

Risk management and principal risks

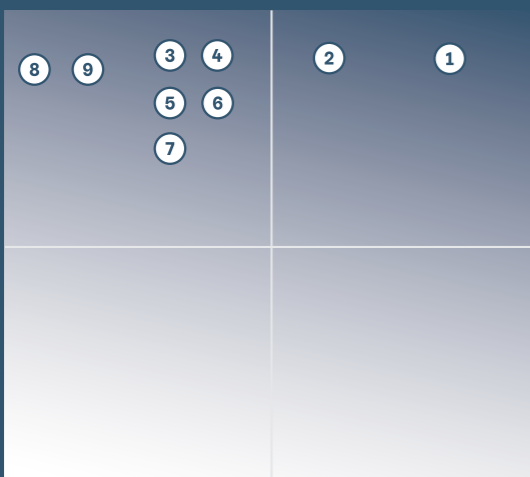
At a glance

Our principal risks

- 1 Market conditions
- 2 Supply chain
- 3 Maximising growth
- 4 People
- 5 Health and Safety
- 6 Cyber security
- 7 Business model & culture
- 8 Product
- 9 Business continuity & resilience

See page 39

Our risk heat map



See page 39

Our risk appetite is adaptive

Low
If the risk presents a hazard to our operations or strategy

Higher
If the risk presents us with a sale or service improvement opportunity

Balanced
For all other risks we carefully balance the risk and our mitigation efforts with the potential reward

Our most significant emerging risks

Geopolitical

Digital

Climate-related risk:

- Transitional risks as the world moves toward a zero carbon economy; and
- Physical risks presented by the changing climate

Risk management

Our approach to risk, and emerging risks

Our approach to risk

When we look at risks, we specifically think about internal and external drivers of operational, hazard, financial and strategic risk areas over short, medium and long-term timescales. We consider the effects they could have on our business model, our culture and our strategy which we set out starting at page 8, and which we encourage you to refer to as you read this section.

Risk appetite

'Risk appetite' describes the amount of risk we are willing to tolerate, accept or seek. Our risk appetite is determined by the nature of the risk and how that risk could affect us.

We have a higher appetite for risks that present us with a clear opportunity for reward, and we actively seek out those that provide the greatest opportunities.

We have some appetite for risks with a possible opportunity for reward. With these risks, we carefully balance our mitigation efforts with our view of the possible rewards.

We have a very low appetite or tolerance for risks that only have negative consequences, particularly when they could adversely impact health & safety, our values, culture or business model. We aim to eliminate these risks with our mitigation efforts.

The Board sets and regularly reviews their risk appetite for key and principal risks. This appetite is used by the Executive Committee when considering risk mitigation strategies.

Climate-related risk - an emerging risk which is not a principal risk

We handle climate risk in the same way as our other risks, albeit that time horizons may be longer. We have continued to develop our climate risk approach during 2022, more detail on our this can be found in our TCFD section at page 54. Over 2022 our key climate risk developments include:

Risk identification

We have engaged with some of our key stakeholders, including our insurers, to understand how their focus on climate risk is likely to change going forward and the impact it will have on us.

Risk management

We have developed a risk assessment approach that is modelled on the British Standard (BS EN ISO14091) and tailored to meet our needs, that enables robust prioritisation of risk exposures for treatment.

Integration into our risk management framework

We have integrated climate risks into our operational risk registers which benefit from clear ownership and formal review as part of our regular risk process.

Emerging risks - none of which are principal risks

We consider emerging risks as part of our risk management approach using both internal expertise and external resources to identify emerging issues and their potential impact. We consider risk over three different time horizons:

Horizon One - (Current issues out to 12/18 months) - Typically operational in nature and robustly covered by the current process.

Horizon Two - (12/18 months to 5 years) - Includes those risks that may impact on achievement of our strategic objectives as well as new risks our strategic objectives may present to the business.

