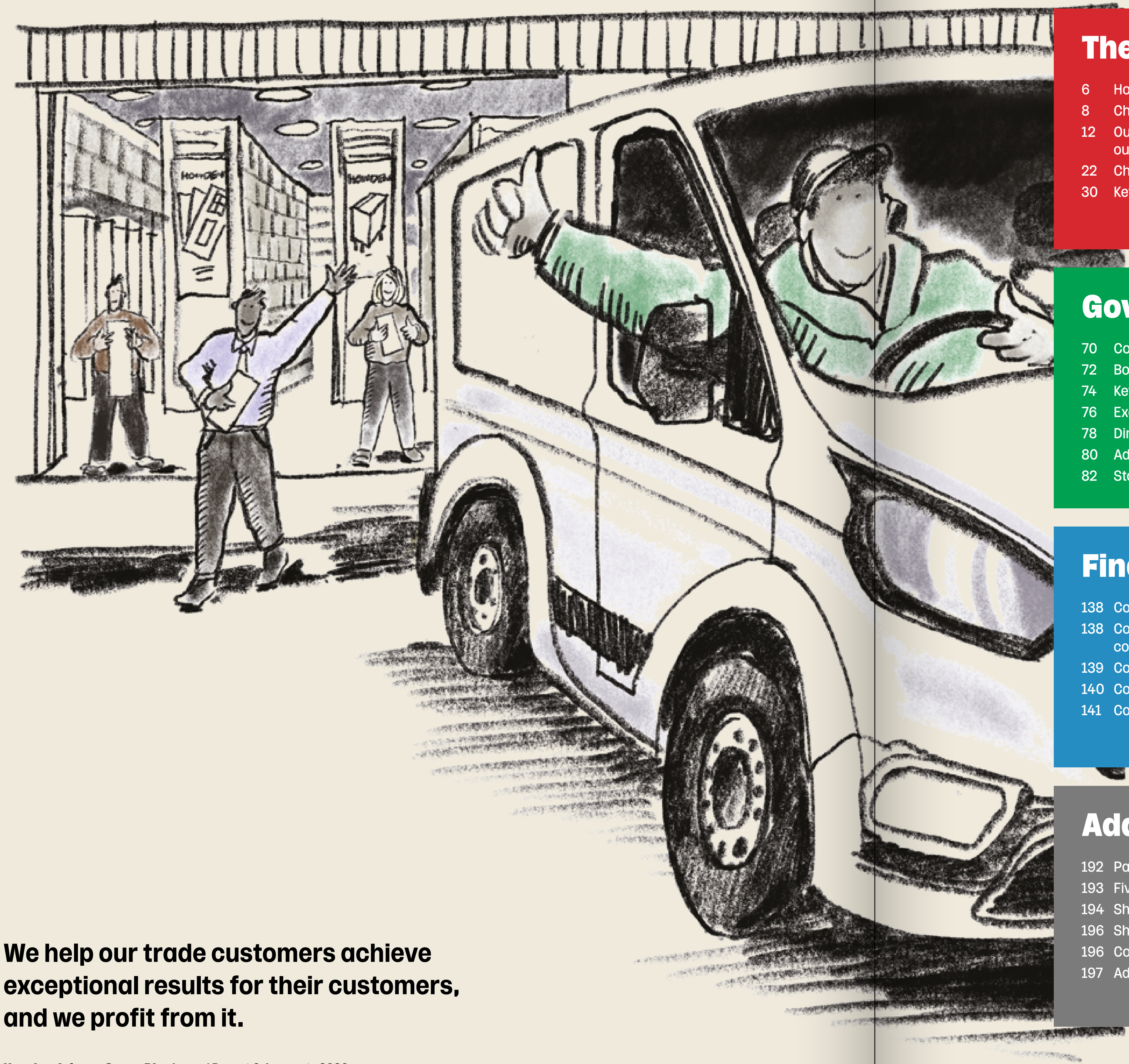
Annual Report and Accounts 2020

Howden Joinery Group Plc

HOWDENS

The UK's number 1 trade kitchen supplier

We make the builder's life simpler



We help our trade customers achieve exceptional results for their customers, and we profit from it.

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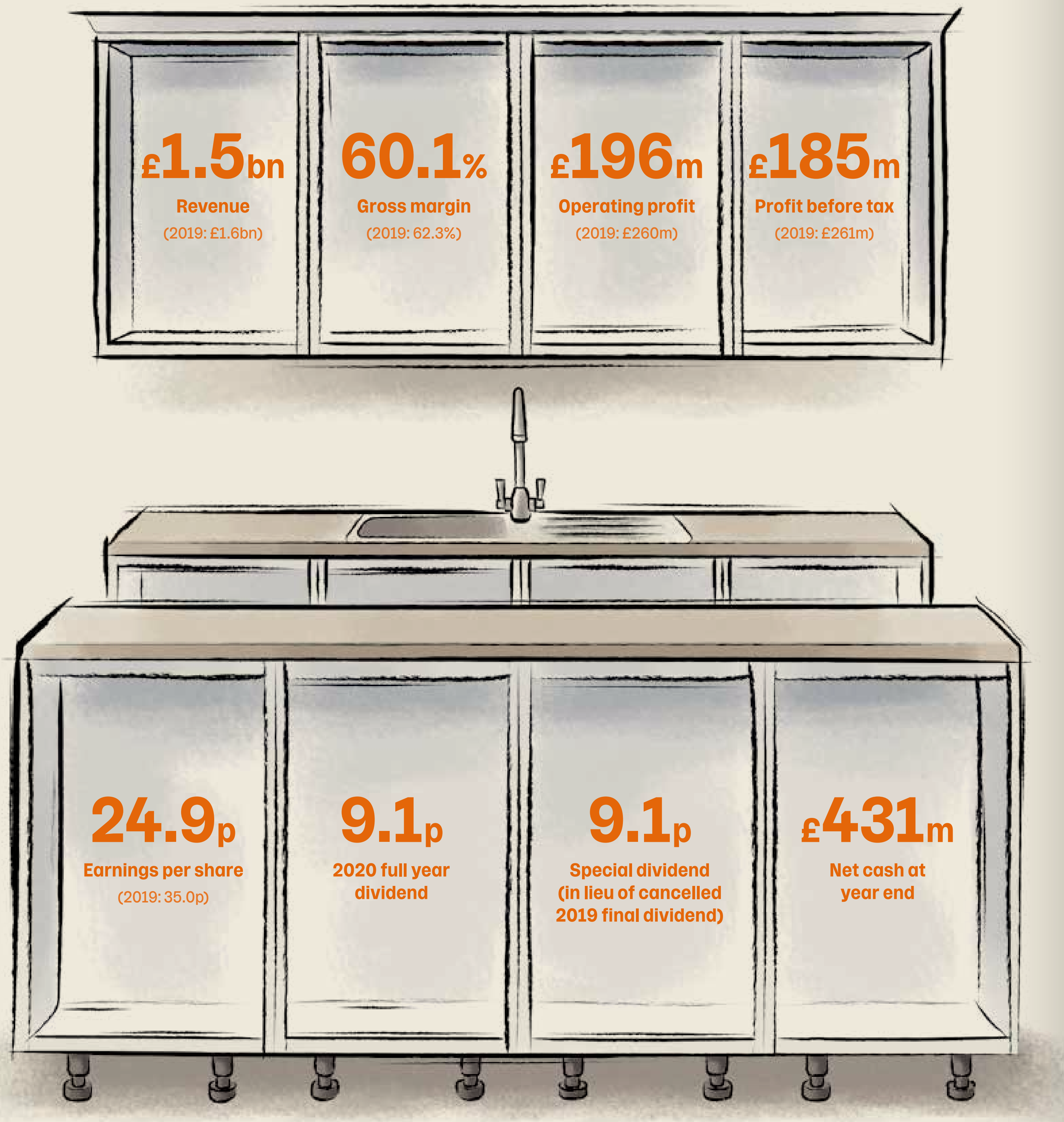
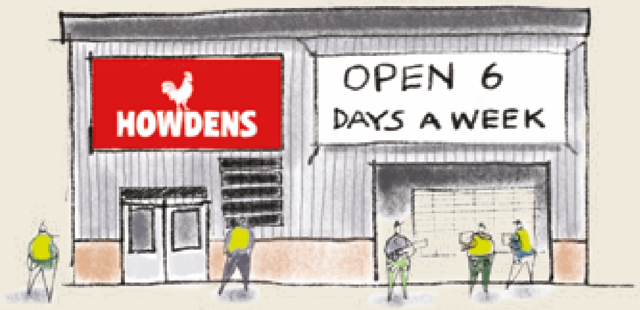
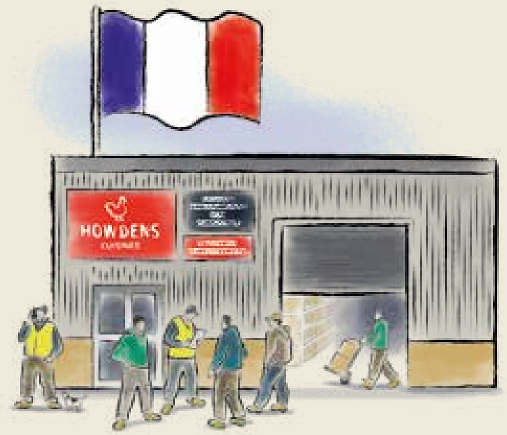
Performance in 2020



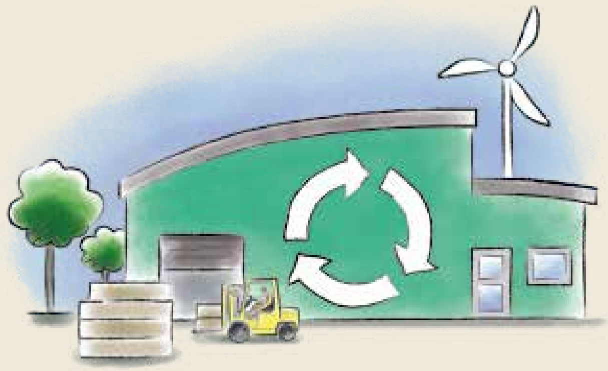


16 new UK depots



4 new depots in France

18 new kitchen ranges



Strategic review of ESG

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Making more product in our own factories

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Howdens has grown steadily to become the leading supplier of kitchens in the UK, by focusing closely on the needs of our builder customers and providing value to all concerned.

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Key performance indicators

We saw total UK sales of £1.5bn in 2020, 2.3% down on 2019. Profit before tax was £75m lower than 2019 at £185m. We put depot openings on hold in H1, but resumed them in H2 and opened 20 new depots.

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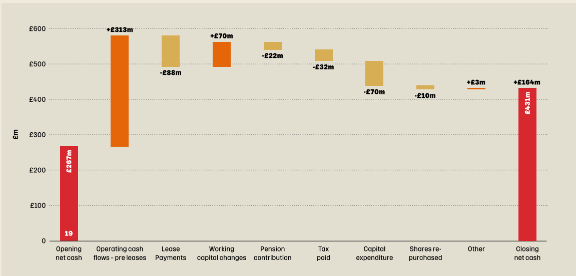

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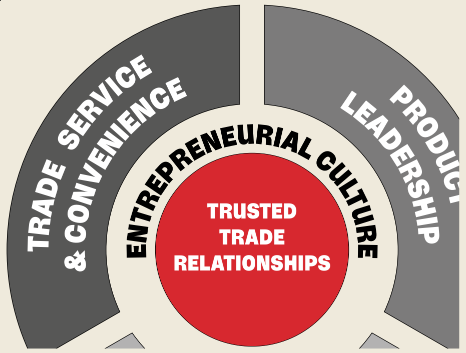
Chief Executive's statement

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



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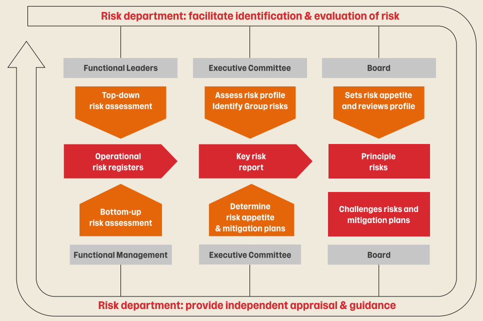
Principal risks and uncertainties

Our approach to risk and how we manage it.
Our principle risks and what we're doing to mitigate their potential effects.



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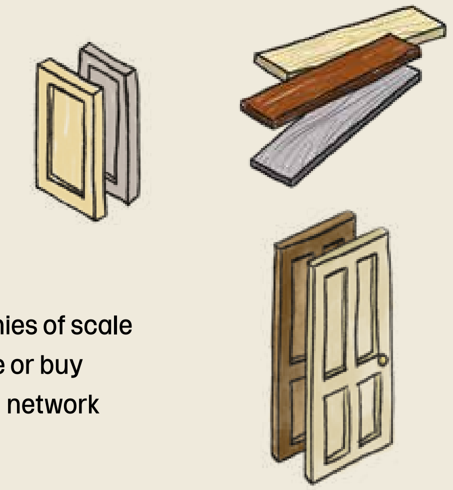
Howdens at a glance

The UK's largest kitchen supplier

We produce

Resources and relationships

- Trusted supplier relationships give us access to the latest products at the best prices
- Skilled and motivated workforce

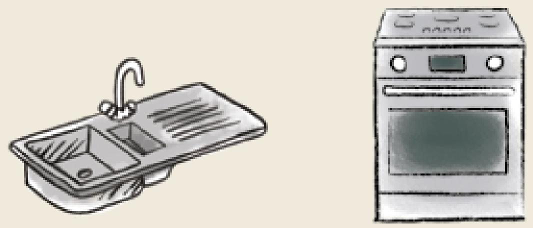


How do we create value?

- UK's largest kitchen supplier - economies of scale
- Our own factories - the choice to make or buy
- Our own warehousing and distribution network

Over 700 UK depots

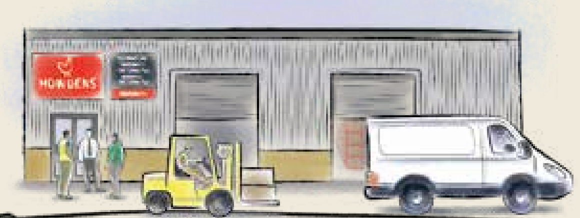
We source



Resources and relationships

- Decentralised business model
  Empowered local depot managers
- Trusted customer relationships
- Local depot network with a nationwide reach
- The right product. In stock

We deliver excellent service across our nationwide local depot network

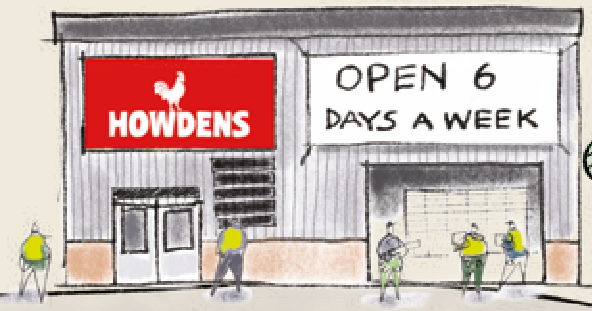


We distribute

We are worthwhile for all concerned

Outcomes

- Happy builders and end-users
- Sustainable profits and strong cash generation
- Returns to shareholders
- Investment in:
  - our employees
  - new depots
  - new product
  - new manufacturing and logistics
  - new jobs throughout our business
- Giving back to local communities



We support the builder

How do we create value?

- Trade-only, with excellent service
- Helping our trade customers to succeed in selling to their customers:
  - Trade accounts support the builder's cashflow
  - Design and planning services
  - Home visits for end-users
  - Marketing materials
  - The right product. In stock in local depots

To supply from local stock nationwide the small builder's ever-changing, routine integrated kitchen and joinery requirements, assuring best local price, no-call-back quality and confidential trade terms... and to provide the builder's customer with enough choice, advice and aftersales to make a home to be proud of.

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Chairman's statement

Richard Pennycook **Chairman**

Since its foundation in 1995, Howdens has grown steadily to become the leading supplier of kitchens in the UK, by focusing closely on the needs of our builder customers and providing value to all concerned.

COVID-19

2020 will unfortunately be remembered for the impact that COVID-19 had on all aspects of our lives. At Howdens, our priority continued to be the health and wellbeing of our employees, customers and the communities that we operate in. We closed our factories and depots on 23 March 2020 when the UK went into lockdown and acted quickly to preserve cash, including withdrawing our recommendation to pay a 2019 final dividend and postponing all non-essential capital expenditure, only gradually re-opening our business when we could operate in a safe, socially-distanced way.

I am immensely proud of the way that your Company reacted to the pandemic, from the initial provision during lockdown of emergency products to the NHS, care workers and vulnerable people and the way the teams quickly introduced new processes and procedures in manufacturing and depots to ensure a safe return to operation. We also worked continuously with suppliers around the world, ensuring we had products available in stock ready for when trading recommenced. This hard work made a significant contribution to our performance in the second half.

Continued growth

Following the decline in sales of 28.7% in the first half of 2020, we saw a strong recovery in the second half with sales up 16.2% as businesses were encouraged to return to work. Overall, 2020 sales were down 2.3% compared with 2019, with gross margin lower at 60.1% (2019: 62.3%), reflecting product mix, pricing and the impact from needing to close operations during lockdown. The first half loss before tax of £14.2m, benefited from £22m of Government furlough payments and £8m of business rates relief which were subsequently repaid in the second half, once the Board had determined that the Group did not require financial support from Government.

We were one of a number of companies who felt a societal obligation to repay the furlough moneys received from Government once we had had a chance to evaluate the impact of the crisis on our financial resources. More particularly, we were the first to also repay the business rates relief which had been provided by Government. We felt strongly that this was the right thing to do and have been delighted to note that many others have now followed suit, returning over £2bn to the Treasury which is much needed elsewhere.

Profit before tax was £185.3m, compared with £260.7m in 2019. This was pleasing, considering the impact COVID-19 had on our ability to trade and on our operations.

The excellent response to the logistical/supply-chain issues brought by the COVID-19 pandemic was testament to the Brexit planning that your management team put in place in recent years.

Our business model allows us to be agile in an uncertain and changing market environment. Considering the circumstances, we performed well against our financial and non-financial key performance indicators ('KPIs'), as shown on pages 30 to 32. Andrew Livingston discusses our performance in more detail in his review of the year on pages 22 to 29 and Paul Hayes in his financial review on pages 33 to 37. We talk about our Purpose and our Culture and values on pages 14 and 15.

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Investment programme

In order to continue providing high levels of service to local builders and innovative products to our end-consumers, we believe that we must steadily invest in the business - both in our manufacturing and supply chain capability and in our national footprint. The Board believes that there are considerable opportunities for further growth, and that in order to fulfil that potential we must continue to invest in both capacity and capability through the economic cycle.

