HOWDENS

Annual Report and Accounts 2019

Howden Joinery Group Plc

HOWDENS

What Howdens stands for

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

Our Mission

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.

Our Culture

Howdens is worthwhile for all concerned.

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Additional Information

Performance in 2019

£1.6bn
Revenue
(2018: £1.5bn)

62.3%
Gross margin
(2018: 61.7%)

£260m
Operating profit
(2018: £240m)

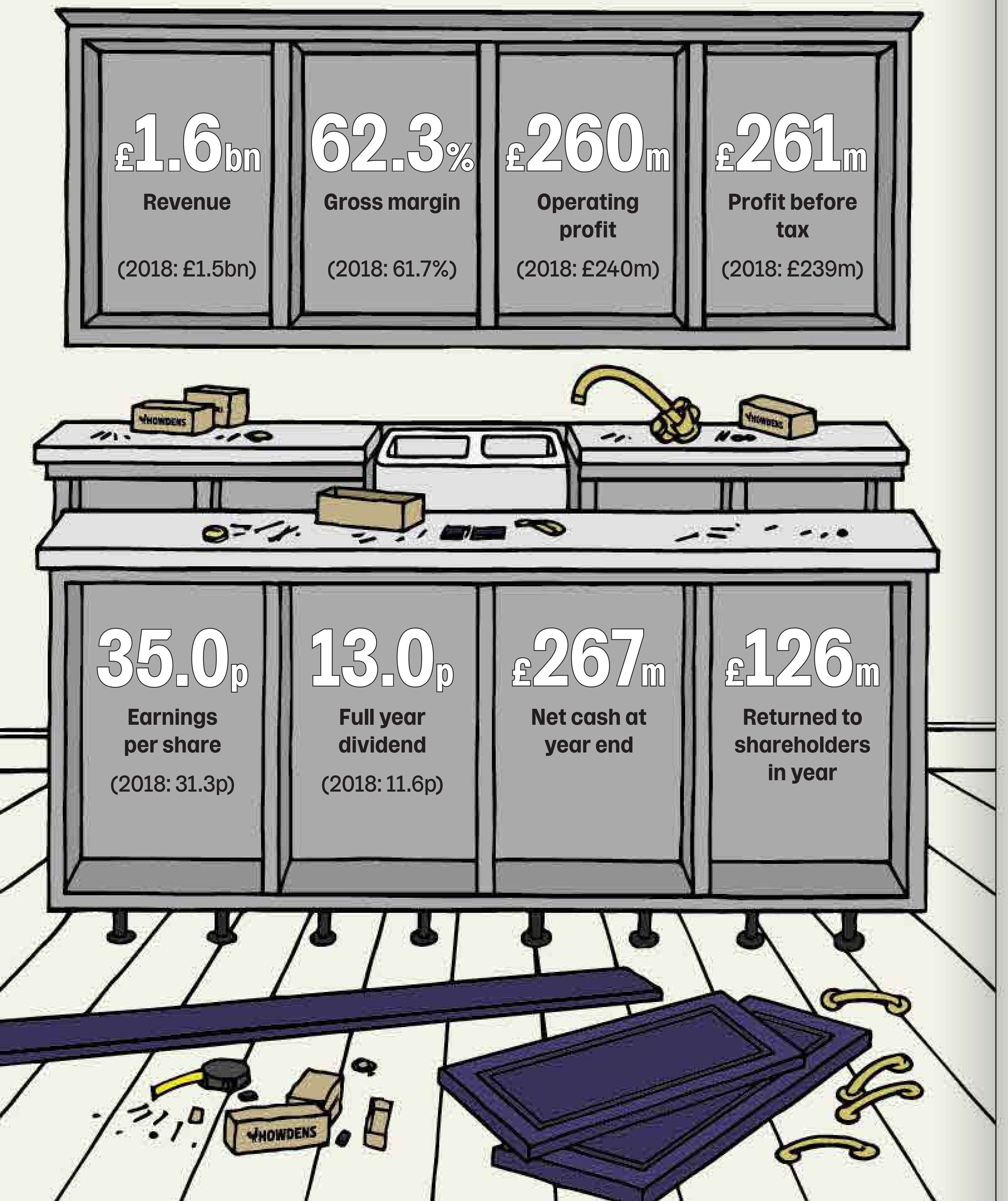
£261m
Profit before tax
(2018: £239m)