Horizon Three - (5 years plus) - Risks that may shape our strategic direction beyond the next 5 years.

Where appropriate, emerging risks are escalated to the Executive and Board as part of our regular risk reporting.

Key areas of emerging risk remain:

Climate

We have an established Sustainability Committee, devolved from the Board, who support them in establishing our climate strategy, identifying, and managing climate risk and setting metrics and targets - see TCFD reporting page 54.

Digital

As we continue to develop our digital capabilities to provide our customers with the services they need, we will come across new risks that will need managing to an acceptable level.

Geopolitical

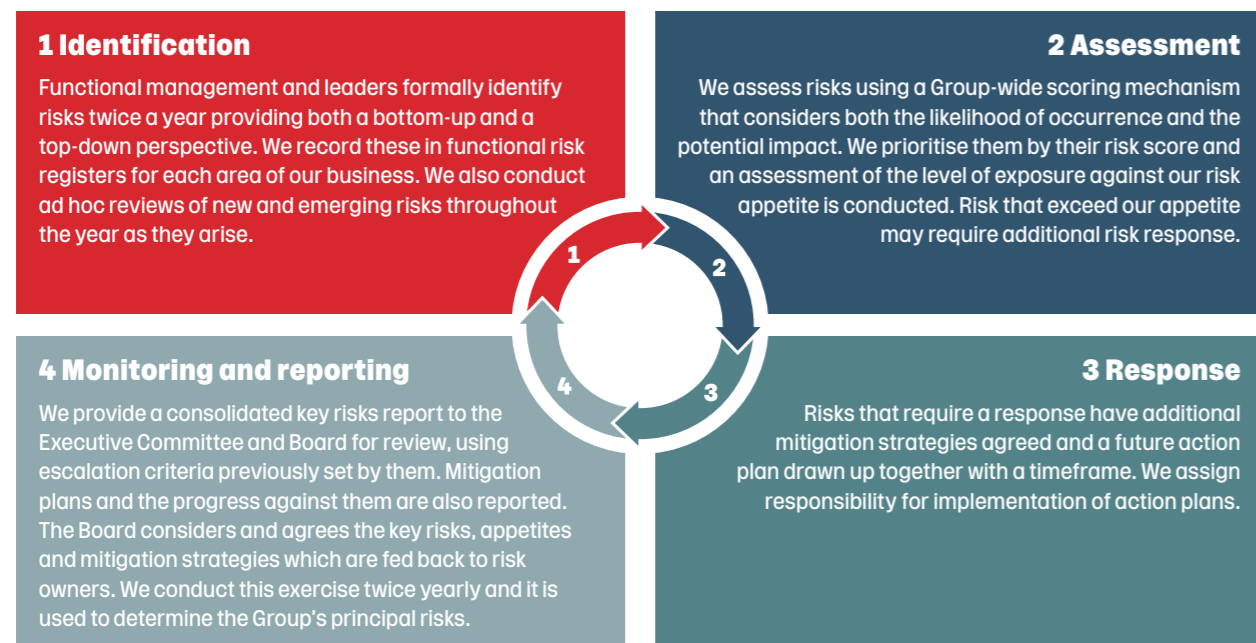
As a global business we are exposure to geopolitical risks around the world and the political environment has been presenting challenges over 2022 that may continue into 2023 and beyond. We include geopolitical risk in our risk review process and consider the impacts they could have on our risk profile in areas such as Supply Chain, Growth and Market Conditions.

