the year of £0.2m all relates to short-term timing differences.

Notes to the Company balance sheet continued

5 DEBTORS

	24 December 2011 £m	25 December 2010 £m
Other debtors	0.9	3.9
Corporation tax	12.5	8.9
Other tax and social security	0.5	–
	13.9	12.8

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	24 December 2011 £m	25 December 2010 £m
Other tax and social security	–	0.5
Current portion of long-term bank loan	1.1	1.1
Owed to subsidiaries	488.6	417.0
Accruals and deferred income	0.3	0.4
	490.0	419.0

7 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	24 December 2011 £m	25 December 2010 £m
Long-term portion of bank loan	1.2	2.3

The borrowings are repayable as follows:

	24 December 2011 £m	25 December 2010 £m
Current liabilities		
On demand or within one year	1.7	1.7
Less: prepaid issue fees set against cost of loan	(0.6)	(0.6)
On demand or within one year	1.1	1.1
Non-current liabilities		
In the second year	1.7	1.7
In the third to fifth years inclusive	0.4	2.1
Less: prepaid issue fees set against cost of loan	(0.9)	(1.5)
	1.2	2.3
Total borrowings	2.3	3.4

All borrowings are in sterling.

The weighted average interest rates paid on the borrowings were as follows:

24 December 2011 %	25 December 2010 %
3.4	3.4

The directors estimate the fair value of the Group's borrowings are as follows:

24 December 2011 £m	25 December 2010 £m
2.3	3.4

8 PROVISIONS

	Property provision £m	Total £m
At 25 December 2010	37.4	37.4
Additional provision in the period	3.4	3.4
Utilisation of provision in the period	(21.8)	(21.8)
At 24 December 2011	19.0	19.0

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 £0.2m arising from an unwinding of the discount rate over time. None of this amount relates to a change in the discount rate. 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 dependent on property lease expiry dates and also on opportunities to surrender leases.

9 SHARE CAPITAL

Ordinary shares of 10p each	52 weeks to 24 December 2011 Number	52 weeks to 25 December 2010 Number	52 weeks to 24 December 2011 £m	52 weeks to 25 December 2010 £m
Allotted, called up and fully paid				
Balance at the beginning and end of the period	633,915,329	633,915,329	63.4	63.4

10 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Called up share capital £m	Share premium account £m	Retained earnings £m	Total £m
At 25 December 2010	63.4	85.1	129.2	277.7
Retained loss for the period	–	–	(25.2)	(25.2)
At 24 December 2011	63.4	85.1	104.0	252.5

Independent auditor's report to the members of Howden Joinery Group Plc

We have audited the parent company financial statements of Howden Joinery Group Plc for the 52 weeks ended 24 December 2011 which comprise the Company Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 24 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of Howden Joinery Group Plc for the 52 weeks ended 24 December 2011.

John Adam (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom
29 February 2012

Parent company and principal subsidiary undertakings at 24 December 2011

	Country of registration or incorporation
PARENT COMPANY	
Howden Joinery Group Plc	England and Wales
PRINCIPAL SUBSIDIARY UNDERTAKINGS	
Intermediate holding company:	
*Howden Joinery Holdings Limited	England and Wales
Trading:	
Howden Joinery Limited	England and Wales
Houdan Menuiseries SA	France
Supply:	
*Howden Joinery Supply Division (Asia) Limited	Hong Kong
Property management:	
Howden Joinery Properties Limited	England and Wales
Howden Kitchens Properties Limited	England and Wales
Finance:	
*Southon Insurance Company Limited	Guernsey
Administration and Employee Services:	
Howden Joinery Corporate Services Limited	England and Wales
Howden Joinery People Services Limited	England and Wales
Dormant:	
Howden Kitchens Limited	England and Wales
Galiform Limited	England and Wales

The Company ultimately owns 100% of the ordinary share capital of all of the above mentioned companies.

*The investment in the companies marked with an asterisk are owned directly by the Company.