35.0p
Earnings per share
(2018: 31.3p)

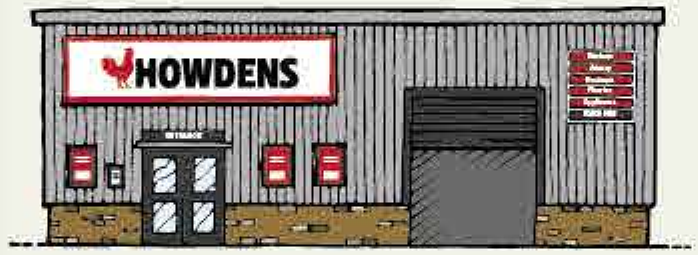
13.0p
Full year dividend
(2018: 11.6p)

£267m
Net cash at year end

£126m
Returned to shareholders in year



39
new UK depots opened



New
commercial structure

12
new kitchen ranges introduced

25
new Lamona appliances introduced

Awarded the Manufacturing Guild Mark

Manufacturing Guild Mark
Awarded by The Furniture Makers' Company

Launch of the new digital platform

Chairman's statement

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 £1.6bn in 2019, representing annual growth of 4.8%.

Profit before tax grew faster than sales and was £261m - a growth of 9.4%.

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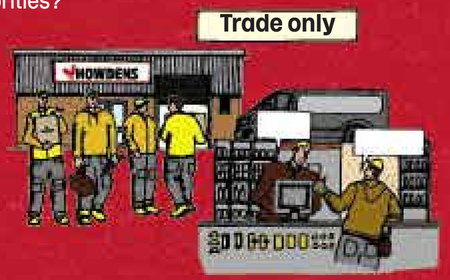
What Howdens stands for, Our Culture, Market, Business Model and Strategy

Why does Howdens exist? What are our values? What's our market, how do we operate and what are our priorities?



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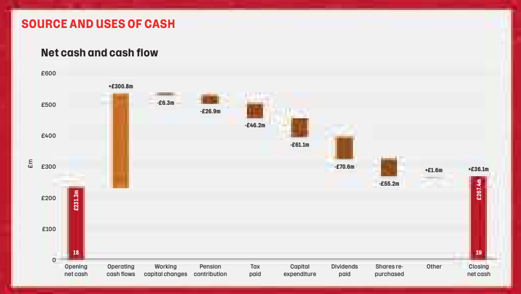

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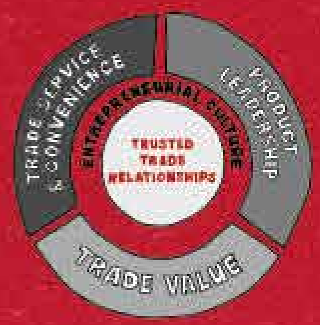
Chief Executive's statement

Howdens knows what it stands for: 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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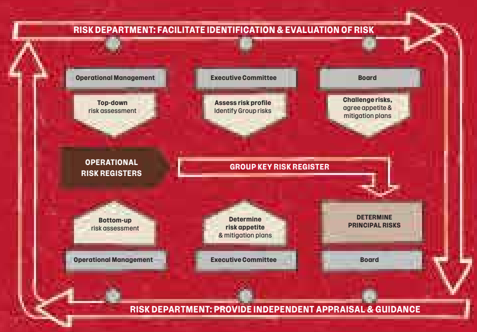
Principal risks and uncertainties

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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Strategic report

Sustainability matters

Why sustainability matters to us. What are our material areas. Our impact on our stakeholders. Sustainability KPIs and our progress in 2019 in our material areas.