We consider tax risks and our tax strategy as part of our operational risk management. We operate a specific tax risk register with risks owned by senior staff members and with Executive oversight. We do not consider taxation as a principal risk to Howdens. Our Group UK tax strategy may be found at www.howdenjoinerygroupplc.com/governance/group-uk-tax-strategy

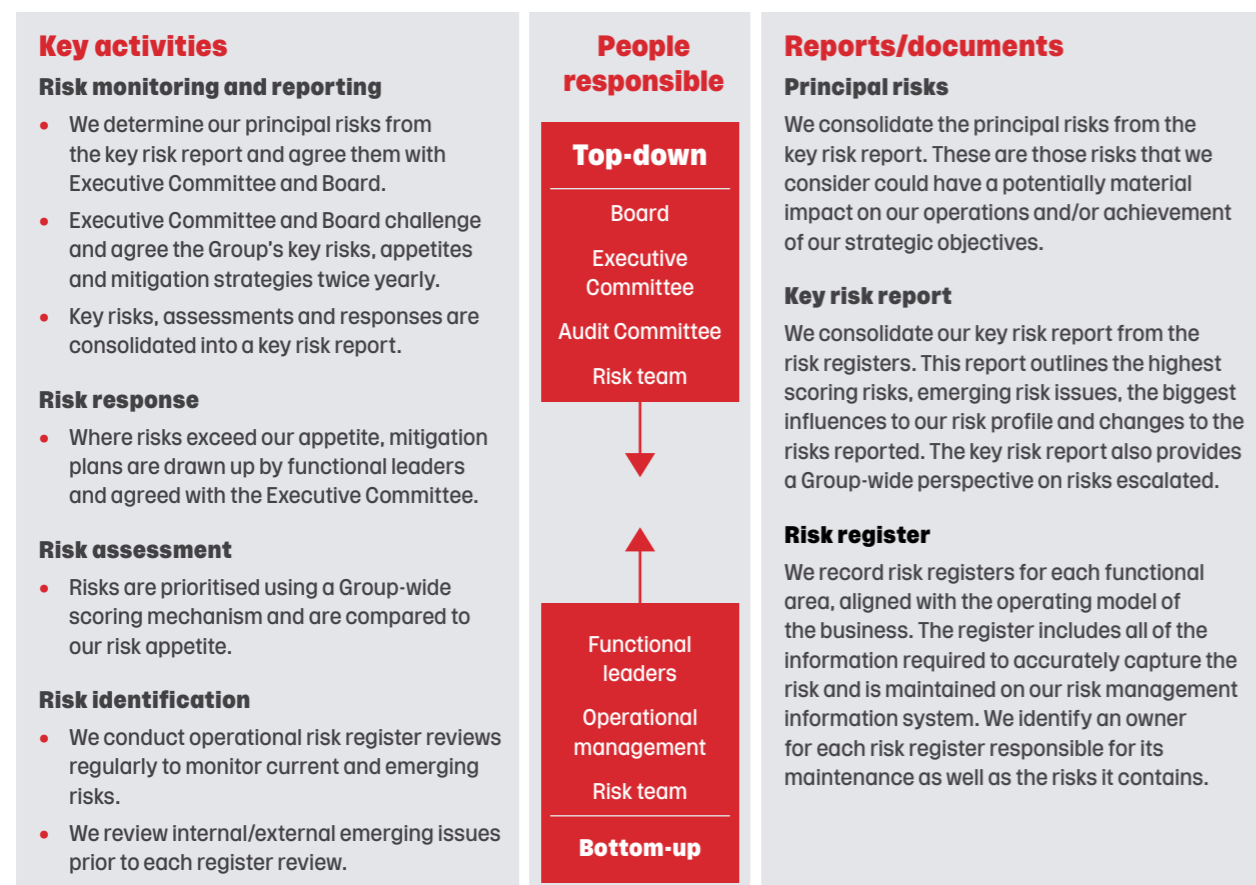
Risk management continued

The risk management process

The main steps in the process are set out below:



