

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.

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.

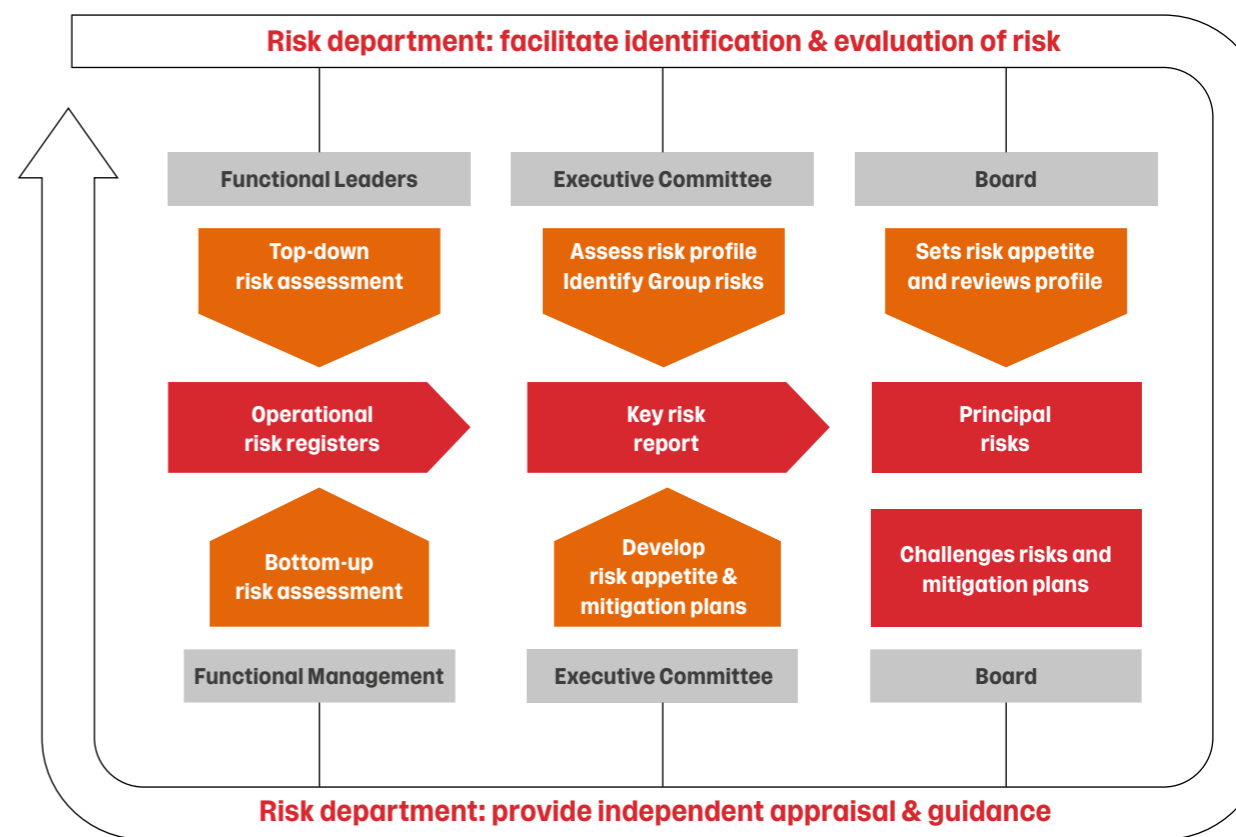
Where appropriate, emerging risks are escalated to the Executive Committee and Board as part of our regular risk reporting.