Howdens has undertaken a major capital expenditure programme in the past six years, investing more than £330m in the business.

Although our 2020 plans were interrupted by COVID-19, we opened 16 new depots, refurbished 30 older depots and continued to invest in our Raunds distribution facilities, in Northamptonshire. We continued to improve our digital services, both to our trade customers and to the end consumer. As a result, our new website is achieving more direct hits, increasing brand awareness and enabling end consumers to have a better dialogue with their builders and our designers.

We anticipate that capital expenditure for 2021 will be approximately £80m as we continue to open new depots, refurbish some of the older ones and invest in our manufacturing capability.

Returns to shareholders

Earnings for the year were 24.9p per ordinary share, a reduction of 28.9% on the prior year (2019: 35.0p).

As previously stated, the Board responded quickly to COVID-19 by withdrawing its recommendation for the 2019 final dividend of 9.1p per share and suspending other shareholder returns. As a consequence, no interim dividend was paid in 2020 and only £9.8m of shares were purchased as part of the outstanding £50m 2019 share repurchase programme.

Following the strong performance in the second half of 2020 and in line with our stated dividend policy, which is set out in detail in the Financial Review on page 36, the Board has decided to resume dividend payments. This includes, paying a special dividend of 9.1p in lieu of the 2019 final dividend that was cancelled during the peak period of COVID-19 uncertainty and recommending a final dividend for 2020 of 9.1p. The Group expects to announce an interim dividend for 2021 with its half year results in July.

Board

Paul Hayes joined Howdens as CFO designate in November and was appointed to the Board as Chief Financial Officer and an Executive Director at the end of the year. Paul is a seasoned listed company finance executive with complementary experience in consumer and manufacturing businesses. I am pleased to welcome Paul to the Board looking forward to working with him and Andrew through the next phase of Howdens' development.

Further reading

See my introduction to our Governance Report	**Page 70**
See our Sustainability Report	**Page 48**
See our Board of Directors	**Page 72**

Chairman's statement continued

The Board believes there are many opportunities ahead, and the strength of the Company will allow us to look through the economic cycle and to deliver relative outperformance in any downturn.

Paul replaced Mark Robson who stood down from the Board at the end of the year. Mark joined the Board as Chief Finance Officer in April 2005 and, in addition to this role, was appointed Deputy CEO in May 2014. In his early years, Mark was integral in the restructuring and refinancing of the Group, strengthening its balance sheet whilst ensuring that there was sufficient capital for the Howdens business to grow into the strong, sizeable and successful business it is today. His careful, thoughtful and prudent management of the Company's finances has been a key element of our ability to weather the storm of the COVID-19 pandemic. We are grateful to Mark for his service and contribution to Howdens.

The Board's response to COVID-19 is set out in more detail in the Corporate governance report, starting on page 70. Due to the unprecedented events of 2020 the Board were required to meet more regularly both on a formal and informal basis. It also significantly impacted the Board's agenda and focus. I'm pleased with the Board's response to the challenges which have arisen, and continue to arise, from the pandemic. Its impact can be felt in every section of this annual report and accounts.

Governance

Howdens has a clear governance framework and we operate with integrity in all we do. It is vital to maintain the trust of investors, customers, our colleagues and other stakeholders in an environment where expectations, as well as regulations, continue to grow. Our corporate governance framework and a summary of the work of the Board during 2020 can be found in our Corporate governance report.

We are pleased to report that the Company applied all the Principles of the UK Corporate Governance Code (the 'Code') throughout the period and we have reported how we have done so in summary starting on page 88. We are also pleased to report that we were compliant with all Code Provisions except for Provision 38. Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our Remuneration Policy ('Policy') was approved by shareholders in 2019 and stipulates that Executive Director new joiners' pension contribution rates must match that available to the wider workforce. A flight path for reducing our incumbent CEO's pension contributions is set out in more detail on page 106 of the Remuneration Committee Report.

Board meetings in 2020 inevitably focused on the impact of the COVID-19 crisis and a majority of meetings were held by video conference. Throughout the crisis, the Board ensured three areas of consideration were covered at each meeting: the health and safety of our colleagues and customers, cash retention and generation, and recovery planning. However, the Board was careful not to lose sight of other crucial areas such as ESG and corporate governance. Our Corporate governance report sets out in more detail how the Board responded to the COVID-19 crisis throughout the year (pages 80 and 81).

Sustainability

Our Sustainability report, which begins on page 48, talks to our aim of being a good corporate citizen and living our ethos of being worthwhile for all concerned. Howdens is a growing business and sustainable behaviour will help us continue to grow in a way that preserves our culture, supports our business model, mitigates our risks and addresses the needs of our stakeholders.

During 2020, the Group carried out a wide-ranging strategic review of its ESG priorities, identifying four main commitments, including zero waste to landfill and carbon neutral manufacturing, which each have Executive Committee member ownership. The review also identified a range of other additional focus areas and research projects as well as selecting and aligning our targets to the UN Sustainable Development Goals (UN SDGs).

Fundamentally, each of our depots represents a place in a local community and our people are encouraged to participate in community life. In 2020, the Group donated around £1.2m to good causes.

Market environment and risks

Howdens has a strong track record of dealing with change and facing the challenges of the evolving marketplace. The Board is mindful of the challenges that lie ahead and we continue to evaluate the potential and emerging risks that could impact the Group. We address these matters in more detail on pages 38 to 47. As in previous years, we monitor our market situation closely, in order to ensure timely responses to changing conditions.

Looking ahead

The Board believes there are many opportunities ahead, and the strength of the Company will allow us to look through the economic cycle and to deliver relative outperformance in any downturn.

These opportunities to grow our business represent a further step change in our ambition. The implementation of new generation depot designs, the ability to rollout smaller depots, as well as the potential for international growth, will, I expect, provide Howdens with strong opportunities to create value in the coming years.

We expect to open around 35 new depots in the UK and around eleven new depots in France, during 2021 as well as investing in our manufacturing capability and digital offering.

At the same time as we see good opportunities for expansion and creating value, I note that there is continuing uncertainty surrounding the UK consumer and the economic outlook. We remain confident in the Group's potential and believe that the business has the financial capability, the culture and the skills to enable us to plan for the future from a position of strength. Above all else, Howdens is a people business and it gives me great pleasure on behalf of the Board to thank our colleagues for delivering another fine performance in 2020.

Richard Pennycook
Chairman
24 February 2021

Our purpose-driven approach

Our purpose

To help our trade customers achieve exceptional results for their customers and to profit from doing so. When our customers succeed, we succeed and our stakeholders succeed.

See page 14

Our purpose drives our business model and shapes our strategic decisions

Culture & values

Worthwhile for all concerned.

See page 15

Culture is aligned with purpose, values and strategy

Sustainability

The importance of sustainable behaviour is recognised right through the business.

See page 48

Sustainable behaviour preserves our culture, maintains focus on our business model, mitigates our risks and addresses the needs of our stakeholders

Governance

A clear governance framework. Operating with integrity.

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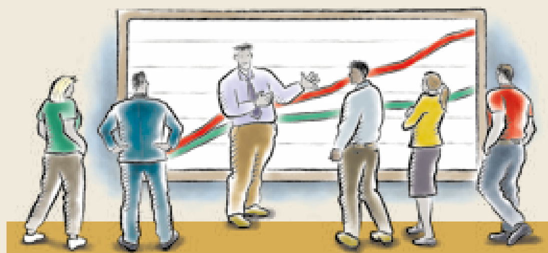
Our governance framework guides all decisions and outcomes

Business model

Trade only. In stock from local depots. Entrepreneurial depots supported by UK Manufacturing and efficient sourcing and distribution.

See page 18



Strategy

Reach more builders. Offer them the best product, pricing, service and support. Generate profits for reinvestment and shareholder returns.

See page 20

We respond to external opportunities and mitigate threats

Markets

See page 16

Risks

See page 38

Our business model and strategy generate value for a range of stakeholders

Long-term value for our stakeholders

Long-term, sustainable growth and value for all stakeholders. Ensuring that our business positively impacts the world around us and the people within it.

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Our purpose

To help our trade customers achieve exceptional results for their customers and to profit from doing so.

When our customers succeed, we succeed.

Howdens' focus on serving our trade customers underpins everything we do. We believe the best way to source and install a kitchen is to work with your local tradesperson, and we are clear that the purpose and future success of our business lies in serving the trade market to the highest standards.

Our relationship with our trade customers has three key facets, each supported by our entrepreneurial culture.

Trade service and convenience

Depots located where our customers need them; monthly account facilities; product in stock to get the job done including appliances, joinery, flooring and hardware. A design service to help customers choose and plan kitchens.

Product leadership

Product design and testing facilities ensure that we offer the right product styles that are attractive to consumers; designed to be trade quality and easy to fit with the builders in mind ('fit and forget quality').

Trade value

Best local trade prices enabled by in-house manufacturing, long-term key supplier agreements and a low-cost depot operating model.

Our culture & values

Howdens was founded on the principle that the business should be worthwhile for all concerned - customers, prospective customers, homeowners, tenants, local communities, our suppliers, our investors, our staff and their families.

This founding principle has shaped our business model and our strategic decisions for more than 20 years, and it continues to be at the heart of what we do.

Worthwhile for our trade customers

- Profitability, convenience, service, support
- Great product range for them to offer to their customers
- Outstanding service
- Trusted personal relationships - we do what we say
- Trade accounts and confidential discounts
- Design, planning and marketing support

Worthwhile for our staff

- A good living wage, plus local profit-sharing and incentives
- Excellent rewards and recognition for outstanding performance
- An entrepreneurial culture, with central support
- A growing company with opportunities to develop and progress

Worthwhile for our suppliers

- Strong and enduring relationships based on trust
- Working together to develop new products and deliver best service
- Scale - good opportunities for them to build a profitable business

Worthwhile for our other stakeholders

- Delivering consistent long-term value for shareholders
- A growing dividend
- Surplus cash returned in share buybacks
- Important local employer and good neighbour in over 750 communities
- Giving back to local and national charities
- Responsible purchasing and environmental policies

Our market

UK market

- 29 million UK homes, 18 million owned and 11 million rented.
- Market continues to shift from DIY to 'Do It For Me'.
- Strong level of investment in new house build.
- Stamp duty holiday has given short-term stimulus.
- Consumer spend switching into home improvement given current conditions.

Kitchens for everyone

- UK market leader, selling 1 in every 3 kitchens.
- Selling primarily to small builders who supply into a broad range of markets including social housing, private rentals and owner occupied homes.
- Contracts division supports the increasing demands of the new build market.
- One stop shop for each customer type.
- Over 4 million cabinets, 2 million doors, 1 million appliances, 2.5 million m² flooring.

Trusted by the trade

- Increasing customer expectations result in professionals being needed more and more.
- Our service to the builder is built on strong local relationships supported by our in stock model, depot manager autonomy and trade quality products.
- We support the trade with end consumer services - in-home survey, free planning and design service, in depot presentations and expert advice.
- All our products are tested to UK and Global standards and our accessories and appliances are tested to ensure they are easy to fit for our builder customer.
- One stop shop for all joinery and kitchen related products.

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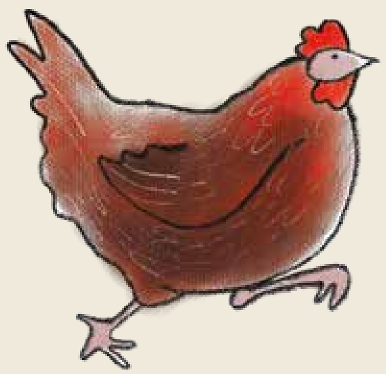
Kitchen is the heart of the home

- Kitchens play a big part in the home and must be functional and social places.
- Kitchens need to be functional in small spaces.
- Kitchens need to be design-driven as they are constantly on show in open plan spaces.
- Our ranges cater for traditional, modern and niche looks whilst our appliances, storage options and kitchen accessories ensure the level of functionality demanded by today's consumer.
- Technology advances mean more focus on sustainability, eco-focus and time saving features.

French market

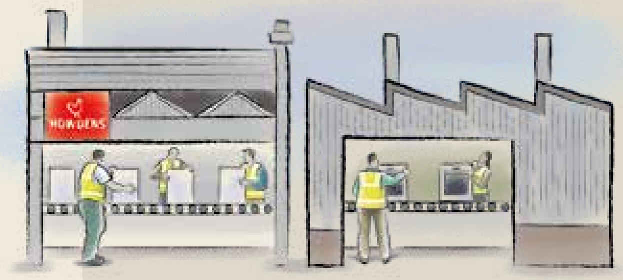
- 29 million homes in France: 60% owned, 40% rented.
- Consumer spend switching into home improvement, as in the UK.
- Market starting to shift from DIY to 'Do It For Me' - just as it was in the UK when Howdens first started.
- Customers want everything quickly, and we're the only one who offers our range of quality and product from stock.



Our business model

The UK's leading kitchen supplier, selling only through trade customers.

What we do

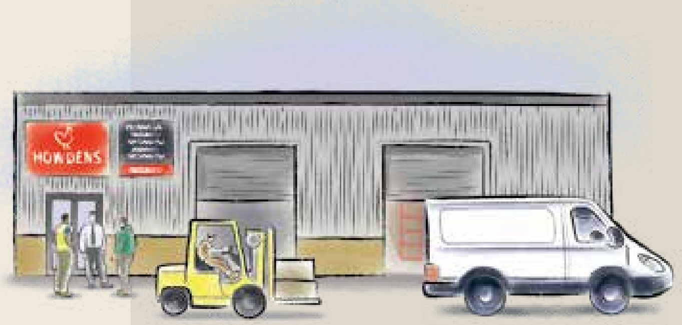


Product manufacturing and sourcing

- Our manufacturing and sourcing experts ensure that we offer attractive products that are trade quality and easy to fit.
- We make what it makes sense for us to make in our two UK factories and we buy other product in from our suppliers.
- We design and manufacture all our own cabinets, over 4 million per year, as well as some cabinet frontals, worktops and skirting boards. We're agile and we keep the make vs buy decision under review.
- We buy in thousands of different products from hundreds of trusted suppliers based around the world, including appliances, joinery, flooring and hardware. We offer everything necessary for a new kitchen.

Distribution

- Our in-house distribution operation delivers from our factories and central warehouses to our network of more than 750 depots.
- No two deliveries are alike, and each one must be correct, complete and on time. We can guarantee this because we control our own distribution.



Depots designed for our trade customers

- Our business depends on entrepreneurial depot managers and the relationships between highly motivated and incentivised depot teams and their local builders.
- A typical Howdens depot is in an edge-of-town location - more convenient for our trade customers, and cheaper to rent. Around 85% of our UK customers live within 5 miles of a Howdens depot.
- Our in-stock model means that builders can get the products they need at short notice, even when plans change part way through a job.
- We offer the builder quality products, excellent levels of service and trade accounts that allow them up to eight weeks to pay. We focus on helping our customers succeed. When they make money, we make money.

Consumers/Homemakers

- Our 1,600 specialist kitchen designers support the builder by visiting the end-user's home, or work with them remotely using our new virtual design service, and help them choose, plan and design their dream kitchens.

The value we create

Customers

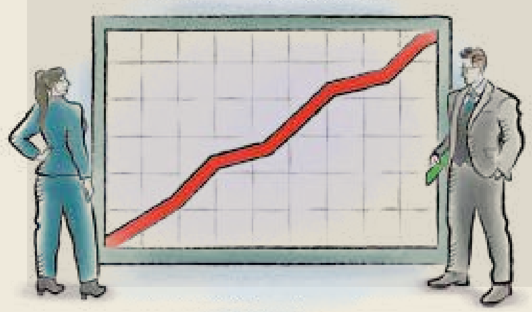
- Save time and money with Howdens. Trade quality, full product range for the complete kitchen, available from stock at competitive, confidential prices.
- Trusted personal relationships providing outstanding service, from kitchen design to delivery and aftersales support.
- Trade accounts allow the builder to finish their project and receive payment from their consumer before they need to pay us. We offer online account management and ordering to help the busy builder.

Staff

- A growing company with opportunity for training, development and career progression.
- A safe working environment, good salary, pension and benefits, with local profit-sharing and incentives.

Suppliers

- Strong and enduring relationships based on trust.
- Co-operative engagement on new products and the scale necessary to support suppliers' businesses and investment plans.



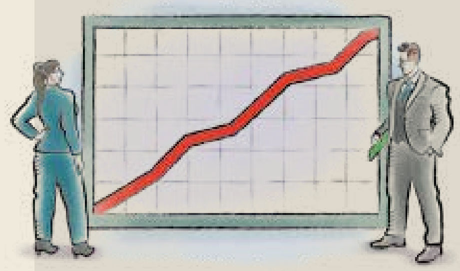
Investors

- Long-term value creation, generating cash for further investment in the business and to support a growing dividend.
- Surplus cash returned to shareholders through share buybacks.

Communities and environment

- Employment opportunities and good neighbour in over 750 communities.
- Supporting local and national charities.
- Responsible ESG practices and policies.
- See our Sustainability report (page 48).

Our strategy

Strategic objective	What does it mean? Why is it important?	What did we deliver? What are our future targets?	What risks does it mitigate?
Reach more builders. Grow market share. Increase trade convenience. 	• Continue to open more UK depots, closer to the builder. • Adding a new depot near to an existing one sees overall sales increase. We continue to see scope for 850 depots in the UK. • Open more depots in France, at the right pace and in the right places. • Use digital to drive personal relationships and save the builder time. Anytime Ordering and online account management means that conversations in the depot can focus on sales and profit. • Time is money for the builder. Trade convenience helps them to make more money, which means that we make more money.	• 16 new UK depots in 2020, with 35 new depots targeted for 2021. • 4 new depots in France in 2020, with 11 more targeted for 2021. • Website visits grew, and drove an increase in sales leads and brochure requests. • Online account management tool frees up builder time for more profitable conversations. • 2021 rollout of our digital Anytime Ordering service, offering further efficiencies for both builders and depots.	• Failure to maximise growth.
Operational excellence. Increase customer service, efficiency, trade value and profitability. 	• Invest in the safety and success of our people. Careers with prospects and excellent rewards for outstanding customer service. • Invest in our depots. New format depots reduce picking times and increase efficiency. • Invest in efficient manufacturing and distribution. High quality at low cost with reduced lead times and increased supply chain resilience. • Use digital to improve business processes, freeing up more time to serve the builder directly.	• Health & safety KPI: serious accident rate significantly lower than UK average. • ISO45001 in our factories and logistics network. Risk Management Initiative of the Year in our depot network. • 30 depots converted to our new format. Continued to increase the amount of product we make in our own factories in 2020. • Further 2021 investment in manufacturing will reduce costs, cut lead times and increase supply chain resilience.	• Health & safety. • Loss of key personnel. • Deterioration of business model and culture. • Cyber-security incident. • Credit control failure.
Product innovation. The right amount of the best product, at the best price. 	• Product leadership - constant investment in new product is critical in our offer to builders. End users demand it. • Good range management balances the benefits of having new product with the costs of managing it through its lifecycle. • Increase the amount of product we make in our own UK factories when it gives us a competitive advantage and security of supply. Make what it makes sense to make and keep this decision under review.	• 18 new kitchen ranges in 2020. • New handleless cabinet platform offers a stylish Linear look at affordable prices. • 16 new ranges planned for 2021, with other products and accessories to meet customers' needs for a more bespoke look. • Disciplined range management. • Acquired the assets to make our own solid surface worktops.	• Product design relevance. • Interruption to continuity of supply.
Prudent financial management. Giving us the tools to do the job. 	• Cost control and agility to manage through macroeconomic crises. • Manage cash through the operating cycle to cover changes in working capital without having to borrow. • Generate cash to invest in our strategic priorities. • Return surplus cash to shareholders.	• Strong financial management through the onset of COVID. • Cost control and conservation of cash. No need to borrow at any time during 2020, all Government COVID aid repaid before end of 2020. • Ending 2020 with a strong balance sheet, enabling us to announce both investment for growth and return of cash to shareholders in 2021.	• Changes in market conditions.