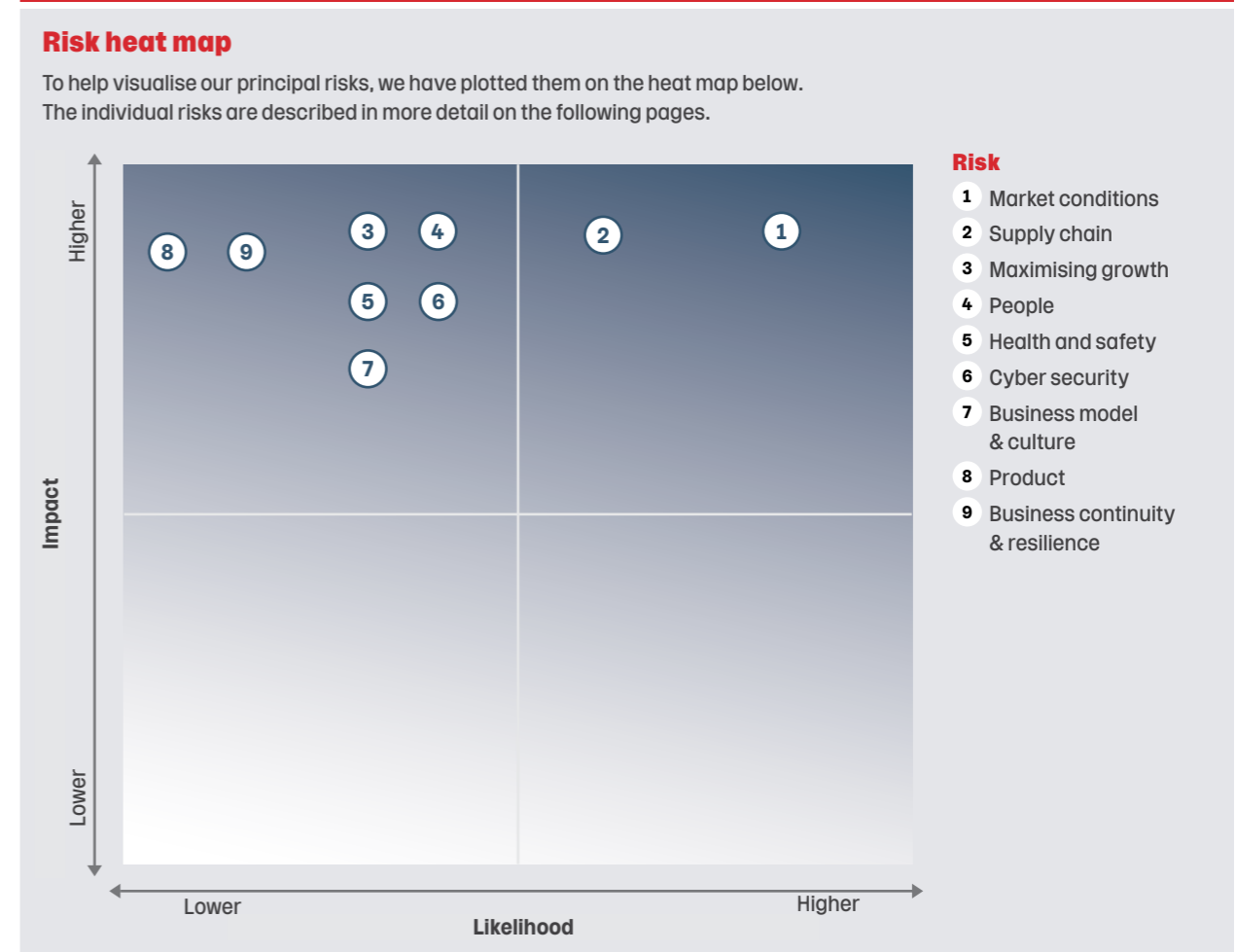
Risk governance



Principal risks and uncertainties

Principal risks

- No new principal risks
- 1 risk score has increased - Market conditions
- 1 risk score has decreased - Business model & culture



Brexit

Any breakdown of this agreement has the potential to bring with it some risk for all companies operating in the UK and the European Union. The main areas of potential risk for Howdens include:

- **Free trade & customs risks**
 - Loss of free trade status.
 - Exit from the customs arrangements.
 - No regulatory co-operation.
- **Strategy & business plan risks**
 - Consumer/Investor uncertainty.
 - Currency and stock market volatility.