Five year record

	Dec 2011 52 weeks £m	Dec 2010 52 weeks £m	Dec 2009 52 weeks £m	Dec 2008 52 weeks £m	Dec 2007 52 weeks £m
Summarised Income Statement					
Revenue – continuing operations	853.8	807.9	769.5	805.7	976.5
Revenue – discontinued operations	–	–	–	–	–
	853.8	807.9	769.5	805.7	976.5
Operating profit – continuing operations	114.3	107.4	79.4	80.6	51.8
Operating profit – discontinued operations	(8.3)	–	(4.4)	(108.8)	(11.1)
Share of joint venture operating profit	–	–	–	0.1	0.9
	106.0	107.4	75.0	(28.1)	41.6
Profit on continuing ordinary activities before tax	110.0	100.9	68.7	74.3	79.8
Dividend per share – proposed (pence)	0.5	–	–	–	0.5
Basic EPS (pence)	13.4	11.1	8.3	9.2	8.8
Summarised Balance Sheet					
Total non-current assets*	132.3	140.2	163.0	155.7	152.5
Inventories	118.5	105.5	86.3	121.3	101.0
Receivables	95.3	95.0	95.4	99.2	122.3
Payables and provisions	(196.1)	(216.9)	(224.5)	(250.6)	(251.9)
Pension liability	(136.9)	(135.7)	(196.3)	(122.2)	(83.5)
	(119.2)	(152.1)	(239.1)	(152.3)	(112.1)
Net cash/(borrowings)	57.1	35.0	2.4	(61.2)	(3.3)
Total net assets/(liabilities)	70.2	23.1	(73.7)	(57.8)	37.1

* In 2007 and 2008, the balance sheet included a small amount of assets held for resale, which were held in the Balance Sheet as part of current assets.

Number of outlets at end of year					
Howden Joinery	509	489	462	454	436
Houdan France	10	10	10	11	11
Capital expenditure	20	18	8	19	21

Shareholder information as at 24 December 2011

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	71	0.7	29,674	–
1,001 to 5,000	96	1.0	269,165	–
5,001 to 10,000	50	0.5	393,747	–
10,001 to 50,000	94	1.0	2,555,132	0.4
50,001 to 100,000	31	0.3	2,327,409	0.4
100,001 to 250,000	60	0.6	10,141,004	1.6
250,001 to max	176	1.8	599,413,894	94.6
	578	5.9	615,130,025	97.0
Individual holders				
0 to 1,000	6,909	71.5	2,875,239	0.5
1,001 to 5,000	1,749	18.1	4,232,498	0.7
5,001 to 10,000	257	2.7	1,879,474	0.3
10,001 to 50,000	140	1.4	2,763,772	0.4
50,001 to 100,000	15	0.2	1,012,589	0.2
100,001 to 250,000	6	0.1	1,003,138	0.1
250,001 to max	7	0.1	5,018,594	0.8
	9,083	94.1	18,785,304	3.0
Total	9,661	100.0	633,915,329	100.0

Advisers and committees

PRINCIPAL BANKER

Lloyds TSB plc
10 Gresham Street
London
EC2V 7AE

JOINT FINANCIAL ADVISERS AND STOCKBROKERS

JP Morgan Cazenove
20 Moorgate
London
EC2R 6DA

UBS Ltd
1 Finsbury Avenue
London
EC2M 2PP

SOLICITORS

Freshfields Bruckhaus Deringer LLP
65 Fleet Sreet
London
EC4Y 1HS

AUDITOR

Deloitte LLP
Chartered Accountants
2 New St Square
London
EC4A 3BZ

REGISTRAR

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

REGISTERED OFFICE

International House
1st Floor, 66 Chiltern Street
London
W1U 4JT

REMUNERATION COMMITTEE

Michael Wemms (Chairman)
Mark Allen
Angus Cockburn
Tiffany Hall

NOMINATIONS COMMITTEE

Will Samuel (Chairman)
Mark Allen
Angus Cockburn
Tiffany Hall
Michael Wemms

AUDIT COMMITTEE

Angus Cockburn (Chairman)
Mark Allen
Tiffany Hall
Michael Wemms

EXECUTIVE COMMITTEE

Matthew Ingle
Mark Robson
Caroline Bishop
Rob Fenwick
Julie French
David Hallett
Andy Witts
Chris Youell

Corporate timetable

2012	
Interim Management Statement	26 April 2012
Annual General Meeting	16 May 2012
Half Yearly Report	19 July 2012
Interim Management Statement	8 November 2012
End of financial year	29 December 2012

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