Howden Joinery Group Plc Annual Report & Accounts 2020

HOWDENS

Chief Executive's statement

Andrew Livingston Chief Executive Officer

Howdens has performed well in a challenging year that has been significantly impacted by COVID-19. We have adapted to COVID trading conditions whilst investing and progressing our strategic plans.

Perspectives on 2020 results

The result for the year reflects the spring lockdown period, followed by a year on year increase in 2nd half sales and profit. Sales for the full year were down 2% at £1,548m with profit before tax of £185m, £75m lower than 2019.

Howdens has performed well in a challenging year that has been significantly impacted by COVID-19. We adapted to COVID trading conditions while investing in the business and progressing our strategic plans.

Our performance shows the strength of our trade-only business model and how we've continued to evolve while prioritising the health and wellbeing of our staff and customers.

- First half UK sales were 29% lower than 2019, with all of the shortfall happening in the second quarter, coinciding with the start of the UK spring lockdown.
- UK second half sales increased by 16% on 2019, with the increase trending upwards across the half, exceeding our expectations in latter periods.

I believe this performance reflects the measures we put in place to enable safe working across the business and to support our customers with new services, lower prices, high stock availability and a safe place to trade.

With people by necessity spending more time at home and with concerns about further lockdowns we also believe people were choosing to spend more on their homes.

We extended our traditional 'P11' sale period across Periods 10 & 11.

- We saw signs of pent-up demand. We heard reports of extended delivery times amongst our competitors and there were end-user concerns about further lockdowns, so we extended our sale period to help builders to book in more kitchen fits over a longer time.
- Period 10 & 11 sales were above our original target, with Period 11 alone still returning a record result compared to previous years.
- It also benefitted supply chain management and the ability of depots to service demand.

Importance of our Culture and Business Model in 2020

The strength of our culture and business model - the unique way we serve our customers and go about our work- are at the heart of Howdens' success. I am pleased with how the business responded, and continues to respond, to the challenges of COVID-19.

First, we took care of staff and customer wellbeing.

- Safety-first, consensual approach when returning to work. Following government guidance, listening to our Health & Safety Team Leaders, our staff and our customers.
- Specific online employee resource for COVID-19 issues.
- Financial support for staff on furlough.

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We deferred or reduced cash expenditure where possible, whilst protecting essential areas.

- Made sure depots stayed in stock, and continued with the works at our new warehouse.
- Initially deferred new depot openings, refurbishments and refits, but restarted them later in the year.

We supported our customers and local communities.

- Re-opened depots and factories safely, with new working practices, as soon as we could.
- Increased stock levels to supply customers' immediate needs. This also meant we supported our supply partners.
- Lowered some prices, giving depot teams more flexibility on margin and incentivising them to maximise sales.
- Launched new services including 'call and collect' and an online kitchen design service.

Learnings in 2020

We applied learnings from trading under COVID conditions to the ways we do business and how we operate.

- Lockdown increased online shopping. Our new online services are pathfinders for future upgrades.
- Operating under COVID helps us see if there are surplus costs and inefficiencies in the business, and how we can use IT to free up time and increase productivity.
- We now know how to deal with varying degrees of lockdown and social distancing across all our operations. We have seen that these may be put in place at short notice and may have different rules in different areas.

Responsible stakeholder relations

COVID-19 had a significant impact on all our lives and our priority remains the health, safety and wellbeing of our employees and customers, while acting fairly and responsibly in all our other stakeholder relationships.

- During the spring lockdown we kept up an emergency provision to support the NHS, care providers and vulnerable people. We have continued to support local and national charities throughout the year.
- We continued to pay our landlords in full. We honoured, and in some cases increased, our orders from suppliers, and they supported us with high stock availability.
- Thanks to our strong balance sheet and our trading performance, we repaid all our 2020 furlough funding before the year end and settled a number of other payments that we initially deferred, including taxes, pension deficit contributions and business rates waived by local councils.
- We have subsequently been able to recommend paying a dividend to shareholders in respect of 2020 and also a special dividend in recompense for the cancelled 2019 dividend.

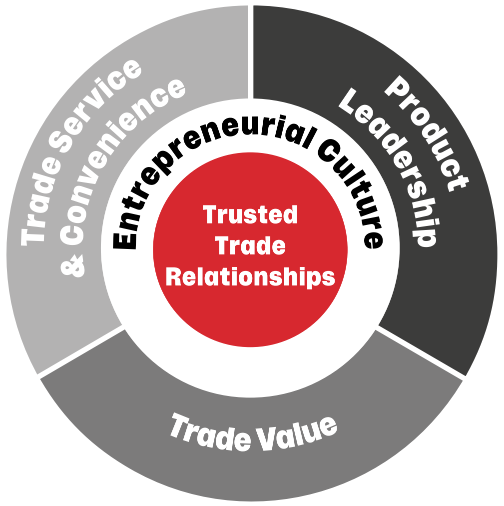
Chief Executive's statement continued

Based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership, we have initiatives in place to exploit opportunities in a challenging market.

Update on strategic initiatives

The market remains challenging and may be further impacted by COVID-19, Brexit and underlying consumer confidence. We believe we are well positioned with our in-stock, local model, providing we reinforce the differentiation of our offer profitably.

Based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership, we have initiatives in place to do this.



Our 4 strategic initiatives are:

1) Evolving our depot model to use space more efficiently and to provide the best depot environment for our staff and customers.
2) Improving range and supply management to help customers' buying decisions, to access supply chain benefits and to make productivity gains.
3) Using digital to raise brand awareness, to support the business model with new services and to free up time for depot staff and customers to use more productively.
4) Developing our international operations, based in France, using a city-based approach.

1) Depot evolution

We are opening depots in an updated format to provide the best environment to do business in, with no material change to fit-out costs.

This year we opened fewer depots than planned.

- In the 1st half we put our opening programme on hold.
- In the 2nd half, we opened 16 new depots.

We are targeting around 35 UK depot openings in 2021, including some more in Northern Ireland.

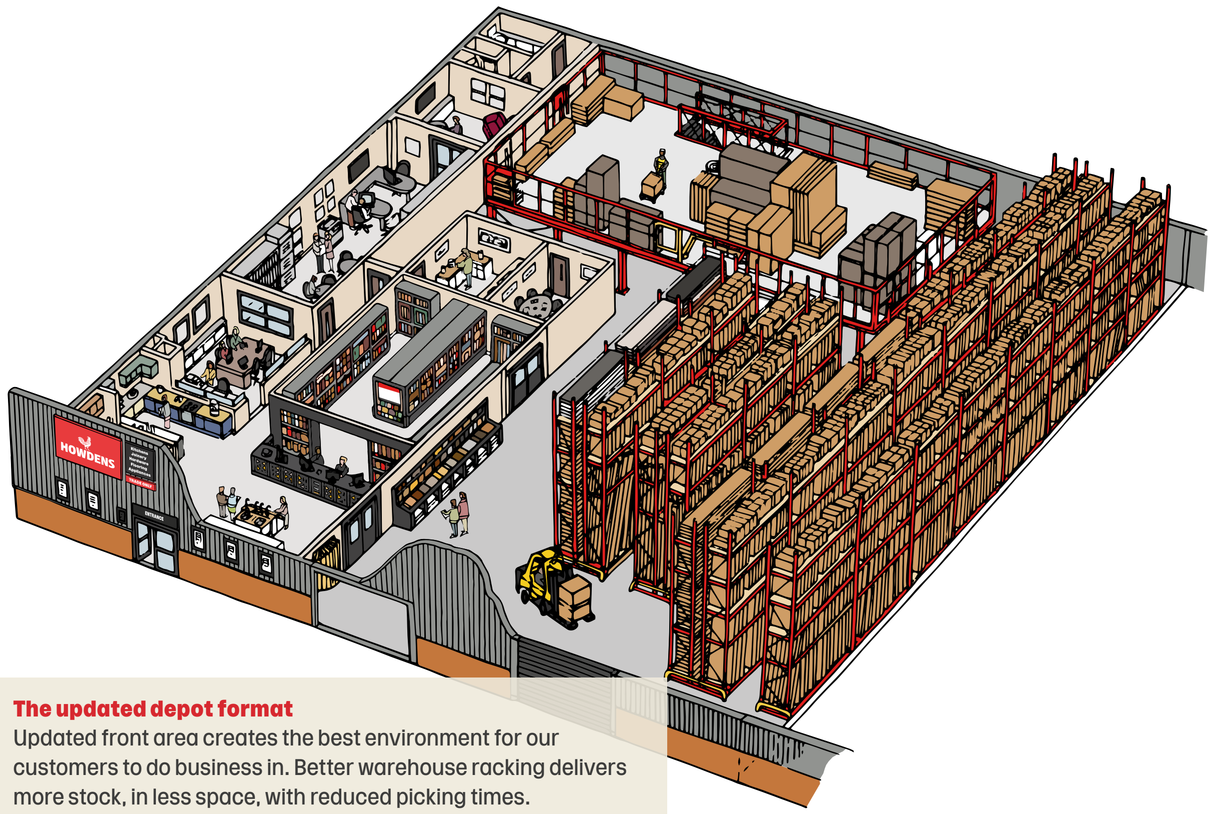
We also re-formatted some more of our older depots. We continue to learn how best to apply this opportunity to our existing depots.

In 2020 we converted 30 depots to the updated format, in line with our budgeted average cost of £225,000.

In 2021 we plan to reformat a further 40 depots. We are budgeting an average cost similar to the 2020 level, and we continue to refine the scope of refurbishments.

We also re-racked the warehouse areas of 17 existing depots without other modifications in 2020 and we plan to re-rack a further 20 in 2021.

By the end of 2020, we had 117 UK Depots in the updated format, and we had re-racked the warehouses of a further 79 depots. By the end of 2021 we are planning to have 192 UK depots in the updated format, as well as a further 99 that have been re-racked.



The updated depot format
Updated front area creates the best environment for our customers to do business in. Better warehouse racking delivers more stock, in less space, with reduced picking times.

2) Range and supply management

Range management

New kitchen ranges represent a significant portion of sales each year, as product lifecycles shorten and our customers want new product from us.

Our 2020 new product featured 18 new kitchens in two new styles plus more colour options.

We began using our new handleless cabinet platform to meet demand for a Linear look at more affordable price points.

Because we launched our new kitchen ranges earlier than last year, we were well-positioned with product as we returned to all-depot trading. New product sales were ahead of 2019.

2021 new product features 16 new kitchen ranges, new lines and products to promote sales of complete kitchens, and to enable customers to accessorise kitchens for a more bespoke look.

For 2021 we are introducing a new more traditional style timber shaker range that will strengthen our £4,000-plus offering.

We are adding more choice, with new colourways in some of our most popular ranges, together with a number of added value accessories so that customers can create a more personalised look.

All our new kitchen ranges for 2021 will be in-stock by the start of the 2nd Quarter, well ahead of our peak sales period and 4 weeks earlier than in 2020.

Disciplined range management is crucial to both best availability and profitability.

At the end of 2019, we had 67 current kitchen ranges and we ended 2020 with 63, having cleared more ranges than we added during the year.

We believe around 65 current ranges is the right number for our market at present and will be managing range introductions and clearances accordingly.

Chief Executive's statement continued

Improving stock management, protecting our in-stock offer, investing in making more of the product we sell and in our digital offering.

Improving stock management - XDCs

We are making an improvement to stock replenishment by supplementing the depot's core weekly delivery with a next day service from a regional cross-docking centre (or 'XDC').

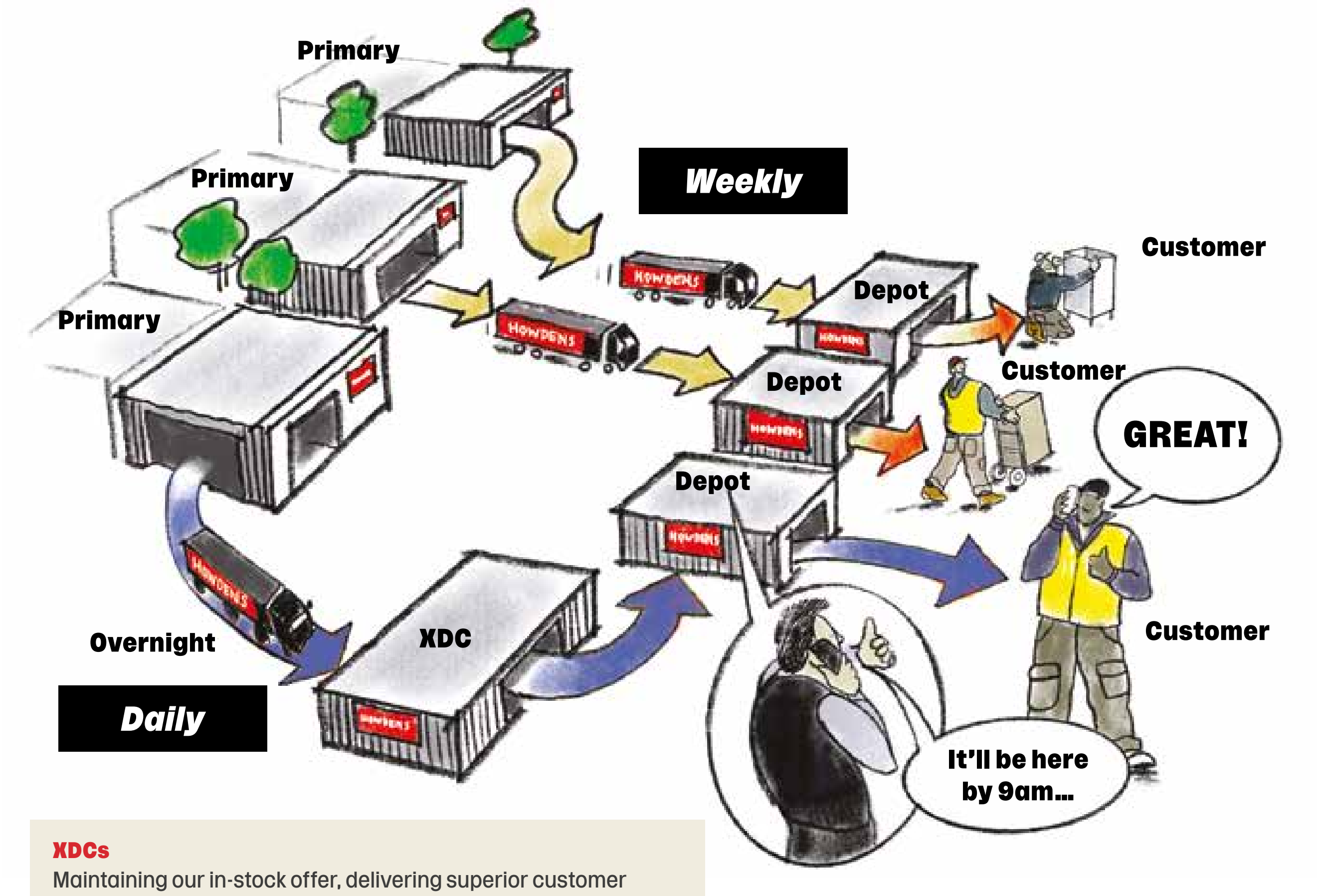
Howdens is an in-stock business. Builders tell us that our high level of stock availability is one of the key reasons they buy from us.

Our traditional stock replenishment model is based on weekly delivery to depots. It is cost-effective and is particularly suited to fast moving product and product with relatively predictable demand patterns.

Using XDCs to rebalance where we hold stock and changing the delivery pattern of some lines means that depots can, for example, allocate more warehouse space to faster-selling lines and reduce contingent stocks of slower-moving ones.

This makes it simpler and more efficient for depots to deliver the superior service levels and product availability that our customers expect. It frees up time and resources spent on stock management, for example on inter-depot stock transfers.

We are developing the XDC capability with 3rd party logistics partners and in the main we are using their existing infrastructure. The service is available to 120 depots at present and we expect to increase this to around 250 depots during the 2nd Quarter of 2021.



XDCs
Maintaining our in-stock offer, delivering superior customer service, and freeing up time and resources in our depots.

Safeguarding our manufacturing & distribution under COVID conditions

Our dedicated manufacturing & supply chain is critical to the success of our in-stock offer. It supplies all the product to all our depots, which each have individual and changing day to day requirements. Operating under COVID conditions meant finding ways to re-engineer how our factories operate and how we supply and distribute to depots.

When lockdown started, we initially closed substantially all our manufacturing and supply facilities.

- With employee consultation, we then designed a series of social distancing measures, work processes and practices as we prepared for a phased return to work.
- With added safety measures in place, we re-opened our factories and warehouses, making sure that depots remained in stock as demand and the number of depots trading changed.
- Since re-opening in April, we have continued to work with appropriate COVID-compliant processes.
- We can now manufacture all products whilst maintaining social distancing.
- Our efficiency, whilst below pre-COVID levels, has progressively improved, and we were able to accommodate the significant rise in 2nd Half volumes.

Protecting our in-stock offer

We acted to protect our in-stock offer against supply chain disruption and to accommodate irregular patterns of demand. We increased levels of safety stock and used back-up sources of supply. We will continue to do so as needed.

We first did this as part of our Brexit planning and again ahead of the spring lockdown. Our ability to use our disaster recovery capacity, together with the extra space at our new warehouse in Raunds, which came on stream as scheduled in September 2020, helped us to maintain stock availability.

Our stock strategy has also benefitted from significant engagement with our supply base.

- We have long-term relationships and agreements with many of our suppliers. Being a manufacturer ourselves has helped us anticipate the potential COVID risks in our supplier factories.
- We operate on 'Ex works' rather than 'Delivered' terms with the majority of our suppliers, which means we can work directly with our shipping partners to resolve logistical issues and provides us with earlier warning of orders that might be running late.