We continue to actively monitor the ongoing relationship between the EU and UK and reconsider our mitigation plans and potential impacts as part of our risk process.

COVID-19

Whilst the impact of COVID-19 was lower in 2022 than in previous years, we remained vigilant and promptly dealt with any issues that arose during the year. Our learnings of what risks to expect and how to deal with them gained over 2020-21 helped us effectively manage these issues over 2022 and will continue to help us be prepared going forward.

Principal risks and uncertainties continued

2022 Principal risks

The arrows alongside each risk show the year on year change

1. Market conditions R P F ↑

Over 2022 the scoring of this risk has increased because of continuing economic uncertainty.

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| <p>Risk and impact</p> <ul style="list-style-type: none"> Our products are mostly sold to small builders and installed in owner-occupied and private and public sector rented housing, mainly in the repair, maintenance and improvement markets. If activity falls in these markets, it can affect our sales. | <p>Mitigating factors</p> <ul style="list-style-type: none"> We have proven expertise in managing both selling prices and costs. This continues to be a main area of focus. We have a good record of dealing with changes in market conditions. We monitor activity across our supply chain and depots closely, using the good relationships we have to give us early warnings of changing conditions. This enables us to take swift mitigating action to emerging market risk factors. <p>Mitigation actions in 2022</p> <ul style="list-style-type: none"> Closely monitored the UK and global geopolitical environments, the impact on the cost of living and of operating our business. Frequent scenario planning based on latest information to ensure our plans were appropriate to changing market conditions. |
|--|--|

Risk appetite

Shifts in the market conditions can impact small builders, and therefore our sales. We manage this risk through active market analysis and competitor review, and then optimising selling prices and our costs. We have a low appetite for market conditions risks and maintain close relationship with the small builder to identify movements early to enable appropriate action to be taken.

Links to strategy

- R Reach more builders
- O Operational excellence
- P Product innovation
- F Prudent financial management

2. Supply chain O P ↔

| | |
|--|--|
| <p>Risk and impact</p> <ul style="list-style-type: none"> Any disruption to our relationship with key suppliers or interruption to manufacturing and distribution operations could affect our ability to deliver the in-stock business model and to service our customers' needs. If this happened, we could lose customers and sales. | <p>Mitigating factors</p> <ul style="list-style-type: none"> We build strong relationships with our suppliers, focused on integrity, fairness, and respect, and which are worthwhile for all concerned. Where appropriate we enter long-term contracts to secure supply of key products, services, and raw materials. Wherever possible we have multiple-sourcing strategies for our key products, to reduce the effect of a supply failure. We have invested in our supply chain operations and this investment gives us increased capacity and agility. We are also investing in new warehouse space to support our distribution capabilities and equip them for growth. <p>Mitigation actions in 2022</p> <ul style="list-style-type: none"> Closely monitored the UK and global geopolitical environments and the impacts on our supply chain. Maintained our Authorised Economic Operator (AEO) preferred importer/exporter status to reduce potential customs delays. Optimised our safety stocks levels, to reduce the potential risk of global supply constraints. Improved manufacturing planning and scheduling to ensure stock availability ahead of demand, supporting our in-stock business model. |
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Risk appetite

Howdens is an in-stock business. Our customers expect this and rely on it. Because of this we have a very low appetite for supply chain risk and will put extra effort in identifying them early and putting in place appropriate mitigation to prevent stock issues at our depots.

Principal risks and uncertainties continued

2022 Principal risks continued

The arrows alongside each risk show the year on year change

3. Maximising growth R O P

Risk and impact

- If we don't innovate, recognise and exploit our growth opportunities in line with our business model and risk appetite, or if we don't align structures and skills to meet the challenges of growth, we won't get maximum benefit from our growth potential.