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

The risk management process

The main steps in the process are set out below:



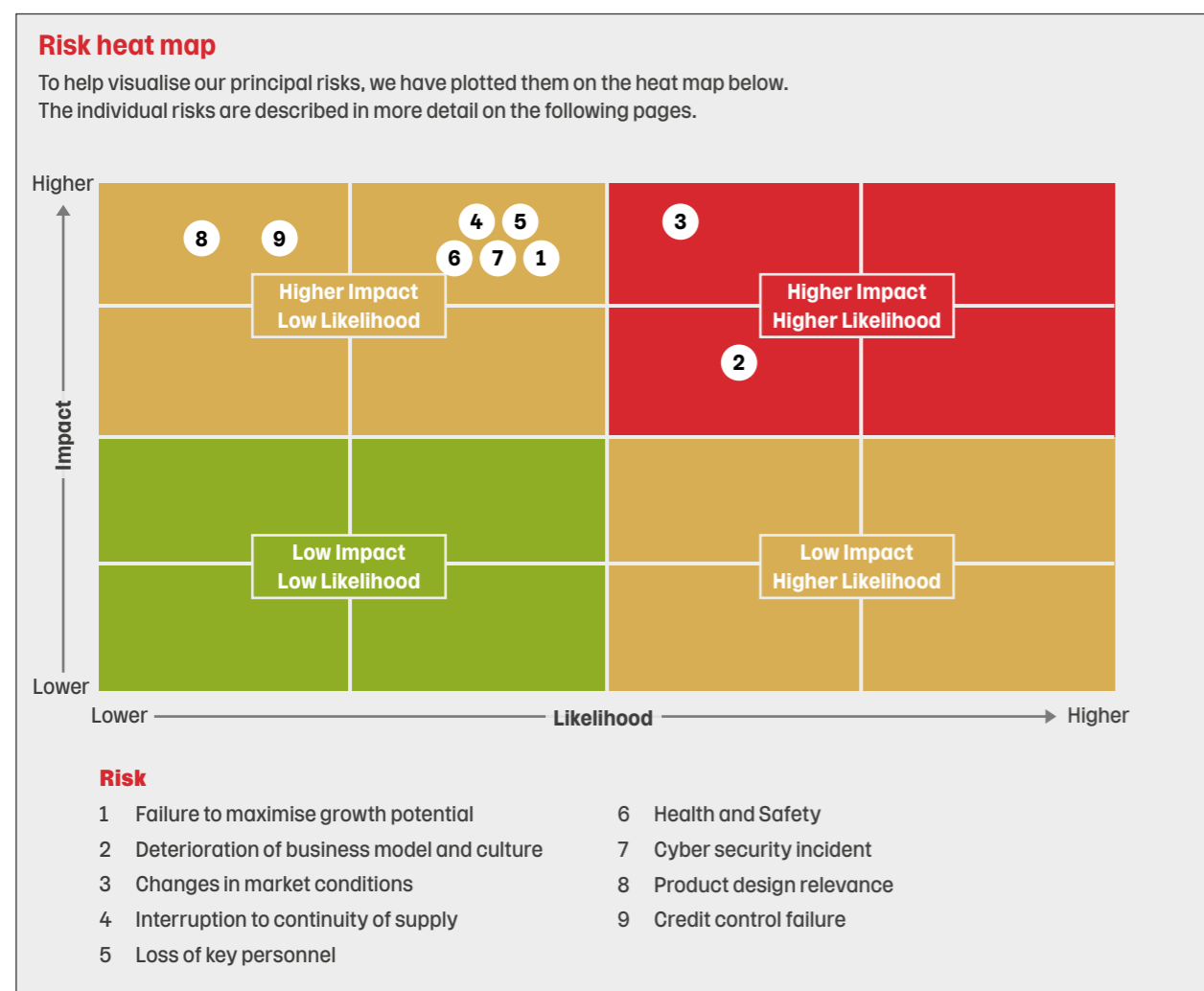
- **Functional Management** review their risks regularly, to update their **Operational Risk Register**. They assess the likelihood and impact each risk could have on the business if not managed, identify what mitigations are in place to establish how much risk remains and discuss future mitigation strategies, 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