Stock availability is fundamental to our offer. We we have prioritised this in 2020 and will continue to do so in 2021.

- For 2021 we are extending our holdings of safety stock as a contingency against unexpected demand patterns and interruptions to supply.
- We have broadened the range of SKUs we protect in this way and increased the number of weeks cover we have on some lines.

More investment in our UK manufacturing

We keep under review what is best to make or buy, both in terms of cost and overall supply resilience and flexibility.

In 2019 we invested in manufacturing technology enabling us to make the doors for our new Hockley kitchen ranges.

Based on the success of that, we have now committed to a further investment.

- We intend to manufacture the frontals for some of our top selling kitchen ranges at a lower cost and a reduced lead time. We will still keep the benefits of sourcing from external suppliers, who will continue to provide around half of our frontals. The new investment will be at our Howden site. We expect that it will come on stream in the second half of 2022.
- We are also commissioning a second architrave and skirting line as our first line is now at full capacity. We expect this to be up and running in the first half of 2022.

HOWDENS

Chief Executive's statement continued

We are clear on our prospects and priorities for 2021. We are confident in our business model through changing economic conditions and in the future benefits of our strategic initiatives.

We identified the need to upgrade our offer in solid surface worktops. In 2020 we took the opportunity to buy the assets of a large UK solid surface worktop maker from the administrator.

- We bought a 16-acre site near our factory at Howden, including a recently-commissioned factory and new manufacturing plant and machinery.
- We acquired the assets at a competitive price, with significant savings in lead time versus building from scratch. We expect them to be operational in 2021.

3) Use of digital

We use digital to reinforce our model of strong local relationships between depots and their customers.

Our digital investments were instrumental in supporting our model in 2020, when relationships and ways of doing business were disrupted.

2020 saw increased activity on our web platform and growth in our social media presence, which also stimulates interest in viewing our products and services on Howdens.com.

- Howdens.com ' impressions' were present in 48% more organic search results a month.
- Site visits increased by 53% year on year.
- Depot leads via the website increased by 88% and brochure requests by 39%.
- Across social media sites our follower base, at 213,000, was up 119%. We reached 8 million users a month, and those who actively engaged with us were up 165%.

In 2020 Howdens.com provided a key customer access point to the business. We extended our range of online services to support builders and end-users.

We rolled out the online account facilities so that users can manage their accounts and make payments at any time.

- By the end of the year, 30% of our credit account holders had registered to use the service, with around 43% of them using it to make a payment and 68% downloading documents.

We launched a call-and-collect service through our website, providing an additional way for customers to trade safely with us following the onset of lockdown.

When we couldn't have kitchen planning meetings in depots or in homes, we developed a personal online kitchen design service.

- As well as enabling people to plan kitchens without the need for a depot or home visit, the service helps put Howdens front of mind earlier in the procurement process.
- Feedback has been positive, and we are continuing to offer the service.

We continue to add new digital capabilities and content to support the local relationships depots have with their customers.

Starting from February 2021, we are offering 'Anytime Ordering' for the first time on our trade website. This will be a major upgrade of our 'call-and-collect' service, providing efficiencies for both depots and customers.

Features of the service include:

- Bespoke pricing for each customer. Account holders can see their own prices, order product and quote for individual jobs out of hours.
- A scheduler for customers to select a depot collection or delivery time of their choosing.
- Integration with our depot lead management system, helping depots manage their customer relationships even more efficiently.

4) Developing our international operations

The 2020 International performance gives us the confidence to open more depots in France.

International delivered a step change in performance post-lockdown. 2nd Half sales increased significantly year on year.

- In France, lockdown occurred a little earlier than the UK. When lockdown started, sales were up around 3% year on year.
- We took a similar approach to re-opening as in the UK with depots initially re- opening in call & collect mode on a phased basis.
- During May, as lockdown ended, depots were able to trade in more normal ways, with appropriate safety protocols in place.
- Whilst sales in the 1st Half were down around 18% year on year because of the onset of lockdown, sales increased significantly year on year in the final two periods of the 1st Half.
- Sales in the 2nd Half increased by 38 % in constant currency terms and were up 13% for the year as a whole.

We believe customers are increasingly recognising the advantages of our trade-only in-stock model, our service levels and competitive pricing.

We opened 4 depots in the 2nd Half of 2020, ending the year with a total of 30.

We are planning 11 depot openings for 2021, which is around the number of new depots we could staff with 'Howden trained' teams.

Prospects for 2021

Our priority remains the safety of our people and customers and we have contingency plans to enable us to trade under the range of COVID conditions we have seen to date.

We have increased prices, having lowered some during 2020, and we aim to keep a profitable balance between price and volume, whilst aligning operating costs and working with suppliers to keep product and input costs controlled.

We believe high stock availability was a major contributor to our performance in 2020. We will continue to manage our stock levels to protect availability of both manufactured and bought-in product.

We will have all our 2021 new kitchen product on sale earlier than last year, aligned with depot promotions to keep Howdens at the front of our customers' minds.

We will make improvements to service and availability by utilising XDCs.

We are making investments in our kitchen door, solid surface and skirting manufacturing capabilities.

We will continue to add capabilities to our digital platform with 'Anytime Ordering' as the centre piece.

We plan to open around 35 depots in the UK, to open 11 new depots in France and to refurbish around 40 existing UK depots to the updated format.

We remain cautious on underlying market conditions given the ongoing COVID-related economic uncertainties and the impact of the result of the recently concluded Brexit trade negotiations.

We remain confident in our business model through changing economic conditions and of the benefits our initiatives will bring to our performance.

I am very pleased with our achievements in 2020, in particular how we both adapted to COVID trading conditions and progressed our strategic plans, which make us well prepared for what we expect to be a challenging market in 2021. All this is made possible by the character, skills & commitment of our people and I thank them for all for what they have done.

Andrew Livingston
Chief Executive Officer
24 February 2021

Key performance indicators

Financial

Sales growth

Why we measure it

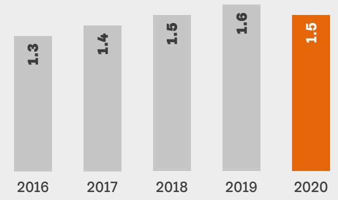
We believe that there are considerable opportunities to grow sales. As sales grow, we believe there are economies of scale which will also allow us to grow long-term profitability.

Links to strategy, risks and remuneration

- Reach more builders.
- Failure to maximise growth potential.
- Depot staff bonuses are directly linked to their depot's sales.

Progress KPI

We are pleased with our progress. We saw total UK sales of £1.5bn in 2020, despite the effect of COVID 19.



Profit before tax

Why we measure it

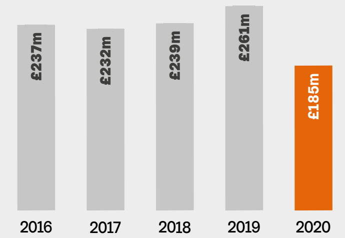
Profit before tax is a simple and widely understood measure. We consider that it gives a complete picture of our performance as it includes all of our operating, selling and distribution, admin and financing expenses.

Links to strategy, risks and remuneration

- Operational excellence.
- Prudent financial management.
- Failure to maximise growth potential.
- Deterioration of model & culture.
- Executive Committee and senior management bonuses are directly linked to PBT.

Progress KPI

We are pleased with our progress. Profit before tax was £185m in a very challenging year.



Cash

Why we measure it

We aim to generate sufficient cash throughout the operating cycle to cover our investment needs, to retain at least one year's working capital requirement and to pay a dividend in line with our stated dividend policy (detailed on page 35).

Links to strategy, risks and remuneration

- Prudent financial management.
- Invest in our strategic priorities.
- Return surplus cash to shareholders.
- Executive Committee and senior management bonuses are directly linked to cash generation targets.

Progress KPI

We are pleased with our progress. We have maintained capital investment and are proposing both a normal and a special dividend.

Links to:

Strategy | Risk | Remuneration

Non-Financial

Depot openings

Why we measure it

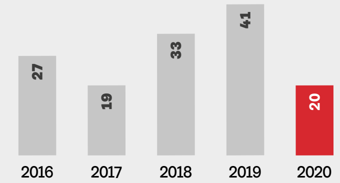
We believe that there is some way to go before the UK market is saturated. We continue to identify possible sites for new depots over the medium term whilst at the same time keeping our model flexible, and allowing us to take account of economic conditions and phase the speed of our growth accordingly. We also see scope to expand our depot network in France.

Links to strategy, risks and remuneration

- Reach more builders.
- Failure to maximise growth potential.
- Deterioration of model & culture.

Progress KPI

We paused depot openings in H1 2020, but resumed them in H2, opening 16 new UK depots, and 4 in France. We expect to open around 35 UK depots in 2020, and 11 in France.



Health & Safety

Why we measure it

We have around 10,000 employees working in our factories, our logistics operation, our support sites and our depots and we need to keep them all safe at work.

Links to strategy, risks and remuneration

- Operational excellence.
- Health & Safety.

Progress KPI

We are pleased with our progress. See page 56 for more details.

Use of FSC® or PEFC certified materials

Why we measure it

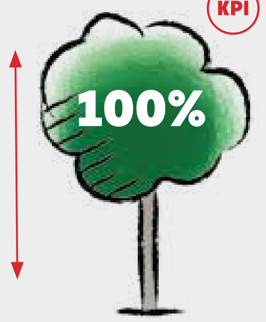
We use over a quarter of a million cubic metres of chipboard and MDF in our factories. FSC® and PEFC are the two main certification bodies, so ensuring that all our MDF and chipboard is certified by them gives us assurance over their provenance. See page 58 for more details.

Links to strategy, risks and remuneration

- Product innovation.
- Product relevance.
- Continuity of Supply.

KPI

100% of wood-based material used in our manufacturing processes from FSC® or PEFC certified sources



Key performance indicators continued

Non-Financial

Production waste recycling

Why we measure it

One of the pillars of our business model is our efficient production, which gives us a significant cost advantage. Recycling as much of our waste as we can reduces our costs and helps us to deliver long-term sustainable returns.

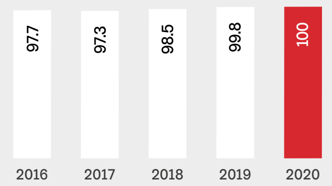
Links to strategy, risks and remuneration

Operational excellence.

Prudent financial management.

Progress KPI

We are pleased with our progress. 100% of our production waste was recycled or reused. See page 60 for more details.



Links to: Strategy Risk Remuneration

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Financial review

Paul Hayes Chief Financial Officer

Financial results for 2020[1]

Revenue

Revenue £m	2020	2019
Group:	1,547.5	1,583.6
Howden Joinery UK depots - same depot basis	1,470.5	1,540.5
UK depots opened in previous two years	39.1	9.8
Howden Joinery UK depots - total sales	1,509.6	1,550.3
Howden Joinery Continental European depots	37.9	33.3
Revenue €m		
France and Belgium - same depot basis	38.3	37.4
Depots opened in previous two years	4.3	0.3
France and Belgium - total sales	42.6	37.7

Total Group revenue was £1,547.5m (2019: £1,583.6m).

Howden Joinery UK depot revenue reduced 2.6% to £1,509.6m (2019: £1,550.3m). UK revenue reduced by 4.5% on a same depot basis[2] to £1,470.5m (2019: £1,540.5m); this excludes the additional revenue from depots opened in 2019 and 2020 of £39.1m (2019: £9.8m).

In the first half, Howden Joinery UK revenue was 1.1% higher in the first quarter and 55.9% lower in the second quarter, and 0.8% lower and 56.9% lower, respectively, on a same depot basis[2].

The table below shows the steady progression in UK sales following the initial impact of COVID-19 at the beginning of period 4, with the second half showing strong growth of 15.8% compared to the same period last year (13.6% on a same depot basis[2]).

Howden Joinery UK Revenue	2020 £m	2019 £m	Change %
Quarter 1 (periods 1-3)	304.6	301.3	1.1
Period 4	15.3	113.6	(86.5)
Period 5	48.7	109.2	(55.4)
Period 6	84.8	113.9	(25.5)
First half (periods 1-6)	453.4	638.1	(29.0)
Second half (periods 7-13)	1,056.2	912.2	15.8

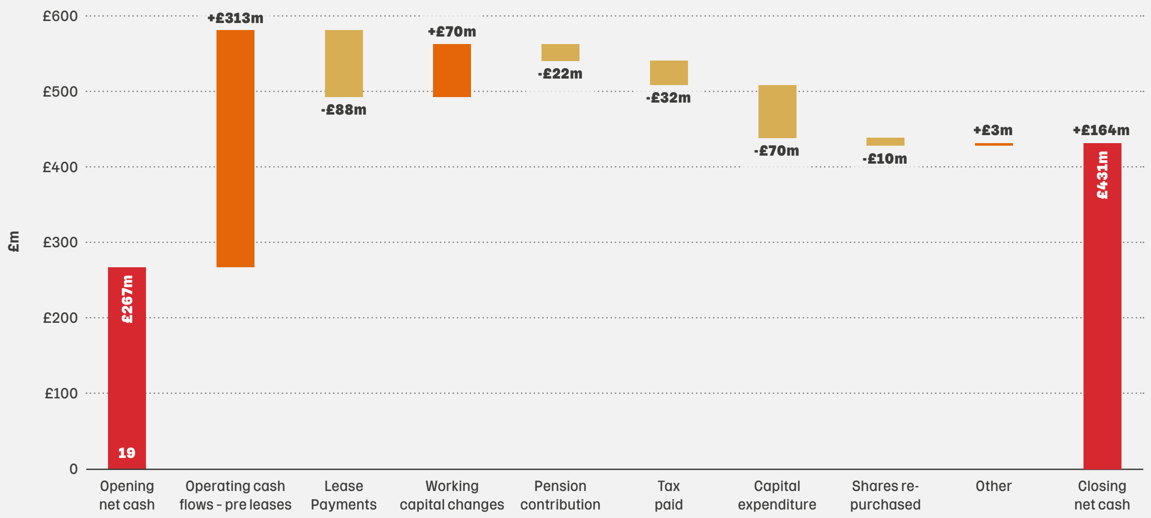
1 The information presented relates to the 52 weeks to 26 December 2020 and the 52 weeks to 28 December 2019, unless otherwise stated. The 2020 results are presented under IFRS 16 for the first time, 2019 results have not been restated.

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

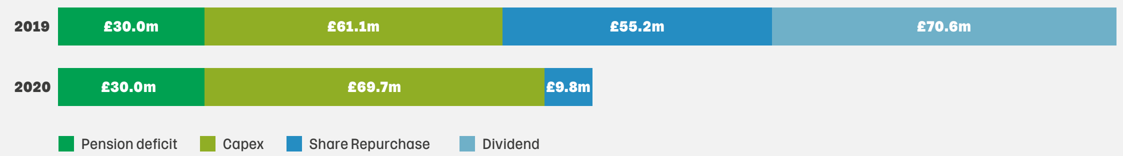
Financial review continued

How we make cash and how we spend it

Net cash and cash flow



Uses of cash



Dividend payments were suspended in 2020. At note 11 to these 2020 financial statements, the Board proposes a total of £108m in dividends, including a £58m special dividend in lieu of the 2019 final dividend.

Depot revenue in Continental Europe increased by 13.6% to £37.9m (2019: £33.3m). On a local currency basis, sales at our depots in France and Belgium increased by 13.0% and by 2.5% on a same depot basis[1]. Local currency sales in the second half increased 38.0% compared to the same period last year, and by 23.7% on a same depot basis[1].

Gross profit

Gross profit reduced to £930.0m (2019: £986.2m). This change reflected a negative volume and mix impact of £29m, lower pricing of £16m, input cost pressures of £5m and an additional £6m of COVID-19 costs as we carried fixed costs with lower production levels. These factors resulted in gross profit margin of 60.1% (2019: 62.3%).

1 Same depot basis for any year excludes depots opened in that year and the prior year.

Operating profit

Operating profit reduced to £195.7m (2019: £260.0m), principally due to lower revenue and gross profit and higher operating costs. The operating profit margin was 12.6% (2019: 16.4%).

Selling and distribution costs and administrative expenses increased to £734.3m (2019: £726.2m). As expected, costs increased due to continued investments in areas across the business, including £14m in UK depots opened in 2019 and 2020 and £9m additional costs to support growth, including the Raunds distribution facility and digital developments. The lower activity levels resulted in £7m lower costs in existing depots and the adoption of IFRS 16 reduced operating costs by £8m. There was also the absence of £6m depot closure costs in Germany and the Netherlands, incurred in the prior year.

Profit before and after tax

The net interest charge of £10.4m (2019: £0.7m credit), reflects an additional charge of £10.3m following the implementation of the leasing standard IFRS 16, and lower bank interest receivable. Profit before tax was £185.3m (2019: £260.7m).

The tax charge on profit before tax was £37.7m (2019: £51.7m), representing an effective rate of tax of 20.3% (2019: 19.8%). As a result, profit after tax was £147.6m (2019: £209.0m).

Earnings per share

Reflecting the above and the reduced share count following share repurchases, basic earnings per share were 24.9p (2019: 35.0p).

Shareholder returns and capital structure

In March 2020, the Group announced that its dividend and share buyback programmes were suspended and would resume once the Group had greater clarity about the impact on the business of COVID-19. Therefore, the Group cancelled the share repurchase programmes, did not pay the proposed 2019 final dividend of 9.1p per ordinary share and did not pay an interim dividend in 2020 (2019: 3.9p per share). Ahead of this decision, the Group acquired 1.8m shares for a consideration of £9.8m, relating to the £50m 2019 share repurchase programme. These shares were cancelled.

The Board's approach to capital structure is unchanged, targeting a capital structure that is both prudent and recognises the benefits of operational and financial leverage. The Board also retains our policy to return surplus cash to shareholders, having considered, amongst other things, the capital requirements of the Group. The Group has significant property leases for the depot network and continues to have a deficit in the Group pension fund. Taking into account this underlying level of gearing, the Board believes it is appropriate for the Group to be able to operate through the annual working capital cycle without incurring bank debt.

The Board regularly reviews the Group's cash balances considering future investment opportunities, expected peak working capital requirements, trading outlook and dividend payments. Against this backdrop and recognising the strong trading and cash performance in the second half of 2020, the Board has decided to resume dividend payments.

Dividend policy

The Group's unchanged dividend policy is to target a dividend cover of between 2.5x and 3.0x, with one third of the previous year's dividend being paid as an interim dividend each year.

Dividends

As a result, the Board will recommend to shareholders a 2020 final dividend of 9.1p per ordinary share, equating to dividend cover of 2.7 times.

In addition, the Board has decided that the Group will pay a special dividend of 9.1p per ordinary share, equivalent to the cancelled 2019 final dividend.