Mitigating factors

- The opportunities and challenges related to growth are a major area of focus throughout the business, at all levels.
- We continue to invest in our depot environment, people, services, and systems, and our manufacturing and distribution capabilities to equip them for growth.
- Growth activities are reviewed in the light of our risk appetite, values, business model and culture.
- Plans to continue with our expansion of our operations in France, and other territories.

Mitigation actions in 2022

- Converted a further 82 UK depots to the new depot environment.
- Opened a further 30 depots in the UK.
- Opened 20 additional depots in France.
- Opened 5 depots in Republic of Ireland.
- Further strengthening of our solid worksurface offering with the acquisition and integration of Sheridan Fabrications into the Howden Work Surfaces team.

Risk appetite

We see a significant potential for growth which brings with it both opportunities and challenges. We have a medium appetite for risk when it comes to growth, we are willing to accept some risk where we see a growth opportunity, carefully balancing the risk we are taking with the potential reward that the opportunity presents.

4. People R O

Risk and impact

- Our operations could be adversely affected if we were unable to attract, retain and develop our colleagues; or if we lost a key member of our team.

Mitigating factors

- We invested heavily in our employee value proposition, always striving to provide the best possible working environment and growth opportunities for all our colleagues.
- We support our colleagues with a wide variety of apprenticeships, accreditations and development programmes across all areas of our business.
- We use the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions and incentivised to continue their careers with us.
- We work continuously to ensure that appropriate continuity and succession plans are in place. We will continue to focus on leadership development and succession planning.
- Equality, diversity & inclusion (EDI) Programme in place with specific goals established.

Mitigation actions in 2022

- Wellbeing programme continued, with further training made available for all our people.
- Continued to increase our apprenticeship offerings.

Risk appetite

The success of our business is driven by our people and their unwavering customer focus. We have a low appetite for people risk and work hard in ensuring that they feel valued, rewarded appropriately, and have opportunities to develop and progress in their Howdens career.

Links to strategy

- R Reach more builders O Operational excellence P Product innovation F Prudent financial management

5. Health and safety R O

Risk and impact

- Howdens is about people and relationships. We have over 850 depots, 12,000 employees, hundreds of suppliers and hundreds of thousands of customers.
- If we do not ensure safe ways of working across the business, this could compromise the safety and wellbeing of individuals and the reputation and viability of the business.

Mitigating factors

- Since the beginning of our business, we have invested in safe ways of working. We have developed dedicated health and safety teams and formalised systems that help us stay safe.
- We monitor, review, and update our practices to take account of changes in our environment or operations and in line with best practice and changing legislation.
- Most importantly, we make sure we keep talking about health and safety at every level of the business, led by the Executive Committee.

Mitigation actions in 2022

- Transitioned to ISO45001 standards across all Trade Operations.
- Maintained COVID-19 safe practices in line with government advice.

Risk appetite

Care for the health & safety of employees, customers, suppliers and everyone who comes into contact with Howdens is integral to our values and to our behaviours. We put a great deal of effort into identifying and managing health & safety issues before they occur and have a very low appetite for Health & Safety risks.

6. Cyber security R O F

Risk and impact

- If we experienced a major security breach, this could result in a key system being unavailable causing operational difficulties, and/or sensitive data to be unavailable or compromised. This could also lead to breach of customer data.

Mitigating factors

- We place continuous focus on training our people in cyber security, as we recognise that these risks are dynamic, not always technical and awareness is our first point of control.
- We employ complex technical IT security controls to protect our information and our key systems. We regularly engage external specialists to validate the effectiveness of our controls against industry best practice.
- We have robust disaster recovery and business continuity plans, and we test them regularly.
- We adopt a continuous improvement approach to IT security and continue to invest in the security of our systems.

Mitigation actions in 2022

- We reviewed and tested our cyber security posture with engagement of third party expertise to provide insight, assurance and guidance.
- We improved our 24/7 monitoring with the introduction of additional robust controls.