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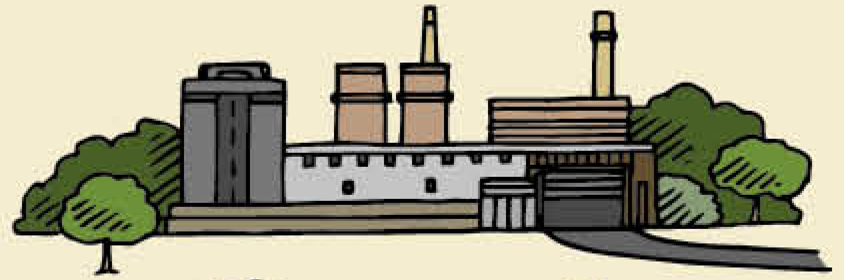
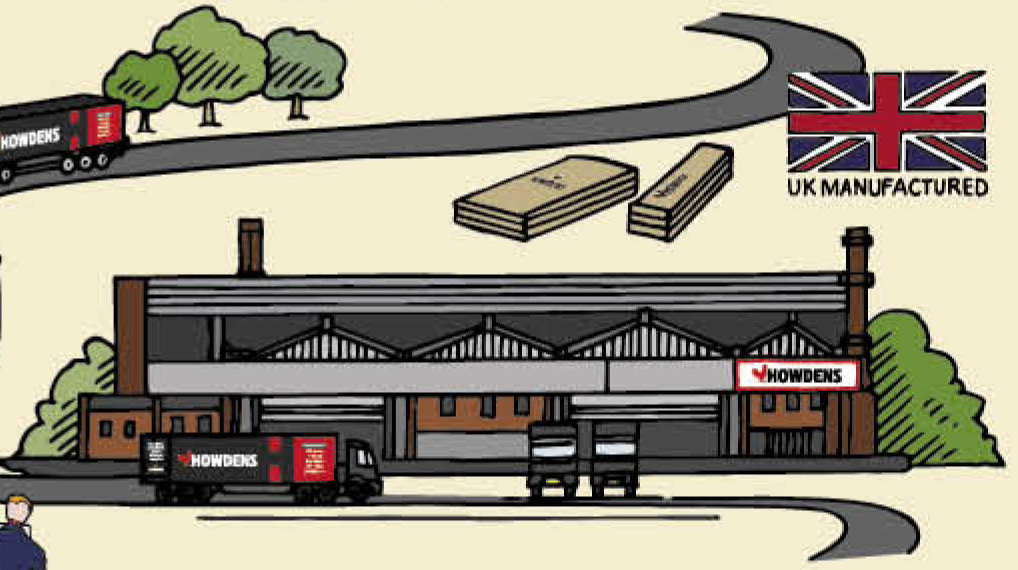
Howdens at a glance

The UK's largest kitchen supplier



Resources and relationships

- Trusted supplier relationships give access to latest products at best prices
- Efficient, sustainable manufacturing and distribution
- Skilled and motivated workforce