The final dividend payment in respect of 2020 of 9.1p per share will, if approved by shareholders, be paid on 18 June 2021, with an ex-dividend date of 20 May 2021 and a record date of 21 May 2021. The special dividend of 9.1p per share will be paid on the same timetable as the final dividend. The cash being returned to shareholders through these dividend payments totals £107.7m.

The Board expects to announce a 2021 interim dividend with its results in July of 3.0p per share, in line with its policy of the interim dividend representing one third of the prior year's total dividend.

The Group's strong balance sheet has positioned the business well in these challenging times and provides us with a robust foundation to face the ongoing uncertainty with confidence. The Board will review the level of shareholder returns once we see more stability in our market and the broader economy.

Cash

As soon as the impact of COVID-19 became clear, the Group took a number of actions in order to preserve cash, including suspending shareholder returns, deferring non-essential capital expenditure and agreeing a deferral of payments towards the Group pension deficit. In addition, by the end of the first half, the Group benefitted from available UK Government support, including furlough receipts, tax payment deferrals and business rate reductions, which we have since been able to repay.

Overall for 2020, there was a net cash inflow from operating activities of £329.2m (2019: £221.4m). This was after a cash contribution to the Group's pension schemes in excess of the operating charge of £22.2m (2019: £26.9m).

Net working capital reduced by £70.3m, mainly due to creditors that were up by £91.2m as a result of high levels of stock received late in the year and shipping delays of inbound stock. The impact of the high level of creditors is expected to reverse in the first quarter 2021. Stock increased £23.2m due to COVID-19 and Brexit contingency planning and depot openings. Debtors were down £2.3m.

Payments to acquire fixed and intangible assets including new depots, digital upgrades and investment in the Raunds distribution centre, totalled £69.7m (2019: £61.1m). Corporation tax payments were £32.2m (2019: £46.2m), share repurchases totalled £9.8m (2019: £55.2m) and the interest and principal paid on lease liabilities totalled £87.6m. There were no dividends paid (2019: £70.6m).

Reflecting the above, there was a net cash inflow of £163.3m (2019: £36.1m), leaving the Group with net cash at year end of £430.7m (28 December 2019: £267.4m net cash).

The Group has access to a £140m asset backed lending facility which remained undrawn at the balance sheet date.

Pensions

At 26 December 2020, the pension deficit shown on the balance sheet was £47.7m (28 December 2019: £56.6m). The decrease in the deficit was primarily due to an increase in asset returns of £133.2m and a £46.0m cash contribution partly offset by a £145.9m increase in liabilities (the main elements of which are a £203.7m increase in liabilities primarily due to a reduction in the net discount rate and a £37.9m decrease in liabilities due to adopting updated longevity assumptions).

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Financial review continued

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

The triennial actuarial review as at April 2020 is in progress and expected to complete in 2021. Following a period of consultation, the defined benefit pension scheme will close to future accrual from 31 March 2021.

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

The contribution to the pension deficit in the financial year ended 26 December 2020 was £30.0m (2019: £30.0m).

IFRS 16 - Leases

The Group adopted IFRS 16 for the first time in the current year. The effects of adoption are shown in detail at note 28 to the financial statements, together with our revised accounting policies at note 2 and the effect on the current year at note 14.

The effect of IFRS 16 on the Income Statement in 2020 compared to the previous accounting standard, IAS 17, was an increase in operating profit of £8.1m. This is more than offset by an increase in interest charges of £10.3m.

Under IFRS 16 we now recognise leases on the balance sheet. The addition to gross assets of £544m represents our right to use the leased asset and the increase in gross liabilities of £581m reflects the present value of our obligation to make future lease payments.

Current trading and outlook for 2021

Current trading

Howden Joinery UK sales in the first two periods of the new financial year (to 20 February 2021), increased by 5.1% (4.5% on a same depot basis). European sales increased by 32.3% (31.2% on a same depot basis). Excluding the first week of the year (when depots were closed in 2021, compared to 2020 which had 2.5 trading days), UK sales were up 7.1% (6.5% on a same depot basis) and European sales were up 38.6% (37.5% on a same depot basis).

We have made a solid start to the year although we have seen some greater caution from end consumers on allowing trades people into their homes under the current lockdown. We therefore remain cautious about the ongoing impact that COVID-19 may have.

Outlook for 2021

So far in 2021 we have implemented price increases across a range of products as we manage the drivers around margin and aim to get the right balance between price and volume. We are experiencing pressure from commodity prices, increasing freight costs and product mix, with a higher than usual proportion of sales coming from lower margin products. We believe that Howdens is in a strong position in an uncertain market and we continue to invest in new depots, digital investments and enhanced depot stock replenishment while incurring some inflationary cost increases. These investments are partially offset by the ending of the double-running costs of our legacy national distribution centre and the new Raunds development, incurred in 2020.

Capital expenditure of around £80m is expected in 2021, including around 45 new depots and 40 depot refurbishments, in-house manufacturing further investment in digital and maintenance deferred from 2020.

With respect to Brexit and COVID-19, we continue to monitor our supply chain closely and have increased stock levels. Our Brexit planning has meant that, to date, there has not been a material impact on our business and we are effectively managing through the short-term challenges.

Whilst we are aware of the economic uncertainties that we face, we remain confident in our business model for the future.

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 using cash flows from operations, and it has access to an asset-backed loan facility if additional financing is required. Treasury operations are managed within policies and procedures approved by the Board. The main potential risks arising from the Group's financial instruments are foreign currency risk, counterparty risk, funding and liquidity risk and interest rate risk, which are discussed below.

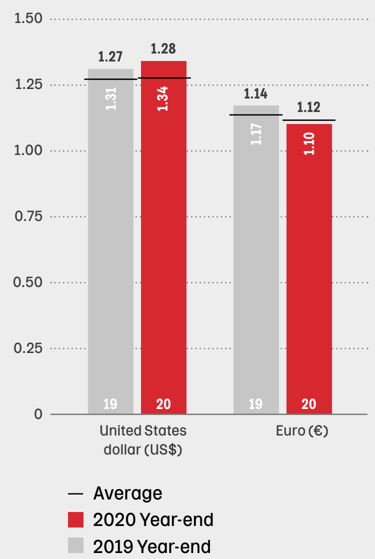
No speculative use of derivatives, currency or other instruments is permitted. The Treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements.

Foreign currency risk

The most significant currencies for the Group are the US dollar and the Euro. It is the Group's current policy that routine transactional conversion between currencies is completed at the relevant spot exchange rate. This policy is reviewed on a regular basis.

The net favourable impact of exchange rates on currency transactions in the year was £0.4m. The principal exchange rates affecting the profits of the Group are set out in the following table.

Principal exchange rates versus UK pound (£)



Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a short-term credit rating at least equivalent to Standard and Poor's A-1 or Moody's P-1. It also places limits on the maximum amount which can be invested with a single counterparty. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

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, the returns of capital to shareholders, the level of capital expenditure, or by issuing new shares.

The Group has a committed, asset-backed, bank facility which allows borrowing of up to a maximum of £140m, dependent on the actual levels of stock and trade debtors held at any time. The facility was not used at any point during 2020 and is in place until December 2023.

The Group's committed borrowing facility contains certain financial covenants. 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 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.

At the 2020 year end, the Group had £431m of net cash and £138m of funds available to borrow under the committed borrowing facility.

Interest rate risk

The Group has not had any borrowings during 2020 and does not consider interest rate risk to be significant at present.

New accounting standards

None of the new accounting standards that came into effect during 2020 had a material implication for the Group, other than IFRS 16, whose effect we have described on the previous page.

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

Paul Hayes
Chief Financial Officer
24 February 2021

Principal risks and uncertainties

What's changed in 2020?

- No new principal risks
- 1 risk has increased
- Biggest influences on risks over the year have been
  - Brexit uncertainty
  - COVID-19

Our approach to risk

When we look at risks, we specifically consider the effects they could have on our business model, our culture and our long-term strategic objectives. These are set out on pages 12 to 21, and we encourage you to refer to them as you read this section.

We consider both short and long-term risks within a timeframe of up to three years.

ESG and Climate-related risks

We have always included ESG and climate-related risks as part of our existing risk identification and management process.

There are climate-related risks on our operational risk registers but at present there are none which we consider to be principal risks. We have two principal risks which are ESG-related; Health & Safety and Loss of key personnel.

ESG strategy and risk management

An effective ESG strategy will help us to manage our risk profile and reduce our principal risk exposures over time. In 2020, as part of the Strategic Review of ESG across the business (on pages 52 to 53) we completed a review of our inherent ESG and climate-related risk areas and considered how they link to our principal risks.

Task Force on Climate-related Financial Disclosures

TCFD reporting is important to effective ESG and climate risk management. It will also help us to meet the growing stakeholder demand to understand both how climate change could affect Howdens and the effects that our operations could have on the climate. In 2020 we have taken the first steps on our roadmap to TCFD reporting, which we set out below.

Roadmap for Howdens introduction of TCFD reporting 2021-2022

Area	2020 Progress	2021 Priority	2022 Priority
Governance	Established our TCFD governance framework and executive oversight	Develop our TCFD reporting mechanisms	Continue to develop our TCFD reporting
Strategy	Established our Climate Change strategy and agreed with the Group Board	Confirm Board Risk Appetite for climate risk	
Risk Management	Conducted a group wide inherent risk assessment and reviewed risk register for risk gaps	Address any risk gaps in our registers and identify risk appetite	
Metrics and Targets	Identify key areas and established responsibility for metrics and targets	Identify appropriate metrics for key climate risks	Establish mechanisms for monitoring and reporting metrics and targets

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.

Emerging risks

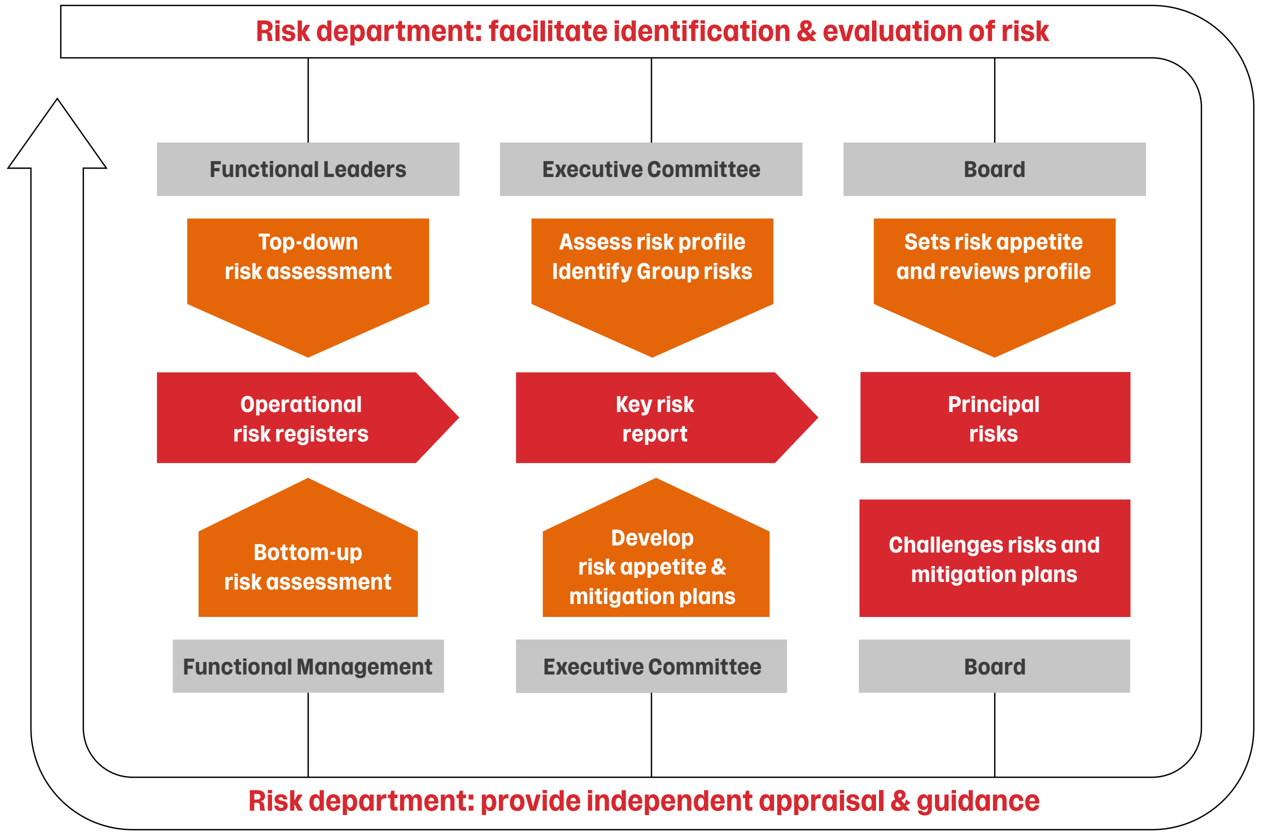
Emerging risks are considered by the business and risk management team in every risk review.

We use both internal expertise and external resources to identify emerging issues and their potential impact.

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

The risk management process

The main steps in the process are set out below:



- **Functional Management** review their risks regularly, to update their **Operational Risk Register**. They assess the likelihood and impact each risk could have on the business if not managed, identify what mitigations are in place to establish how much risk remains and discuss future mitigation strategies, where appropriate. They do this on both a top-down and a bottom-up basis.
- **The Group Key Risk Report** is formed of our most significant risks from across the entire business and gives an overview of how our risk profile is changing, how risks are being managed currently and future mitigation plans for review.
- **The Executive Committee** then review the Group Key Risk Report to assess any changes to our risk profiles. They also identify the risks that they are managing at a Group level. They then develop risk appetites and future mitigation plans for the Board to review.
- **The Board** challenge and agree the Group key risks, appetites and mitigation strategies twice yearly and use this information to determine the Group's principal risks. The risk process is defined by the Board and set out in the Group Risk Charter. The Charter was approved by the Board in 2020 and sets out the Board's expectations for how the Executive Committee manages risk, interprets risk appetites and what is reported to the Board.
- **The Group Risk Department** facilitates the identification and evaluation of risks, providing independent appraisal and guidance across the Group.

The principal risks are also taken into account in the Board's consideration of Long-Term Viability, as described in the Group Viability Statement on page 63.

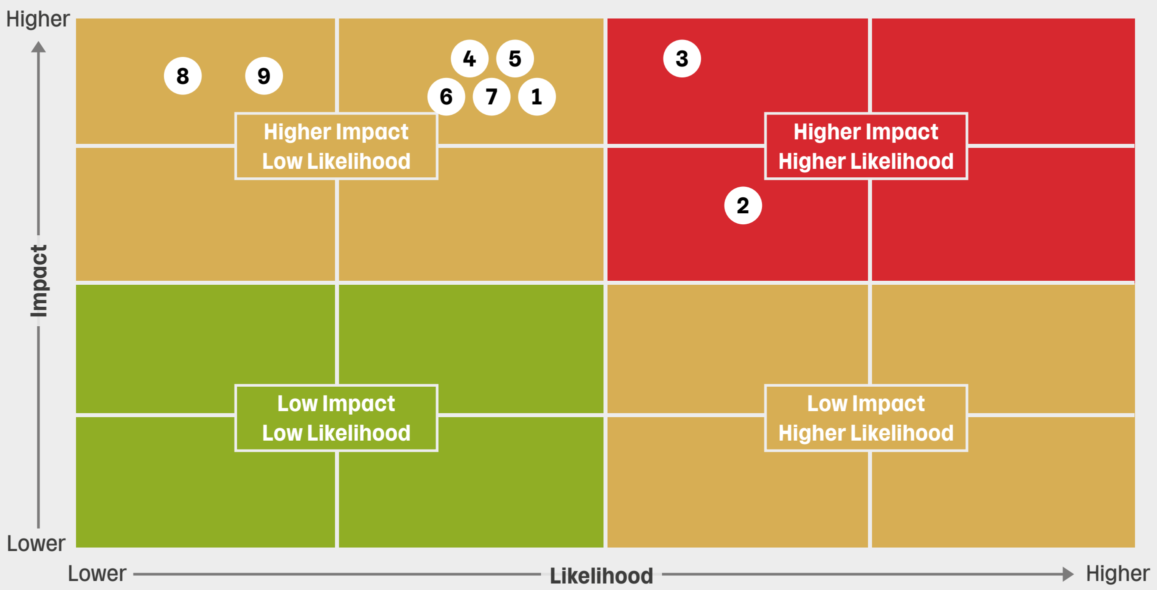
Principal risks and uncertainties continued

Principal risks

- No new principal risks
- 1 risk score has increased - Risk 3: Changes to market conditions
- Brexit and COVID-19 have been the key risk influences in 2020
- 2020 updates to mitigating actions are listed on the following pages

Risk heat map

To help visualise our principal risks, we have plotted them on the heat map below. The individual risks are described in more detail on the following pages.



Risk

1 Failure to maximise growth potential
2 Deterioration of business model and culture
3 Changes in market conditions
4 Interruption to continuity of supply
5 Loss of key personnel
6 Health and Safety
7 Cyber security incident
8 Product design relevance
9 Credit control failure

COVID-19 - Risk timeline

COVID-19, identified as an emerging risk in last year's report, had a major effect on our principal risks in 2020. This timeline shows our risk response as well as the mitigations that are currently in place. The Howdens in-stock model has been critical to our response, as well as the strength of our culture and our people who gave us the agility to respond at speed. Early risk identification and management was key to minimising the effects on our business.

1 - Pandemic in Asia

Risks
- Supplier closures
- Transport difficulties
- Product delays

Mitigations
- COVID Working Party formed
- Invested in stock for key lines
- Increased temporary storage capacity
- Invested in remote working capabilities
- Modelled financial and operational scenarios

2 - Pandemic in Europe

Risks
- European supplier closures
- Transport problems
- Product delays
- European depot closures

Mitigations
- Worked closely with suppliers
- Optimised stockholding to support key trading period
- Used our supply chain resilience to deal with inbound transport disruption
- Invested in depot safety equipment and processes
- Introduced new ways for customers to interact with us using technology

3 - UK lockdown

Risks
- UK supplier delays
- UK depot closures
- Office closures
- Manufacturing difficulties
- Transport delays
- Deteriorating market conditions

Mitigations
- Conducted COVID-19 risk assessments at all locations
- Supported working from home
- Protected our vulnerable staff
- Increased staff welfare activities and training
- Protected our cash (via furlough, government facilities etc.)
- Reviewed our cyber risk profile and refreshed staff training

4 - Trading in COVID-19 environment

Risks
- Keeping our people and customers safe in COVID-19 Environment

Mitigations
- Introduced new Safe to Trade operations at depots
- Introduced additional safety measures at manufacturing and distribution locations

The mitigations we have taken allow us to operate safely under changing government guidelines, and we'll use what we've learnt to help us as we continue to manage the ongoing COVID risks into 2021.