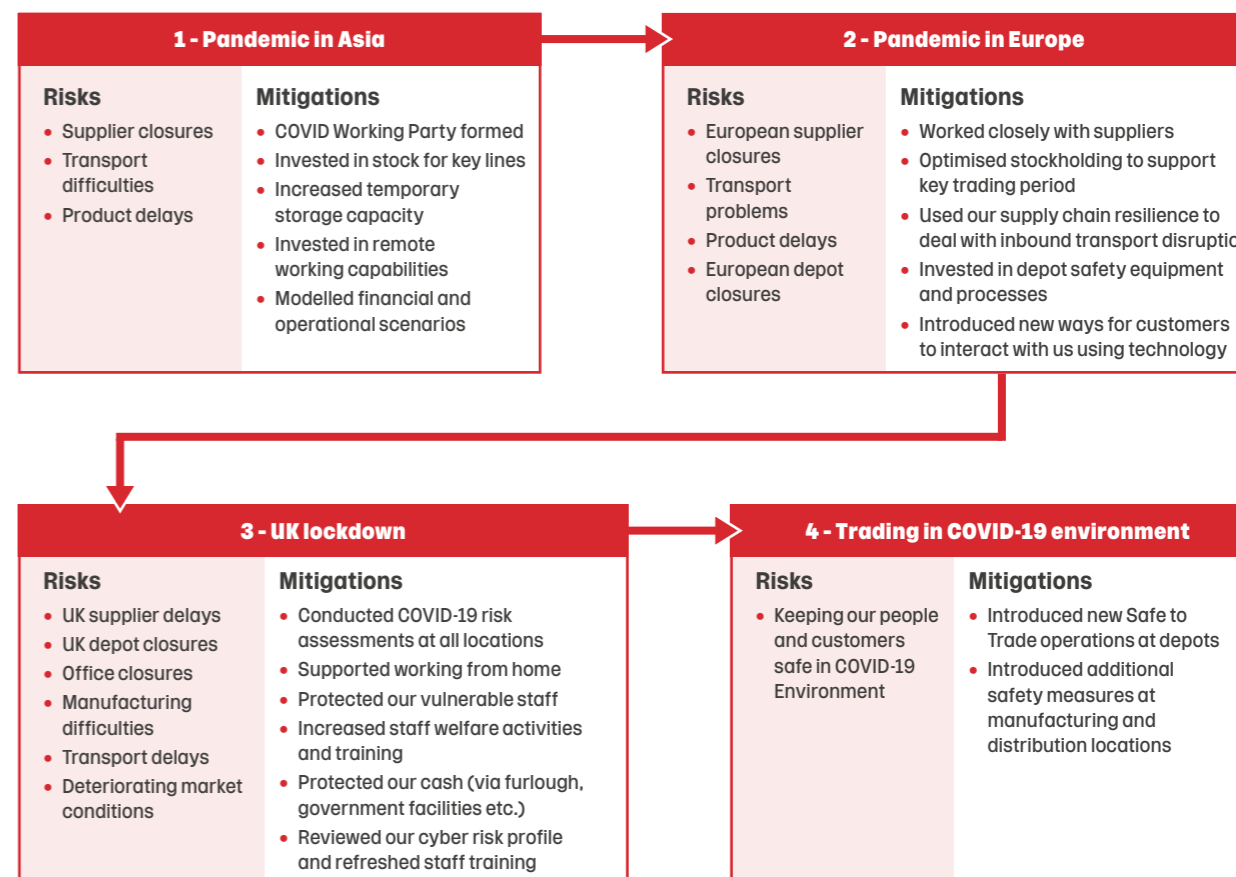
Principal risks

- 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



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.



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	Board	Monitoring	Use of Experts	Stakeholders	External Commitments	Supporting our staff
Set up COVID-19 governance framework for managing crisis using existing Business Continuity measures.	Called an Extraordinary Board meeting to discuss risks and mitigations and confirm governance arrangements. Audit committee review of governance response.	Set up monitoring and provided regular updates to Board and Executive Committee.	Used internal and external expertise to understand changing environment and adapt to it.	Kept stakeholders informed and supported them, in line with our culture.	Considered impacts on our internal and external stakeholders when making key decisions (see examples on pages 79 to 81).	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.

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 brought 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

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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

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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.