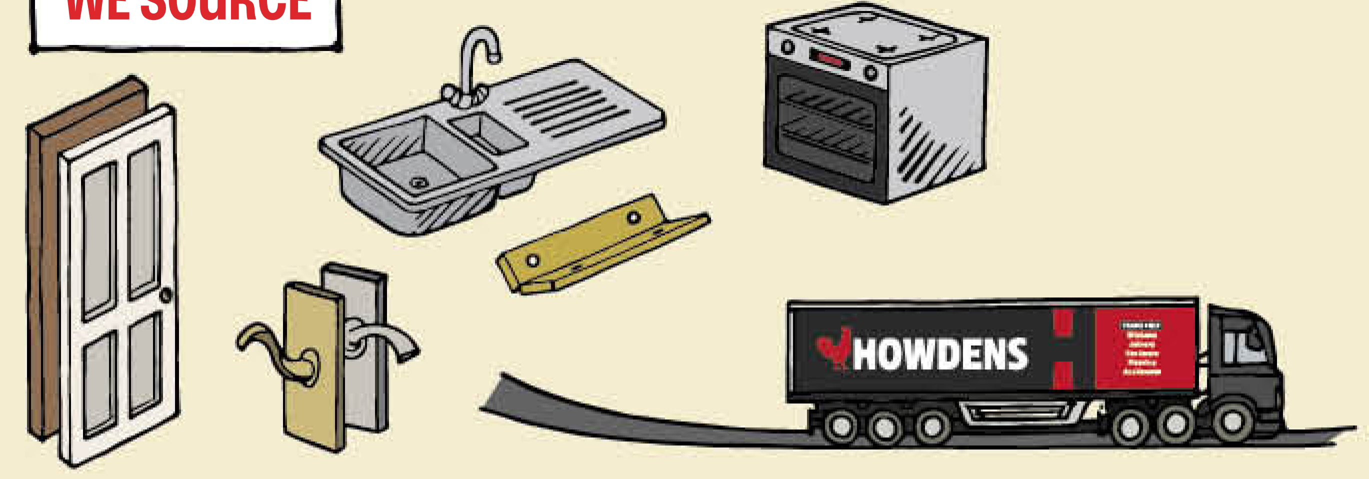


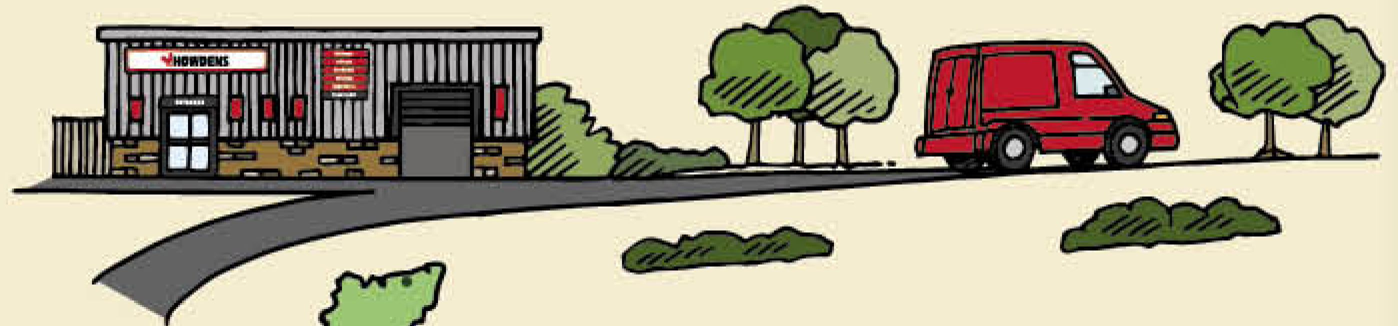
WE PRODUCE

How do we create value?

- UK's largest kitchen supplier. Market share brings economies of scale
- Our own factories, warehousing and distribution network
- Low cost with high quality
- Agile and efficient. Make vs. buy option
- Lamona own-brand offering. Commissioned to our specifications

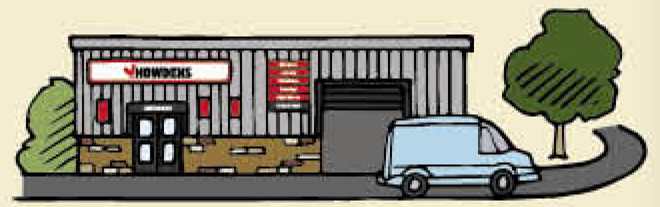
WE SOURCE





Over 700 UK depots

WE DELIVER EXCELLENT SERVICE ACROSS OUR NATIONWIDE LOCAL DEPOT NETWORK



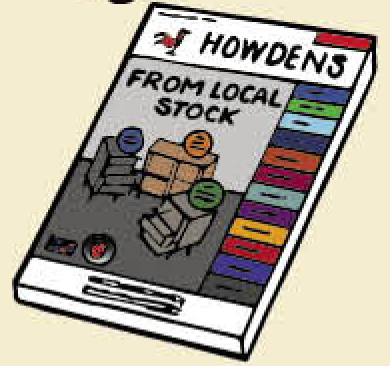
WE DISTRIBUTE

Resources and relationships

- Decentralised business model. Empowered local depot managers
- Our own supply chain, serving over 700 local depots nationwide
- 85% of customers less than 5 miles from a depot
- Trusted customer relationships
- Skilled and motivated workforce
- The right product in stock