How our governance and risk management procedures underpinned our COVID-19 response:

Approach
Set up COVID-19 governance framework for managing crisis using existing Business Continuity measures.

Board
Called an Extraordinary Board meeting to discuss risks and mitigations and confirm governance arrangements. Audit committee review of governance response.

Monitoring
Set up monitoring and provided regular updates to Board and Executive Committee.

Use of Experts
Used internal and external expertise to understand changing environment and adapt to it.

Stakeholders
Kept stakeholders informed and supported them, in line with our culture.

External Commitments
Considered impacts on our internal and external stakeholders when making key decisions (see examples on pages 79 to 81).

Supporting our staff
Regular communication with staff. Focus on staff safety and welfare, including training in working from home, Health & Safety away from the office, mental health and wellbeing.

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Principal risks and uncertainties continued

Brexit risks

On 31 December 2020, the transition period for the UK's withdrawal from the EU ended. From that point new rules applied for trading, immigration and importing/exporting procedures. This has bought some clarity to areas where there was uncertainty and has addressed many of the pre-Brexit Risks which we outlined in our 2019 Annual Report and 2020 half-year update.

Our most significant post-Brexit residual risk is outlined below:

What are the Brexit impacts	What this could mean	What we have done
Trade & Customs Risks		
Exit from the EU Customs Union.	Supply chain delays as goods sourced from outside the UK come through a new customs regime.	Obtained preferred importer/ exporter status to reduce potential customs delays. Continuously assessed and invested in our stock position to ensure it remains optimal to mitigate customs delays. Reduced our reliance on the most affected ports.

This risk will be managed as part of our business as usual risk approach within our principal risk 'interruption to continuity of supply'.

Links to strategic areas

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

2020 Principal risks

The arrows alongside each risk show the year on year change

1. Failure to maximise the growth potential of the business R O P F

Risk and impact

- We see a significant potential for growth. This brings both opportunities and challenges.
- 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, systems, manufacturing and distribution to equip them for growth.
- Growth activities are reviewed in the light of our risk appetite, values, business model and culture.

Mitigation actions in 2020

- Converted a further 30 depots into the new depot environment.
- Opened a further 20 depots in the UK and France.
- Developed our digital capabilities including rolling out builder logon, an online planning portal, and Anytime Ordering.
- Made our depots COVID safe to allow us to continue to serve our customers. Keeping them open for call and collect during lockdown.

2. Deterioration of business model and culture R O P F

Risk and impact

- Our future success depends on continuing to maintain our values, our unique business model and our locally-enabled, entrepreneurial culture (see pages 15 and 18 to 19).
- 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.

Mitigation actions in 2020

- In early 2020 we held our 'Rooster Awards' event, bringing together 1,000 managers from across the business to discuss our business model and our culture.
- During the COVID pandemic we have maintained close communications through virtual channels.
- Reinforced the core values and principals of our culture: 'Worthwhile for all concerned'.

Principal risks and uncertainties continued

2020 Principal risks continued

The arrows alongside each risk show the year on year change

3. Changes in market conditions R O P F

Over 2020 this risk has increased as a result of the COVID-19 Pandemic and the impact it has had on our marketplace.

Risk and impact

- We buy a significant proportion of raw materials and finished products in euros and US dollars. If sterling weakens, our input costs increase.
- 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. If activity increases we need to be ready to capitalise on opportunities.

Mitigating factors

- We have proven expertise in managing both selling prices and costs. This continues to be a main area of focus.
- We have a good track 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.

Mitigation actions in 2020

- Focused our business model on supporting our customers needs during the COVID-19 Pandemic by increasing our communications with them during the first lockdown, ensuring that stock remained available where and when they required it, opened our depots for Call and Collect service and introducing a COVID-19 Safe to Trade environment at our depots.
- Maintained focus on our Brexit preparations and investment in contingency stock.

4. Interruption to continuity of supply R O P F

Risk and impact

- Howdens is an in-stock business. Our customers expect this, and rely on it.
- 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 customer's needs. If this happened, we could lose customers and sales.

Mitigating factors

- We build strong relationships with our suppliers, focused on integrity, fairness and respect, and which are worthwhile for all concerned.
- Where appropriate we enter into 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 heavily in our manufacturing operations and this investment gives us an enhanced disaster recovery capability.
- We are also investing in new warehouse space to support our distribution capabilities and equip them for growth.
- Brexit uncertainty has also driven us to increase stock holding of at-risk products to help ensure the continuity of supply.
- Obtained 'AEO' preferred importer/exporter status to reduce potential customs delays.

Mitigation actions in 2020

- Opened a second new distribution centre in Raunds to provide more resilient and flexible warehousing capabilities.
- Optimised our safety stock to reduce the potential risk that COVID-19 or Brexit could have on product availability through the supply chain.

Links to strategic areas

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

5. Loss of key personnel R O P F

Risk and impact

- The skills, experience and performance of key members of our management team make a major contribution to the success of the business.
- The loss of a key member of the Group's management team could adversely affect the Group's operations.

Mitigating factors

- 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.
- Work is ongoing to ensure that appropriate continuity and succession plans are in place. We will also continue to focus on leadership development and succession planning.

Mitigation actions in 2020

- Ensured our working environments remained COVID safe for all our workers and bought in remote working for all our offices to reduce the Health & Safety risk to all personnel.
- Recruited a new Human Resources Director to help to continue to develop our people strategy.

6. Health and safety R O P F

Risk and impact

- Howdens is about people and relationships. We have over 750 depots, around 10,000 employees, hundreds of suppliers and hundreds of thousands of customers.
- 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 behaviour.
- If we don't 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 & 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 & safety at every level of the business. See page 56 for our related KPI and discussion of our performance in recent years.

Mitigation actions in 2020

- COVID-19 has been a major Health & Safety risk influence throughout 2020 and we have focused on the welfare of our employees and customers. Key activities include COVID-19 Risk assessments, new 'Safe to Trade' approaches in depots and offices and physical and mental welfare focus and training for employees working from home.

Principal risks and uncertainties continued

2020 Principal risks continued

The arrows alongside each risk show the year on year change

7. Cyber security incident R O P F

Risk and impact

- 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.
- 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 focus on training our people about cyber security risks, as we recognise that these risks are 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 2020

- New Head of Cyber Security role created, reporting directly to the Group's Chief Information Officer.

8. Product design relevance R O P F

Risk and impact

- Ensuring that we have products 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. 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 and availability.
- 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. A number of new products were introduced during the year across all product categories, and more are already planned for 2021.

Mitigation actions in 2020

- 16 new kitchen ranges launched in 2020.
- Over 2,000 other new skus launched.
- Reset of our hardware range to focus on our customers' core joinery needs.

Links to strategic areas

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

9. Credit control failure R O P F

Risk and impact

- When a builder comes into one of our depots for the first time, we offer them a trade account, so they can complete the job before paying Howdens. Many of our customers rely on our trade account facilities, as cash flow is often critical to small businesses.
- Failure to provide, or service these facilities could affect our ability to continue to support our customers, and potentially our ability to collect debt. This could have a direct impact on both our revenue and our working capital.

Mitigating factors

- We have an effective trade account policy used to agree terms with our customers and efficient debt collection processes, which we monitor closely and regularly.
- We have robust systems and tested business continuity plans.
- We maintain good personal relationships with our customers, both at depot level and within the credit control department.
- Our concentration of debt is limited, as our exposure is spread across around 400,000 customer trade accounts.

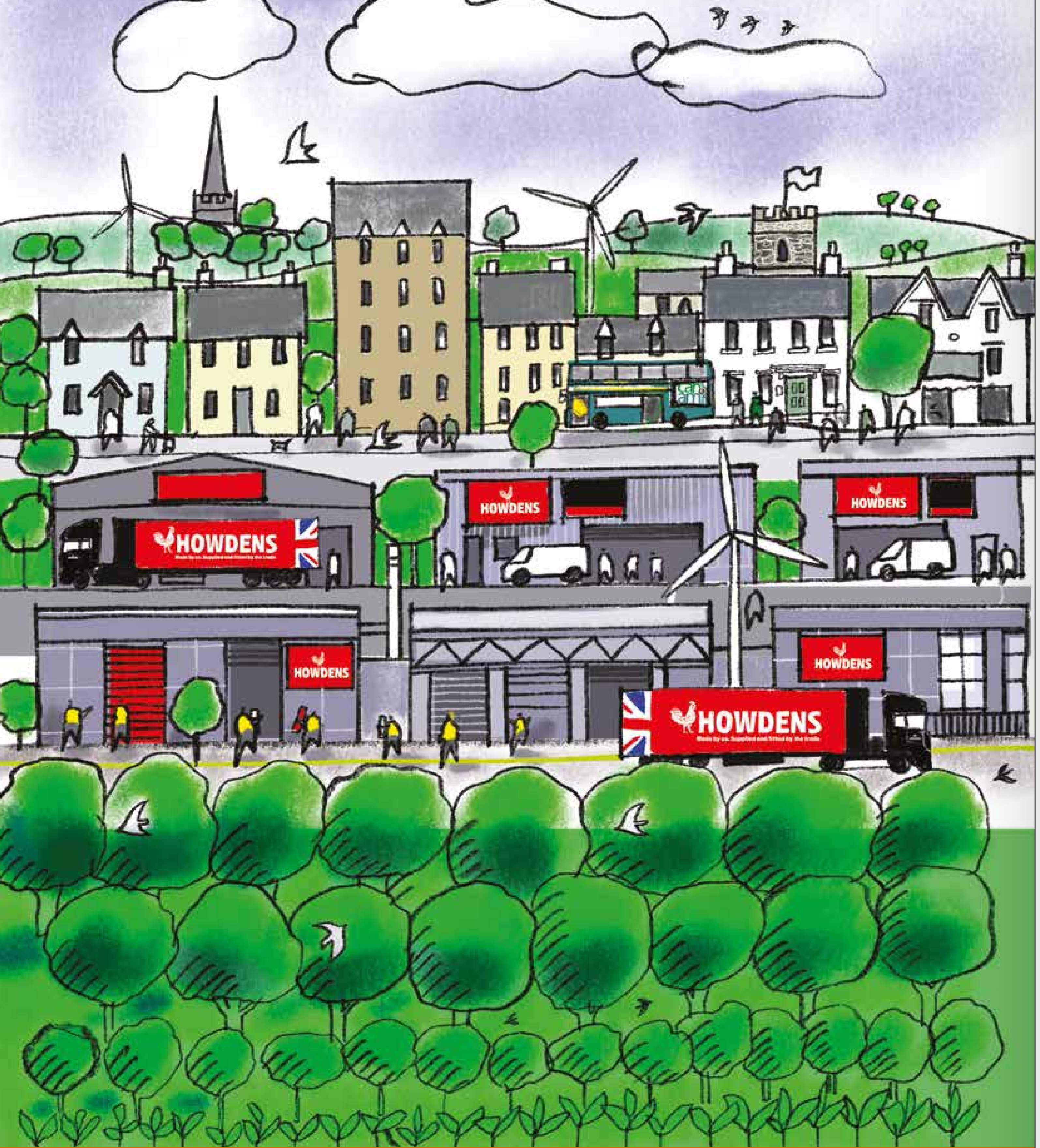
Mitigation actions in 2020

- We implemented several changes in 2020 to secure our Credit Control operations against potential COVID-19 risk. These included introducing remote working across the Credit Control team, providing appropriate communication and IT equipment and refreshing our cyber security training.

Sustainability Matters

Sustainability Matters

Howden Joinery Group Plc Annual Report & Accounts 2020



Howdens is a growing business, with exciting prospects for the future. Sustainable behaviour will help us continue to grow over time in a way that preserves our culture, maintains focus on our business model, mitigates our risks and addresses the needs of our stakeholders.

Sustainability Matters

Why sustainability matters to us

Generating long-term value

Howdens is a growing business. Sustainable behaviour will help us continue to grow in a way that preserves our culture, supports our business model, mitigates our risks and addresses the needs of our stakeholders.

Part of our culture

We describe the Howdens culture as being 'worthwhile for all concerned' and 'creating the conditions that allow everyone to succeed'. That means that our business needs to be worthwhile for our staff, our customers, our suppliers, the environment and the communities we work in.

Supporting our business model

Sustainable behaviour gives us a competitive advantage.

Lowest cost production in our dedicated UK factories leads naturally to minimising waste, energy and raw materials. Our mission statement aim of 'no-call-back quality' means that we need to produce and source product which is durable and safe.

Being trusted partners to our suppliers and customers means that our relationships need to be worthwhile for all parties over the long term.

We have over 750 depots in the UK and Europe. Each one of them relies on strong local relationships to trade profitably, so we need to be a good neighbour in each of those communities.

Mitigating our risks

We discuss our principal risks on pages 38 to 47. Sustainable behaviour helps us to address some of those risks.

For example, we place great emphasis on looking after our people. We invest in keeping them safe, developing their skills, and offering them rewarding careers and a great place to work. We do this because it's the right thing to do, but it also mitigates our 'Health & Safety' and 'Loss of key personnel' risks.

Developing and maintaining sustainable supplier relationships mitigates our 'Interruption to continuity of supply' risk. Energy-efficient, safe and durable product mitigates our 'Product design relevance' risk.

The Board and Executive Committee lead our commitment to sustainability

The importance of sustainable behaviour is recognised right through the business. You can see the Board's Statements of Intent on Health & Safety and Sustainability on our website at: www.howdenjoinerygroupplc.com/sustainability/group-health-safety-and-sustainability-policies.

Our 2020 Environment Social and Governance strategic review

The Board and Executive Committee reinforced their commitment in 2020 through a wide-ranging Strategic Review of our Environmental Social and Governance priorities, that we set out on the next two pages, and which is reflected throughout this report.

The review clarified our ESG Vision for the future. It identified four main commitments, as well as a range of other potential targets and research projects. It included engaging with key stakeholders to test our assessment of our material ESG areas, as well as selecting our material United Nations Sustainable Development Goals.

What are the material areas for us and our stakeholders?

We've organised the main body of this report into five sections, reflecting the material areas for us and our stakeholders:

People: keeping them safe, embracing diversity and inclusion, offering rewarding careers.

Sustainable supply chain: certified wood, responsible purchasing, efficient distribution.

Sustainable product: developing new sustainable products, re-engineering existing products, having a sustainable sourcing strategy.

Environment and operations: reducing waste, responsible operations, lowering emissions.

Communities: local community projects, our nationwide work with Leonard Cheshire Disability and I can & I am.

As part of our 2020 ESG Strategic Review we consulted key stakeholders, and were pleased to reconfirm that they continued to see these five areas as being the most material ones for us.

Our sustainability KPIs

Our sustainability KPIs cover safety, use of wood from certified sources, recycling of waste and recycled packaging, and you can find them on pages 56, 58 and 60.

Our 2020 ESG strategic review has resulted in a number of future commitments, targets and research projects. As we work towards the commitments, and learn more about the targets and research projects, this may lead to new KPIs and key metrics in the future.

Sustainability Matters

Our 2020 Environment Social and Governance strategic review

1 - Overview

Aims

Building on the existing good work across the Group, the aims of the 2020 Environment Social and Governance strategic review were: to engage with key stakeholders and test our existing assessment of material ESG areas; to identify ESG risks and opportunities, and to develop guiding principles and commitments for the longer term.

Findings

- Key internal and external stakeholders confirmed that they agree with our existing assessment of material ESG areas (people, supply chain, product, environment and operations, and communities). Investors share our belief that sustainable behaviour is an important part of delivering long-term value.
- Stakeholders want clear communication on ESG, with links to trusted frameworks and systems of measurement.
- There are opportunities to build on our good work to date, and to strengthen our ESG operations, governance and reporting in the future.

Outcomes

- A long-term ESG Vision, supported by four main commitments and a range of additional focus areas, targets and research projects.
- Ownership of the four main commitments assigned to individual Executive Committee members and the Company Secretary.
- Mapping our existing material ESG areas and projects, our four future commitments and our future focus areas and research projects to the United Nations Sustainable Development Goals and their underlying targets.

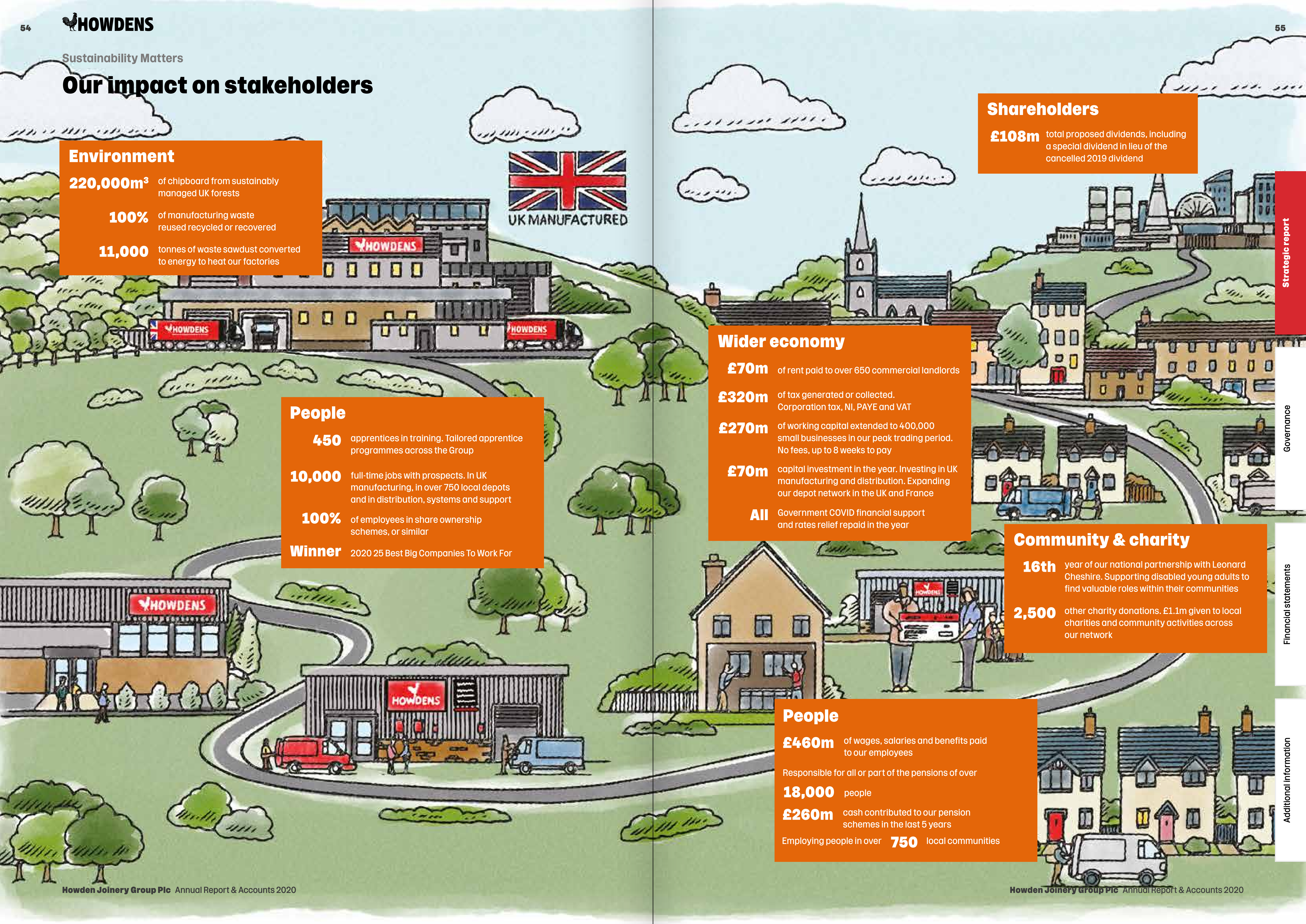
2 - Summary of our ESG Vision and our four main commitments

	E	S	G
Horizon goal	**Environment** UK's leading responsible kitchen business	**Social** A unique and sustainable culture	**Governance** Leader in risk and resilience governance
Our four 2020 ESG Vision commitments...	**1 - Zero waste to landfill** **2 - Carbon neutral manufacturing**	**3 - Leader in UK Behavioural Safety and wellbeing**	**4 - Highly effective ESG reporting and disclosure, including KPIs**
...and other main focus areas	Responsible operations, product and sourcing Circular and customer-centric waste recycling	Best in class social mobility Fully embrace diversity & inclusion Outstanding community engagement	Clear and effective ESG governance structure Strong business resilience and local control frameworks
Key enablers	Our culture of 'worthwhile for all concerned', underpinning responsible behaviour and leadership by example. Sustainability embedded in the commercial decision making and long-term planning process. KPIs with clear accountability by Executive member.		