Risk appetite

We depend on a core set of critical IT systems which are fundamental to the day to day running of the business. These systems are at risk from increasingly sophisticated security threats. We have a very low appetite for cyber security risk and manage IT security closely to secure the confidentiality, integrity and availability of these systems.

Principal risks and uncertainties continued

2022 Principal risks continued

The arrows alongside each risk show the year on year change

7. Business model & culture R O P ↓

Over 2022 the likelihood of this risk has reduced because of on-going focus of the management teams on our unique model and culture.

Risk and impact

- If we lose sight of our values, model, or culture we will not successfully service the needs of the local small builder and their customers, and our long-term profitability may suffer.

Mitigating factors

- Our values, business model and culture are at the centre of our activities and decision-making processes, and they are led by the actions of the Board, Executive Committee, and senior management.
- The Board and Executive Committee regularly visit our depots and factories, our logistics and support locations and hold events to reinforce the importance of our values, model, and culture.
- Regular 'Town Hall' meetings are held to bring together teams and discuss our successes and challenges ahead.
- Worthwhile foundation in place to further develop our charitable efforts.

Mitigation actions in 2022

- Continued our ESG programme enhancement, focusing on re-enforcing our core values and further embedding our equality, diversity and inclusion standards.
- Events to recognise and reward, for example our annual, 'Golden Rooster' employee awards event and our Apprentice Graduation Ceremony.

Risk appetite

Our future success depends on continuing to maintain our values, our unique business model, and our locally enabled, entrepreneurial culture. To secure this we have a very low appetite for risks that can adversely impact on our business model and culture and put great emphasis on identifying issues and addressing them early.

Links to strategy

- R Reach more builders O Operational excellence P Product innovation F Prudent financial management

8. Product O P ↔

Risk and impact

- Kitchen technology and design do not stand still, and our products must reflect that.
- If we do not support the builder with new products that their customers want, we could lose their loyalty and sales could diminish.

Mitigating factors

- Our dedicated product team regularly refresh our offerings to meet builders' and end-users' expectations for design, price, quality, availability and sustainability.
- We work with external design and brand specialists and attend product design fairs to monitor likely future trends.
- Our local depot staff have close relationships with their customers and end-users, and we actively gather feedback from them about changes in trends.
- We work with our suppliers, to develop new and improved products for the future, some of which are unique to Howdens. Several new products were introduced during the year across all product categories.

Mitigation actions in 2022

- 21 new kitchen ranges launched.
- Sheridan Fabrications solid worksurface offering acquired and integrated into Howden Worksurfaces.
- Restructured our Product and Marketing teams, providing greater insight and resilience.
- Continued to develop our website & marketing offering to builders and end-users to provide new tools to make their lives easier.

Risk appetite

Ensuring that we have product that meet the design, price and quality needs of the small builder and their customer is a key focus of the business model and is a critical element of our future success and growth aspirations. In meeting this we accept that a measured amount of risk must be taken when selecting new products and we have a medium appetite for product risk.

9. Business continuity & resilience R O F ↔

Risk and impact

- We have key business operations and locations in our infrastructure that are critical to business continuity. They include areas such as, our Credit Control Department, our Manufacturing & Logistics operations and key IT systems.

Mitigating factors

- We maintain and regularly review our understanding of what our critical operations are.
- We ensure resilience by design, building high levels of protection into key operations and spreading risk across multiple sites where possible.
- We ensure appropriate business continuity plans are in place for these and have a Group wide incident management team and procedures established.
- We regularly review our continuity plans covering our sourcing and logistics approaches to support peak trading.

Mitigation actions in 2022

- Closely monitored the UK and global geopolitical environments and the impacts to the continuity of our operations.

Risk appetite

Our key operations are essential for ensuring our customers can get the product and services they want when they need them. To secure this we maintain a very low appetite for Business Continuity risk, ensuring that critical functions are resilient and appropriate business continuity plans are in place to protect them.