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

WE SUPPORT THE BUILDER



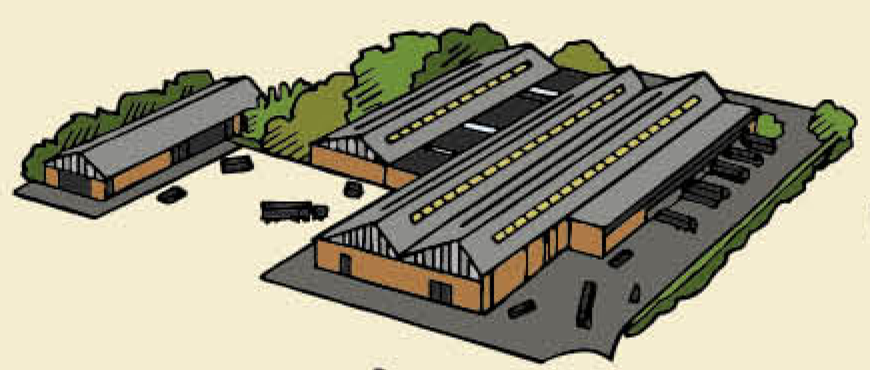
How do we create value?

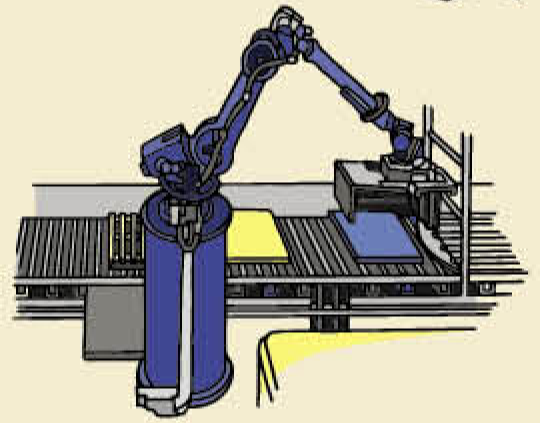
- Trade-only, with excellent service
- Helping our trade customers to succeed in selling to their customers:
  - Trade accounts
  - Design and planning services
  - Home visits for end-users
  - Marketing materials
  - The right product. In stock in local depots

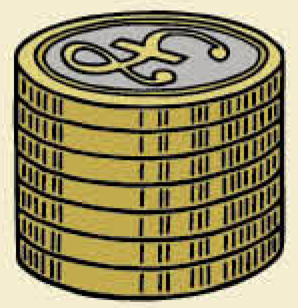
WE ARE WORTHWHILE FOR ALL CONCERNED

Outcomes and impact

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

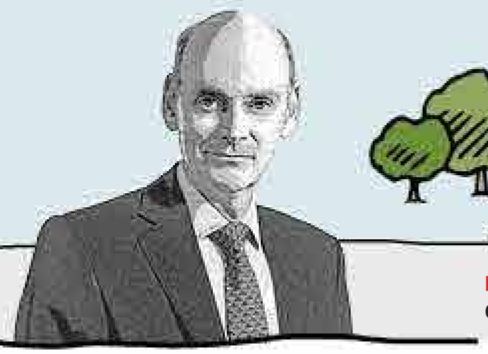






quality and confidential trade terms... and to provide the builder's customer with enough choice, advice and aftersales to make a home to be proud of.

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.

CONTINUED GROWTH

I am pleased to report that 2019 saw further progress for Howdens. Against a backdrop of muted consumer sentiment and political uncertainty, we continued to grow the business while investing for the future. Sales increased by 4.8% compared to 2018, with an improvement in gross margin to 62.3%, from 61.7% in 2018, reflecting good discipline on pricing. Volumes also started to pick up in the second half. We successfully absorbed the additional costs that resulted from volume growth and general cost inflation.

Our sales growth, improvement in gross margin and focus on operating costs resulted in profit before tax increasing to £260.7m, from £238.5m in the prior year. This was pleasing, given that the figures include the costs of starting to upgrade our digital capability and closure costs following our decision to discontinue our trials in Germany and the Netherlands.

The management team spent a considerable amount of time in 2019 preparing for the possibility of Brexit occurring at various points in the year and under various scenarios from 'hard' to 'soft' Brexit. Whilst, ultimately, nothing happened, shareholders can be reassured that the Company was ready for any eventuality and will be again as clarity emerges through 2020.