3 - How our Environment Social and Governance Vision fits with UN Sustainable Development Goals and our existing ESG focus areas

Alignment to UN Sustainable Development Goals		Existing focus areas			Outputs of 2020 ESG strategic review	
Our material SDGs	**UN SDG description and relevant targets under each SDG**	**Mapping to our 5 material ESG areas**	**Existing KPIs**	**Existing projects, actions and metrics**	**Mapping to our four 2020 ESG Vision commitments**	**Details of our ESG Vision commitments, plus other key targets and ongoing work**
8 DECENT WORK AND ECONOMIC GROWTH	**"Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"** SDG targets: 8.4, 8.5, 8.6, 8.7, 8.8.	People Communities Sustainable supply chain	Health & Safety - reportable injury rates.	Equal pay, responsible employment practices, good development opportunities. Best Companies to work for. Apprenticeship programmes. ISO 45001 in Supply. Behavioural H&S programmes.	Behavioural Health & Safety embedded across the Group. *ExCo owners: COO Trade and Supply Chain Op's Director*	Continue to develop existing Behavioural Safety programmes. Plan to achieve ISO45001 for UK depot network by end 2021. Initial training for all managers in Equality, Diversity and Inclusion in 2021. Develop Group EDI roadmap and strategy for 2022-2025. Develop Group wellbeing strategy in 2021.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**"Ensure sustainable consumption and production patterns"** SDG targets: 12.2, 12.5, 12.6, 12.7.	Sustainable supply chain Sustainable product Environment	% of FSC® or PEFC certified wood. % of production waste reused, recovered or recycled.	Factory, warehouse and depot energy reduction initiatives. Renewable heat - turning factory waste sawdust into heat. Working with suppliers to develop energy-efficient appliances.	Carbon Neutral Manufacturing. *ExCo owner: Supply Chain Op's Director*	Achieve carbon neutral manufacturing by end 2021. Review carbon neutral opportunities for depot and distribution operations over longer term. Pursue 2021 and 2023 energy consumption and energy efficiency targets for our distribution fleet.
13 CLIMATE ACTION	**"Take urgent action to combat climate change and its impacts"** SDG targets: 13.1, 13.2.	People Sustainable supply chain Environment Sustainable product		Carbon trust standard. Consistent reduction in greenhouse gas emissions measured against turnover. ISO 14001 Environmental Management System in Manufacturing, Logistics and Distribution.	High quality ESG governance and external reporting. *Owner: Company Secretary*	Progressive, phased implementation of Taskforce on Climate-related Financial Disclosure reporting. Implement the well-known ISS external ESG reporting platform in 2021 to make our ESG information more accessible to stakeholders. Embed integrated risk and governance framework. Integrate ESG into business planning and product development cycles.
15 LIFE ON LAND	**"Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests...and halt biodiversity loss"** SDG targets: 15.1, 15.2.	Sustainable supply chain Environment Sustainable product	% of FSC® or PEFC certified wood. % of production waste reused, recovered or recycled.	Reducing packaging. Increasing reuse and recycling - reducing waste to landfill. Supplier audits, ethical procurement training.	Zero waste to landfill. *ExCo owners: COO Trade and Supply Chain Op's Director*	Maintain zero waste to landfill in manufacturing and distribution. Zero waste to landfill in depots over time. Target less than 5% to landfill by end 2022. Target 100% of kitchen frontals FSC® or PEFC by end 2022.

Our impact on stakeholders



Environment

220,000m³ of chipboard from sustainably managed UK forests

100% of manufacturing waste reused recycled or recovered

11,000 tonnes of waste sawdust converted to energy to heat our factories

People

450 apprentices in training. Tailored apprentice programmes across the Group

10,000 full-time jobs with prospects. In UK manufacturing, in over 750 local depots and in distribution, systems and support

100% of employees in share ownership schemes, or similar

Winner 2020 25 Best Big Companies To Work For

Shareholders

£108m total proposed dividends, including a special dividend in lieu of the cancelled 2019 dividend

Wider economy

£70m of rent paid to over 650 commercial landlords

£320m of tax generated or collected. Corporation tax, NI, PAYE and VAT

£270m of working capital extended to 400,000 small businesses in our peak trading period. No fees, up to 8 weeks to pay

£70m capital investment in the year. Investing in UK manufacturing and distribution. Expanding our depot network in the UK and France

All Government COVID financial support and rates relief repaid in the year

Community & charity

16th year of our national partnership with Leonard Cheshire. Supporting disabled young adults to find valuable roles within their communities

2,500 other charity donations. £1.1m given to local charities and community activities across our network

People

£460m of wages, salaries and benefits paid to our employees

Responsible for all or part of the pensions of over

18,000 people

£260m cash contributed to our pension schemes in the last 5 years

Employing people in over **750** local communities

Our people

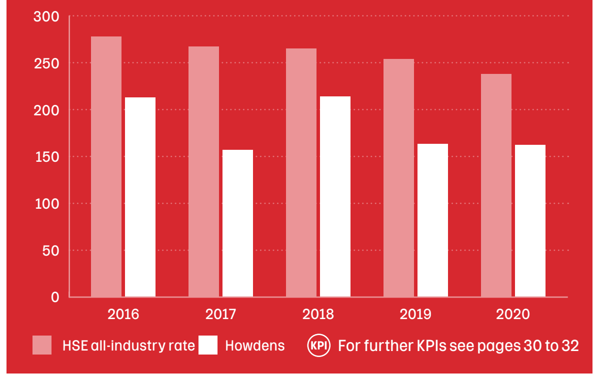
Keeping our people safe and healthy

2020 highlights

- We have around 10,000 employees and we want all of them to be able to work safely every day.
- We are pleased that our safety KPI - the level of RIDDOR reportable injuries - continues to be significantly lower than the Health & Safety Executive's all-industry average. This gives us a strong base to build on as we continue to look for further improvements in working practices and ways to develop our safety culture.
- We successfully achieved the international safety standard ISO 45001 in our factories and logistics network. This standard builds on the outgoing standard, OHSAS 180001, and expands its focus from safety systems to safety leadership and culture.
- We continued to roll out our behavioural safety/safety culture approach across the business. We have always committed to developing, implementing and improving safe systems of work, and this has continued during 2020 with particular emphasis on re-engineering working processes in our factories, warehouses and depots in response to COVID-19.
- Our manufacturing and distribution operations were awarded a distinction - the highest grade - in the British Safety Council International Safety Awards. These prestigious international awards are evidence-based, and they recognise best practice in occupational health, safety and wellbeing.
- In our depot network we were very pleased to be awarded the International Institute of Risk & Safety Management's Technology Risk Management Initiative of the Year. This award was in recognition of a major project that involved us working with our fork lift supplier to develop a bespoke warning alarm system that alerts our fork lift drivers against trying to lift loads which are above the recommended capacity of the fork lift truck. Following a successful development phase, we then made the investment to retrofit the alarm system to our fleet of over 700 fork lift trucks. All new trucks are fitted with this system as standard.
- During 2020 we continued to see the benefits of our Safe to Trade change management programme in the depot network. Amongst a range of measures which we featured in detail in our 2018 report, this programme uses video books in each depot to deliver health & safety information and training in an appealing and easy to access format. This way of getting up to date messages to the depots was particularly useful in 2020 when we were able to use it to get the latest COVID operating procedures, bulletins and alerts to depots at the drop of a hat.

KPI

Reportable injuries/100k employees
32% below HSE all-industry average in 2020



For further KPIs see pages 30 to 32

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **COMMITMENT:** Achieve ISO 45001 across our UK depot network by the end of 2021.
- **TARGET:** Achieve the British Safety Council 5-star safety standard across all manufacturing and logistics sites by the end of 2023. This standard requires an independent audit of our safety practices and goes far beyond the requirements of current health and safety management systems. Undertaking this audit will allow us to objectively demonstrate our commitment to achieving excellence in health and safety standards.
- **ONGOING WORK:** Continue to roll out a behavioural safety and safety culture approach across the Group. We will do this based on outputs of the HSE Safety Climate Tool. This tool gives local managers tangible information on where their safety culture strengths and areas of improvement are and allows us to set objective-based targets. Enhance the maturity of Health & Safety in the workplace.
- **ONGOING WORK:** Development of a wellbeing strategy across the Group in 2021.

Rewarding careers, opportunities to develop and thrive

2020 highlights

- We were very pleased to win 14th place in the Sunday Times 2020 Best Big Companies to Work For survey. We received a two-star Best Companies accreditation recognising our outstanding commitment to workforce engagement and were also given special recognition in the 'Giving Something Back' category for the support we do for our local communities and the environment.
- We've done extensive work throughout 2020 to support employees dealing with the impact of COVID. During the national lockdown over 8,000 employees were furloughed and the Group kept staff pay ahead of Government requirements throughout the year. We prioritised staff health and safety, with regular risk assessments and new controls to ensure COVID-secure environments across all locations.
- We've done detailed work to support ongoing remote working arrangements for office-based staff. Over 800 staff continue to work remotely, and we've supported them to ensure they have safe working environments at home. We've communicated regularly with our remote workers and surveys have shown that over 91% have said that we've supported them well throughout the disruptions.
- Further work is in hand to teach managers new skills to best support and lead their teams as remote working continues.
- We've continued to invest in developing the next generation. We currently have over 450 apprentices on a range of tailored programmes throughout all areas of the business.

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **ONGOING WORK - Equality Diversity and Inclusion:** Building on our 2020 pilots, we will roll out initial EDI introductory training to all line management in 2021. We will also further develop our EDI roadmap and strategy for 2021-2025.
- **ONGOING WORK - Social Mobility:** In 2021 we will begin our investigation and data-gathering phase to see what contribution we can make to improve social mobility through the career development opportunities we offer our people.

Case study
COVID-19

H&S response in the depots

When lockdown started we temporarily closed all our depots as staff and customer safety was our first priority.

We used this time to study safety guidelines and best practice and to develop safe systems of work so that we could reopen responsibly.

We supported our staff on their return to work and were pleased when they told us that they quickly felt reassured by the measures in place, and in fact felt 'safer than in supermarkets'.

H&S response in the supply chain

As a manufacturing business, we were not required to close our factories and warehouse under lockdown. However, we chose to close them for a short period of time so that we could assess the risks, re-engineer processes where necessary, and keep our people safe.

Returning to work after the temporary shutdown was not easy. Our people, culture and commitment to keep each other safe helped us to come back to work with confidence. We worked together on the new controls, we were sensitive to peoples' anxieties and home circumstances and we listened to each other where things could be improved.

It is testament to each of our staff that we adapted to new ways of working, protected service to our depots and their customers and most importantly, kept each other safe.

Employee wellbeing

As a response to the pressures of lockdown, we tripled the number of wellbeing sessions we ran in 2020. These covered topics such as resilience in difficult times, and also helped employees with practical tips for dealing with the pressures of change, the stresses of working remotely, and the importance of exercise and good diet.

Sustainable supply chain

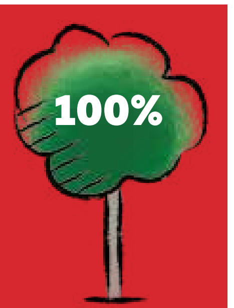
Certified wood, responsible purchasing, efficient distribution

2020 highlights

- We used 220,000 cubic metres of chipboard and 49,000 cubic metres of MDF in our factories in 2020 - enough to fill the Albert Hall 3 times - so we need to know where our timber comes from.
- FSC/PEFC certification means that the wood comes from responsibly-managed forests and that we have independent documented evidence of an unbroken chain of ownership all the way from the forest to us - via the mill, the importer and our suppliers.
- We are also members of the Timber Trade Federation and are recognised by them as a 'Responsible Purchaser' which means that we have third-party assurance on our timber purchasing due diligence systems.
- Our transport fleet drove around 15 million miles in 2020 so we need it to be both efficient and safe. All of our trucks comply with the latest emissions standards, and we've fitted further refinements to the standard build to increase efficiency and reduce emissions even further.
- We also invest in safety and energy-efficiency training for our drivers. We combine this with the latest in-cab telemetry and a system of daily debriefs where driver behaviour is assessed against energy-efficiency and safety targets. We reward drivers who reach the highest standards and we work with any drivers who need help to improve.
- In recent years, we have invested in training our own new drivers via a driving apprenticeship scheme. We were very proud in 2020 when one of our drivers who had come through this apprentice scheme was awarded Young Driver of the Year in 'the UK's premier HGV Driver Awards'. The award recognised the highest level of achievement in both safety and fuel economy.
- All of our buyers and our compliance team have taken and passed the Chartered Institute of Procurement and Supply's Ethical Procurement & Supply training, and we have a rolling programme of refresher training on Modern Slavery and Anti-Bribery. We've supplemented this in 2020 with a bespoke online course on FSC and PEFC chain of custody standards and timber regulations.
- Our Modern Slavery Statement can be found here: https://www.howdenjoinerygroupplc.com/governance/modern-slavery-statement.

KPI

100% of chipboard & MDF used in our manufacturing processes from FSC® or PEFC™ certified sources



KPI For further KPIs see pages 30 to 32

Responsible Purchaser
Timber Trade Federation

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **TARGET to reduce energy consumption:** MPG improvement targets for our distribution fleet. Targeting a 1% improvement by 2021, with a further 2% by 2023.
- **TARGET to increase energy use efficiency:** CO_2 KG/M3 emission targets for our distribution fleet. Targeting a 5% reduction in 2021, with a further 2% by 2023.

Case study

UK depot waste backhaul

One of the new projects that helped us cut our UK depot waste percentage to landfill by 30% in 2020 was developing a 'backhaul' waste recovery system using our own distribution fleet.

When we deliver stock to depots, we collect waste from them. Depending on the type of waste material, we then either return it to our factory or warehouse sites where we already have sophisticated reprocessing facilities, or we take it directly to wood processing facilities across the country. This means that a large volume of this waste is recycled into chipboard and ultimately back into our new cabinet production.

In the first part-year of this project, we have made over 8,000 waste backhaul collections and dealt with 2,000 tonnes of waste.

Sustainable product

Development, re-engineering and a sustainable strategy

2020 highlights

New product development

- All the new kitchen frontals introduced in 2020 were from either FSC or PEFC certified sources.
- We introduced a new engineered stone flooring which has a pre-attached underlay made from 100% recycled plastic bottles. Every 50m2 saves 550 bottles from ending up in our oceans and polluting our landscapes. In 2020 this equated to Howdens saving 400,000 bottles. This underlay also takes 90% less water and 50% less energy to produce.
- We also launched two of our own-brand Lamona washing machines with a drum made from plastic containing recycled plastic bottles. Each drum contains 60 recycled bottles, and sales of these appliances were equivalent to an energy saving from the recycled plastic of 0.9m kWh per year, enough energy to power 270 homes.

Product re-engineering

Because of the scale that we operate at, small changes can have big effects. Some 2020 highlights were:

- We used to supply spare plastic installation clips with some of our cabinets, but we realised that our customers were not using them. Instead we made the clips stronger and supplied fewer clips with each cabinet. This simple change will avoid using around 10 tonnes of plastic per year.
- We did a similar thing with hinge packs on some of our units, which will avoid using around 9 tonnes of steel per year.
- Looking again at the protective packaging on one of our larger units meant that we'll avoid using enough packaging each year to fill a small house.
- Two-thirds of our Lamona ovens have an integrated plastic handle to aid with lifting during installation, this year we have changed the plastic to one made from 100% recycled fishing nets recovered from the oceans.

Our sourcing strategy

- Our sourcing strategy helps us to build sustainable partnerships with our suppliers. In lockdown we committed to support our customers by sticking to our in-stock business model. This gave us a commercial advantage, but it also had a significant positive impact on our suppliers. By maintaining the inbound flow of products we kept the production lines and supply chains of several factories both in the UK and abroad flowing when they were facing big reductions in demand from their other customers.
- We have invested in our own UK manufacturing so that we can make more of the new product which we previously bought in from Europe. This supports local communities and staff where our factories are based, and also brings the environmental benefits of shorter supply chains. As an example of this, the additional product we made in-house in 2020 saved us transporting nearly 100 container loads into the UK from Italy.
- We take control of our bought-in products from the EU at producers' factory gates wherever possible. This means that we can make the transport more efficient, by consolidating loads and moving them from road to rail. In 2020 around 90% of our freight from the EU was dealt with in this way, saving around 2,000 tonnes of CO_2 as well as giving us much greater control, transparency and flexibility in an extremely challenging period for our supply chains.

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **TARGET:** 100% of our kitchen frontals to have FSC or PEFC timber accreditation by the end of 2022.
- **TARGET:** 100% recycled corrugated cardboard in our own packaging by the end of 2022.
- **TARGET:** Introduce code of practice for all timber suppliers. This is to enhance our existing trading terms with suppliers and be clear on our commitment and expectations regarding ESG standards within the supply base and throughout the supply chain.