Our business model allows us to be agile in an uncertain and changing market environment. We performed well against our financial and non-financial key performance indicators ('KPIs'), as shown on pages 32 to 34. Andrew Livingston discusses our performance in more detail in his review of the year on pages 22 to 31 and Mark Robson in his financial review on pages 35 to 39. We talk about What Howdens Stands For and our Culture on pages 14 and 15.

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 five years, investing around £264m in the business.

During 2019, we opened 39 new depots and continued to invest in the next phase of our distribution strategy focused on Raunds in Northamptonshire. We significantly improved 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 our capital expenditure for 2020 will be approximately £80m as we continue to open new depots and two further distribution facilities at Raunds.

RETURNS TO SHAREHOLDERS

Earnings for the year were 35.0p per ordinary share, an increase of 11.8% on the prior year (2018: 31.3p) as a result of the profit improvement and the cancellation of shares bought back over the year.

In line with our stated dividend policy, which is set out in detail in the Financial Review on page 36, the Board is recommending a final dividend of 9.1p, resulting in a total dividend for the full year 2019 of 13.0p, an increase of 12% on the prior year (2018: 11.6p). This increase reflects the Board's confidence in the prospects for the business.

We announced a two year £60m share repurchase programme in February 2018, which we completed during the first half of 2019. In February 2019, we announced a further two-year programme of £50m, half of which was completed during 2019. We expect to complete the remainder of the February 2019 programme during 2020. Together with £71m in dividend payments, Howdens returned £126m to shareholders in the year.

The Board is mindful of the changing economic landscape and change in tone in many areas of the UK consumer market. We do have cash surplus above and beyond our requirements for working capital and the final dividend for 2019, and will carry out a further £85m share buyback programme over the next two years.

BOARD

We welcomed Louise Fowler to the Board as an independent Non-Executive Director in November 2019. Louise is currently a non-executive director of Assura Plc. She has also previously served as a non-executive director at Benenden Health, Stockport Hydro Ltd and Britannia International. Louise has over 25 years' marketing, customer and digital experience at a senior level in the travel and financial services industries. Following her appointment, Louise became a member of the Audit and Remuneration Committees and, following the completion of a formal induction programme, a member of the Nominations Committee.

Tiffany Hall retired from the Board in September, having served three terms as a Non-Executive, the last four years as Remuneration Committee Chair and two years as Senior Independent Director In December, Mark Allen retired from the Board, having served as a Non-Executive Director since May 2011, being a member of the Remuneration, Audit and Nominations Committees. We are grateful to both Tiffany and Mark for their service and contribution to Howdens. Following Tiffany's retirement, Geoff Drabble has become our Senior Independent Director and Karen Caddick our Remuneration Committee Chair.

FURTHER READING

See my introduction to our Governance Report	Page 66
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See our Board of Directors	Page 68

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.

GOVERNANCE AND SUSTAINABILITY

Howdens has a clear governance framework and we strive to 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 2019 can be found in our Corporate Governance Report, starting on page 66. 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 to all concerned. Fundamentally, each of our depots represents a place in a local community and our people are encouraged to participate in community life. In 2019, the Group donated around £2.25m to good causes.

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 80. We are also pleased to report that, in the first year in which the new Code applied, 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'), which was approved by shareholders in 2019, stipulates that Executive Director new joiners' pension contribution rates must match that available to the wider workforce. Our incumbent Executive Directors' pension provision rates, while in line with Policy for existing Directors, do not yet match the wider workforce. This is because the reduction of fixed, contractual remuneration must be done carefully and proportionally over time. Both Andrew and Mark, our two Executive Directors, are fully supportive of their respective rates tapering as set out on page 93 of the Remuneration Committee Report and the Board confirms that existing Executive Director pension provision rates will be in line with the wider workforce by the AGM in 2022.

Board meetings conducted in 2019 were structured, as normal, to address the Board's collective responsibilities in relation to strategy, performance and governance. In our Corporate Governance report this year, we have set out the highlights of the matters the Board considered during the year. Inevitably, time was also spent considering mitigating actions that may be required in the event of a disruptive period following the UK's exit from the European Union.

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 40 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 be able to grow to around 850 depots in the UK, and will be opening around five new depots in France during 2020.

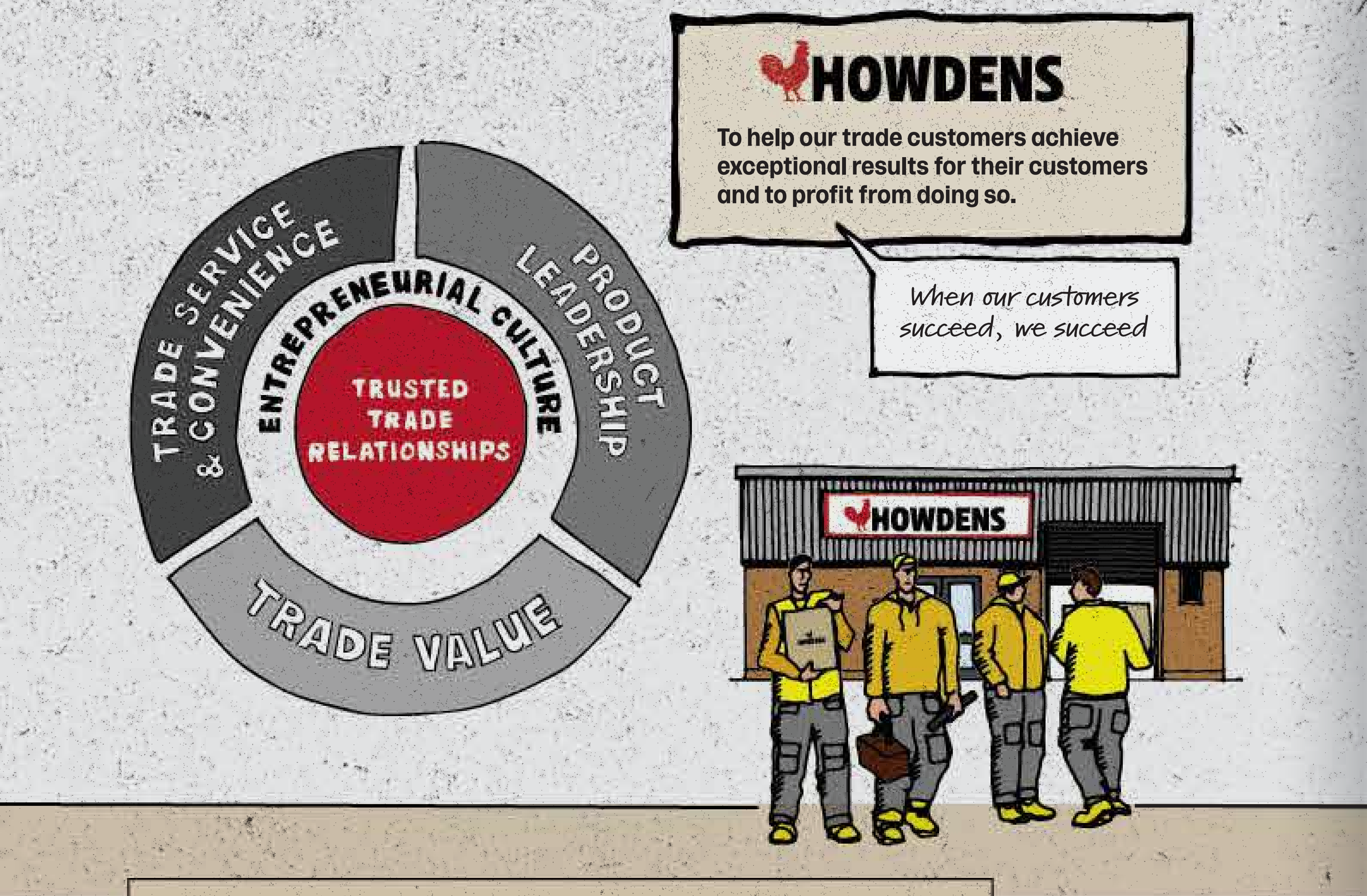
Following 39 UK depot openings in 2019, we anticipate around 30 in 2020.

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, as the UK moves into a post-Brexit world. 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 stability and 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 2019.

Richard Pennycook
Chairman

26 February 2020

What Howdens stands for



What Howdens stands for

"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.