Our environment

Reducing waste, responsible operations, lowering emissions

2020 highlights

- **Zero to landfill in 2020 in our manufacturing and logistics operations.** We've had less than 5% of this waste going to landfill for several years, but getting to zero in 2020 represents a terrific achievement and is the culmination of years of hard work.
- When we started on this journey five years ago, we recognised that we could achieve zero to landfill immediately - by sending all our site's produced waste to offsite energy recovery. However, we also knew the right way for us was to follow the internationally recognised principals of the 'Waste Hierarchy'. This approach promotes removing or minimising the use of resources in the first instance, and then maximising the amounts of waste that we can reuse, recycle and recover. Doing things this way takes longer as it is significantly more difficult due to the need for finding innovative solutions for the small amounts of residual waste that remains. However, it's the better solution in the long term for all concerned.
- An example of how we were able to move from 0.2% of waste to landfill in 2019 to zero in 2020 is the boiler ash we generate at one of our factories. Historically we'd had to send this to landfill as it couldn't be processed further in transfer stations or sent direct for recovery.
- During 2019, we worked with our on-site's waste management contractor to explore alternative routes for this ash by re-analysing the content and then looking for alternative disposal outlets. We identified an opportunity for it to be taken to composting and aggregate recycling sites in the UK for them to further process and recreate a reusable end product. Following stringent compliance checks carried out on various suppliers we were successful in approving an aggregate recycler who now accepts our boiler ash in its current form and blends with their existing products to recreate a reusable material, giving it a new life and avoiding it ending up in landfill.
- **Moved from 40% to 10% to landfill in our UK depots.** Waste management across our 750 depot network is a bigger challenge than it is in our manufacturing and logistics operations, but we are pleased to have made significant progress in 2020, and we give more details of how we have found an innovative solution to the wood waste in the case study on page 58. There is still work to do to close the final 10% gap and we continue to put in place processes to deal with the difficult items and scenarios. We set out our commitment to close that gap below.
- **ISO 14001.** Our manufacturing, warehousing and transport are certified to ISO 14001 Environmental Management System. This assures us that we have sustainable processes in place and also encourages us to look for improvements.
- **Sawdust-to-heat.** in 2020 we converted 11,000 tonnes of sawdust into energy in biomass boilers at our Runcorn and Howden factories. This is enough sawdust to fill over a dozen Olympic swimming pools, and it would otherwise have to have been transported elsewhere to be reused. Using it to heat our factories also saves us money. We generated over 40,000 MWh of energy from our biomass boilers, equivalent to the average electricity consumption of over 10,000 households.
- **Green Gas.** We've reduced our electricity demand from the grid in 2020 by using gas to generate electricity onsite at both of our factories. We've offset the impact of this change using certified biomethane or 'Green Gas', which has reduced our net carbon equivalent emissions from manufacturing by around 33% compared to 2019.

KPI

100% of production and warehouse waste reused, recovered or recycled

100%

KPI For further KPIs see pages 30 to 32

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **COMMITMENT:** Zero to landfill across our UK depot network over time, with a target of less than 5% to landfill by the end of 2022. As we've done with our manufacturing and logistics waste, above, we intend to use the principles of the waste hierarchy to eliminate the 10% of depot waste that currently goes to landfill in a responsible way.
- **COMMITMENT:** Carbon neutral manufacturing by the end of 2021.

Greenhouse gas and emissions reporting

Greenhouse gas and emissions reporting

Gross emissions have increased in by 0.3% in 2020 but carbon offsetting has reduced net emissions by 22.6%

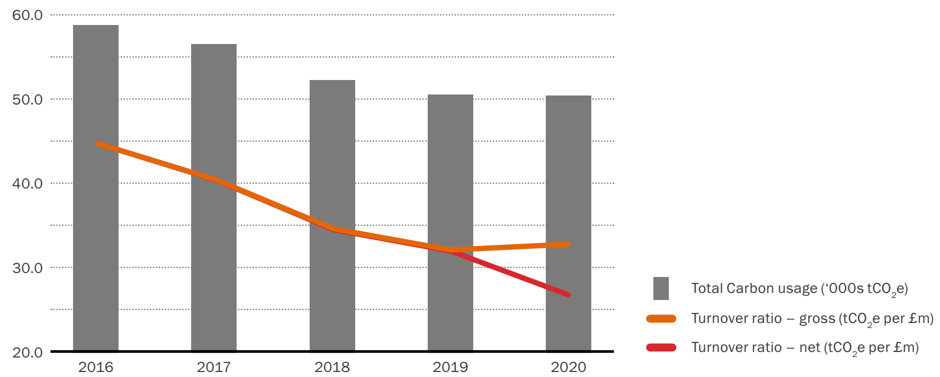
We reduced our electricity demand from the grid In 2020 by using natural gas to generate electricity at our factories. This increased our gas use which in turn has increased our gross emissions. However we have offset this by using 'Green Gas' biomethane, backed up by certificates of Renewable Gas Guarantee of Origin, with the result that our total net carbon equivalent emissions from manufacturing after the offset are 33% lower than 2019.

Howdens are Standard Bearers for the Carbon Trust Standard, and we have committed to being carbon neutral in manufacturing by the end of 2021.

	Total CO_2 emissions (Tonnes) 2020	Total CO_2 emissions (Tonnes) 2019
Scope 1 - Direct: Gas	13,032	2,622
Scope 1 - Direct: Diesel	24,744	28,705
Scope 1 - Direct: Other fuels	629	690
SCOPE 1 - DIRECT: TOTAL	38,405	32,016
Scope 2 - Indirect: Electricity	11,968	18,517
SCOPE 2 - INDIRECT: TOTAL	11,968	18,517
TOTAL (Scope 1 and 2) gross emissions	50,373	50,532
Carbon Offset: Green Gas credits	(9,168)	0
Total net emissions after carbon offset	41,205	50,532
Turnover (£m)	1,547.5	1,583.6
Turnover ratio (Gross tCO_2e per £m)	32.6	31.9
Inflation adjusted turnover ratio (Gross tCO_2e per £m)	34.0	33.1
Additional turnover ratio (Net tCO_2e per £m)	26.6	31.9
Additional Inflation adjusted turnover ratio (Net tCO_2e per £m)	27.8	33.1
Total energy consumed (kWh)	179,523,458	201,067,293
Proportion of CO_2 emissions generated in the UK:	98.9%	99.0%
Proportion of total energy consumed (kWh) in the UK:	98.2%	98.4%

Emission source data is converted to carbon tonnes using the conversion factors published by BEIS.

Our record over the past five years is shown on the chart below.



CARBON TRUST STANDARD

REDUCING CO2 YEAR ON YEAR

Our communities

Local and national donations

2020 highlights

Local donations, nationwide reach: £1.1m donated to over 2,500 local charities

Despite all of the challenges 2020 has thrown at us, our enthusiasm for supporting the communities in which we operate is as strong as ever. Lockdowns and ongoing restrictions have made it harder for charities, community groups and public services to operate, and we have had to adapt how and where we give our support.

In the first half of the year, when the full extent of lockdown restrictions were unknown, depots donated personal safety equipment and cleaning materials to the NHS and other key workers. From hospitals in Antrim to hospices in Weymouth, our depots donated stock to where it was needed most.

Later in the year we focused on our cash donations. We made an additional £1,000 available per depot for depots who had already used their 2020 charity budgets and any unutilised charity budget was split locally and donated to hospices, care homes, mental health and homeless charities.

More information about our 'Truly Local' approach to charity and community giving can be found at https://www.howdenjoinerygroupplc.com/about/in-the-community/truly-local

Employee donations

Howdens once again received the Charities Aid Foundation Gold Award in respect of charitable donations made via payroll giving. In 2020, our employees donated over £200,000 to their chosen charities. The generosity of our employees, even during times of crisis, is something of which we are very proud.

In recognition of the difficulties facing charities resulting from COVID-19 restrictions, members of the Howdens Board and Executive Committee donated a proportion of the salaries to charities in 2020 via payroll giving. In total, these donations amounted to £104,000.

Leonard Cheshire Disability partnership

Our partnership with Leonard Cheshire Disability entered its 16th year in 2020. Whilst our joint fundraising activities were curtailed by COVID-19 restrictions, Howdens donated over £120,000 to the 'Can Do' programme during the year.

We regard the principle of independent living as being central to our enduring partnership with Leonard Cheshire Disability and five inclusive kitchens were fitted in Leonard Cheshire care homes across the UK in 2020. We would have liked to have installed more and will increase this number in 2021.

Case study

'I can & I am'

'I can & I am' is a charity whose purpose is to inspire confidence and to 'inflate balloons of self-belief'. The charity was founded by the inspirational educational speaker James Shone, who visits hundreds of schools and businesses every year speaking to teachers, parents, pupils and employees.

Following James' speech at The Golden Rooster Awards 2020, our annual awards event attended by nearly 1,000 employees, Howdens gifted a refurbished double-decker bus to 'I can & I am'. The lower level of the bus features a Howdens kitchen used for groups of young people to learn new skills, whilst the upper level is used for mentoring as well as teaching a variety of different skills and workshops.

More information about the 'I can & I am Bus' can be found at https://www.icanandiam.com/the-bus/

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

ONGOING WORK: We will take the learnings from the COVID-19 crisis and will look to make more impact with our community donations in the future. We want to improve how we organise ourselves in respect of charitable giving and better help the communities in which we work, whilst retaining our core strength of local giving through local networks.

Strategic report
Governance
Financial statements
Additional information

Going Concern and Viability statements

Going Concern

The Directors have adopted the going concern basis in preparing these accounts and have concluded that there are no material uncertainties leading to significant doubt about the Group's going concern status. The reasons for this are explained below.

Assessment of principal risks

The Directors have reached their conclusion on going concern after assessing the principal risks, including the risks arising from COVID-19 and Brexit.

Five main themes relating to COVID-19 and Brexit risks, and which were subject to particular scrutiny by the directors were:

Theme	Mitigations and other considerations
Can we source the necessary supplies of raw materials and finished goods?	
• Are suppliers able to make and deliver? Will suppliers be able to remain in business? • Transport of goods into and out of EU	• Increased stockholdings of key products • Strong relationships with suppliers. Continuing to place orders and receive stock • Long-term supply arrangements • Obtained preferred importer/exporter status to reduce potential customs delays
Can we continue to manufacture, distribute and sell?	
• Safe working practices	• Safe working practices across factories, warehousing, distribution, depots, and offices • Robust disaster recovery capability
How will customer demand be affected?	
• How will our builder-customers be affected? • How will end-user consumer confidence be affected?	• Long-term relationships with builders give us good visibility of future market trends and end-consumer demand • Regularly reviewing our forecasting models
Can we maintain sales volumes and margins?	
• Changing consumer tastes • Competitor actions • Pressure on input costs and sales prices	• Continued new product introduction, strong in-stock position, excellent service, support and convenience for our customers • Flexible operating model that can react quickly
Do we have sufficient financial resources and working capital?	
• Sufficient underlying cash • Sufficient working capital	• High cash balance increases resilience against uncertainties • Ability to review distributions and capital allocation model as economic conditions change

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

Going Concern and Viability statements continued

Going Concern continued

Review of trading results, future trading forecasts and downside scenario modelling

The Directors have reviewed trading results and financial performance in 2020, as well as early weeks trading in 2021. They have reviewed the Group balance sheet at December 2020, and the appropriate levels of working capital, including higher inventory and cash balances.

They have also considered three financial modelling scenarios prepared by management:

1. **A 'base case' scenario.** This is based on the Group's latest budget, which was approved by the Board in January 2021.

   This scenario assumes capital expenditure in line with the announced plans for new depot openings and additional investment in our manufacturing sites. It also includes a cash outflow for the dividend payment which the Board will propose at the Annual General Meeting in May 2021, and which is detailed in note 11 to the Group Financial Statements.

2. **A 'plausible downturn' scenario.** This scenario starts with 2019 sales - taking the view that 2019 was the last normal full year of trading - and models a going concern period where those sales are reduced by 7% and margin is at 2020 levels. This compares to 2020 actual performance where sales were down 2.3% on 2019.

   This scenario maintains the same cost base as the base case, despite assuming a reduction in sales. It assumes capital expenditure and dividends at the same level as the base case.

3. **A 'reverse stress-test' scenario.** This scenario starts with the plausible downturn model and reduces sales even further, to find the maximum reduction in sales that could occur with the Group still remaining cash positive over the whole going concern period, without the need to borrow or take mitigating actions.

   This scenario maintains the same cost base as the base case, despite assuming a reduction in sales. It assumes capital expenditure at around two thirds of the level of the base case - which is broadly at a level which would cover maintenance capex, plus the full planned investment in new manufacturing and digital capability, plus half of the planned new depot openings and refurbishments. It assumes no dividend.

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

In the reverse stress-test scenario, the results show that sales would have to fall by 40% before the Group would have to draw on borrowing facilities or take further mitigating actions. The likelihood of this level of fall in sales was considered to be remote.

Borrowing facilities and mitigating actions

All of these scenarios are modelled on the basis that the Group does not draw on its existing £140m borrowing facility that could provide additional headroom.

In the reverse stress-test scenario, the EBITDA covenant in the Group's existing £140m facility would need to be renegotiated or partially waived for the facility to be available. However, our stress testing looks at the level of fall in sales before the Group would need to borrow, and so it does not assume that the facility will be available.

Whilst the plausible downturn and stress-test scenarios assume reduced sales, they both assume the same cost base as in the base case scenario. They do not assume, for example, reduced transport and delivery costs, a lower headcount, lower bonuses or tax payments. They do not assume any Government assistance - for example through furlough payments or business rates relief - nor do they assume any restructuring actions which the Group could take.

All these assumptions build additional elements of prudence into the scenario modelling.

Conclusion on going concern

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

Long-term prospects and viability

Assessment of long-term prospects

The Directors have assessed the Company's long-term prospects, with particular reference to the factors below:

Current position

- History of resilient profits, strong net profit margins.
- Cash and cash equivalents balance at December 2020 of £431m.
- Debt-free. Consistently cash-generative. Proven ability to maintain strong cash balances whilst also investing for growth and returning cash to shareholders.
- £140m borrowing facility, which expires in December 2023, if needed.
- Strong relationships with suppliers and customers, built on trust.
- Proven ability to flex the operating cost base in a severe economic downturn.
- Robust disaster recovery and business continuity framework.

Strategy and business model

- Proven, successful business model.
- Scope, and resources, for growing the depot network in line with announced plans.
- Clear strategic direction.

Robust assessment of principal risks

- The Directors' role in the risk identification, management, and assessment process is outlined on pages 38 to 47, together with details of the principal risks and mitigations.
- Specific detail on how the Directors have approached their review of COVID-19 and Brexit risks is set out in the discussion of going concern, above.
- The Directors are satisfied that they have carried out a robust assessment of the Company's principal risks.

Assessment of viability

Time period and scenario modelling

The Directors' review of the Company's long-term viability used a three-year period as this aligns with the Company's strategic planning process.

The financial modelling to support the assessment of viability was based on the three scenarios used for the going concern assessment and detailed above.

1. The base case scenario is a three-year forecast which covers the viability assessment period and assumes an increase in sales and profit over this period.
2. The plausible downturn scenario took the same decline over the going concern period as is detailed in the discussion of going concern above, and then assumed a phased recovery over the rest of the 3 year period. It assumed that sales recovered cautiously, and in line with IMF future economic forecasts for the UK and France. On gross margin, which had been modelled at 2% down on 2019 over the going concern period, the model assumed an improvement of 1% each subsequent year, thereby returning to the 2019 margin level by the end of the viability assessment period.
3. In the reverse stress-test scenario, the model assumed a phased recovery of margin and profit on the same bases as for the plausible downturn scenario. This was then stress-tested to find the maximum amount by which sales in the first year would have to fall before the Group would no longer be cash positive at any point in the viability assessment period, without borrowing or taking further mitigating actions.

The Directors consider that the reasonably foreseeable financial effects of any reasonably likely combination of the Company's principal risks are unlikely to be greater than those effects which were modelled in the plausible downside and reverse stress-test scenarios.

Going Concern and Viability statements continued

Long-term prospects and viability continued

Results of scenario modelling

The results of the base case and plausible downturn scenario modelling showed that the Company would have sufficient cash over the viability assessment period and would not need to use its borrowing facility.

The reverse stress-test showed that the level of fall in sales required in the first year of the viability assessment period before the Company would need to use its borrowing facility at any point over the viability period was over twice the fall modelled in the plausible downturn scenario.

None of the scenarios factored in any mitigating actions that would be open to the Company in the event of a severe downturn, and which are discussed in the going concern assessment above.

In the reverse stress-test scenario, the EBITDA covenant in the Group's existing £140m facility would need to be renegotiated or partially waived for the facility to be available. However, our stress testing looks at the level of fall in sales before the Group would need to borrow, and so it does not assume that the facility will be available.

Conclusion on viability

Having taken into account the Company's current position, strategy, business model and principal risks in their evaluation of the prospects of the business, the Directors concluded that they have a reasonable expectation that the Company will continue to operate and to meet its liabilities as they fall due during the three year period to December 2023.

Further reading

Principal risks and mitigations, including a review of the risks arising from COVID and Brexit	**Pages 38 to 47**
Management actions to secure stock availability, workplaces and distribution routes	**Pages 22 to 29**
Trading results	**Pages 33 to 37**
Balance sheet	**Page 139**
Details of our £140m borrowing facility	**Page 159**
Auditor's report, with details of their work and conclusions on going concern and viability	**Pages 177 to 186**

Other Directors' statements

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 accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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.
- 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.
- 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.

Section 172(1) statement

The Board reviews all matters and decisions through the consideration and discussion of reports which are sent in advance of each of their meetings and through presentations to the Board. When the Directors discharge their duty as set out in section 172 of the Companies Act 2006 ('section 172' or 's.172'), they have regard to the other factors set out on page 78 and they also consider the interests and views of other stakeholders, including our pensioners, regulators and the government, and the customers of our trade customers.

The Directors are required to include a statement of how they have had regard to stakeholders and the other factors set out in section 172(1)(a) to (f) when performing their duty. The full s.172(1) statement may be found on pages 78 and 79. On page 79, we have set out examples of how the Directors have had regard to the matters in s.172(1)(a) to (f) when discharging their section 172 duty.

Non-financial reporting

In order to consolidate our reporting requirements under sections 414CA and 414CB of the Companies Act 2006 in respect of Non-Financial Reporting, the table on page 135 shows where in this Annual Report and Accounts to find each of the disclosure requirements.

Disclosure of information to the auditor

Having made the requisite enquiries, the Directors in office at the date of this report have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each of the Directors has taken all the steps they ought to have taken as a Director to make themself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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 Group and Company, and the undertakings including the consolidation taken as a whole;
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Andrew Livingston
Chief Executive Officer

Paul Hayes
Chief Financial Officer

HOWDENS

Made by us. Supplied and fitted by the trade