Andrew Livingston
Chief Executive Officer

Our culture

Our Culture

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
- 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 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

29

million homes in the UK

18m owned, 11m rented

THE UK MARKET

In the UK there are approximately 29 million homes; 18 million owned and 11 million rented. For many years now we have seen the market move from DIY to 'done-for-you'. If people want a modern kitchen, they increasingly look to a small builder to fit it.

The consumer environment has been mixed over the last few years. Increases to stamp duty in 2016 affected purchases of 2nd homes, and the potential impact of Brexit led to subdued consumer confidence over the last two years. However we continue to see a good level of investment in new house builds and customers have continued to invest in kitchen refurbishments. With a more settled political environment we do not expect the market to worsen over the next 18 months.

HOWDENS' PLACE IN THE UK MARKET

We are the biggest seller of kitchens in the UK, with a market share of around 30%.

We primarily sell to small builders who work across many sectors of the market. Our kitchens are fitted in a wide range of end-uses, including private rentals and social housing, as well as all kinds of owner-occupied homes. Our contracts division, which was started in 2017, is continuing to grow rapidly, creating opportunities to expand our presence in the new-build contract market, a growing area of the UK housing landscape.

We also supply a wide range of doors, joinery, appliances and everyday hardware products used by joiners meaning that our customers have a one-stop shop for everything they need to complete the kitchen job.

In 2019, Howdens sold over 4 million kitchen cabinets, along with 800,000 appliances, around 700,000 sinks and taps, over 2.5 million doors and close to 3 million square metres of flooring.

TREND: CHANGING LIFESTYLES

The kitchen is at the heart of every home. Whether our homes have small or grand kitchens they play an important part in our everyday lives. They need to be highly functional as the pace of life increases, but also be that social place, the centre of the family, where life happens.

There are two significant trends affecting kitchen design. Firstly, open plan living continues to increase in popularity so not only are our kitchens required to be the heart of the home, but on display as a statement of our personal style. Secondly, with the increase in the build of smaller homes, and therefore the increased pressure on space, kitchens need to excel in function and form in compact places.

As our way of life changes, we need our kitchens to change. We expect increased functionality, complexity and design. As a result, the choice of design, styles and colours can feel endless which is why having the help and advice of an expert designer coupled with the knowledge of a trade professional is the best option to create the dream kitchen.

CONSUMER EXPECTATIONS AND HOW WE ARE RESPONDING

Expectations about what the kitchen can do, and what we can do in it, have changed significantly in the last few years. This pace of change has accelerated with the changes in digital and the role which social media plays in influencing and inspiring our customers. The early work we are doing on our digital platform and website to develop inspirational content is proving very successful, and customers are also reacting well to the engaging content we've published on social media following some great collaborations with influencers throughout 2019.

Customers are demanding more functionality, more choice and more sophistication from their kitchens, whatever their budget. Whether they are looking for an open plan kitchen to entertain in or a compact highly functional space we need to make sure we are able to offer kitchens to meet all these needs, whilst still making things as easy as possible for our depots, trade customers and end-users. The linear kitchens we are launching in early 2020 will help fulfil these demands. They take a number of common parts from existing ranges, a dedicated factory-built cabinet, and create a completely new look.

BUILDER EXPECTATIONS AND HOW WE ARE RESPONDING

As end-users demand greater complexity in their kitchens, so builders want sound advice to meet those demands. As kitchens become more complex, we are increasing our investment in people with specific skills, such as kitchen designers.

Our designers support the builder by visiting the end-user's home to carry out a survey, plan and create a kitchen design which captures everything that the end-user wants from their kitchen. They will then present the design to the builder and end-user in the comfort of one of our depot presentation rooms.

Builders benefit from us being there with expert knowledge to support both them and their customer all the way through the design and planning process. Both builders and end-users need to deal with people who are knowledgeable about kitchens - and we offer that important service.

OUR FRENCH AND BELGIAN MARKETS

At the end of 2019 we had 25 depots in France and two in Belgium - managed within the French structure. During 2019 we added five depots in France, mainly around our cluster of existing Paris depots. This allows us to capitalise on the brand presence and customer base which we have built in that area, as well as to draw on the pool of staff from the existing depots who understand the benefits that the Howdens model offers to builders.

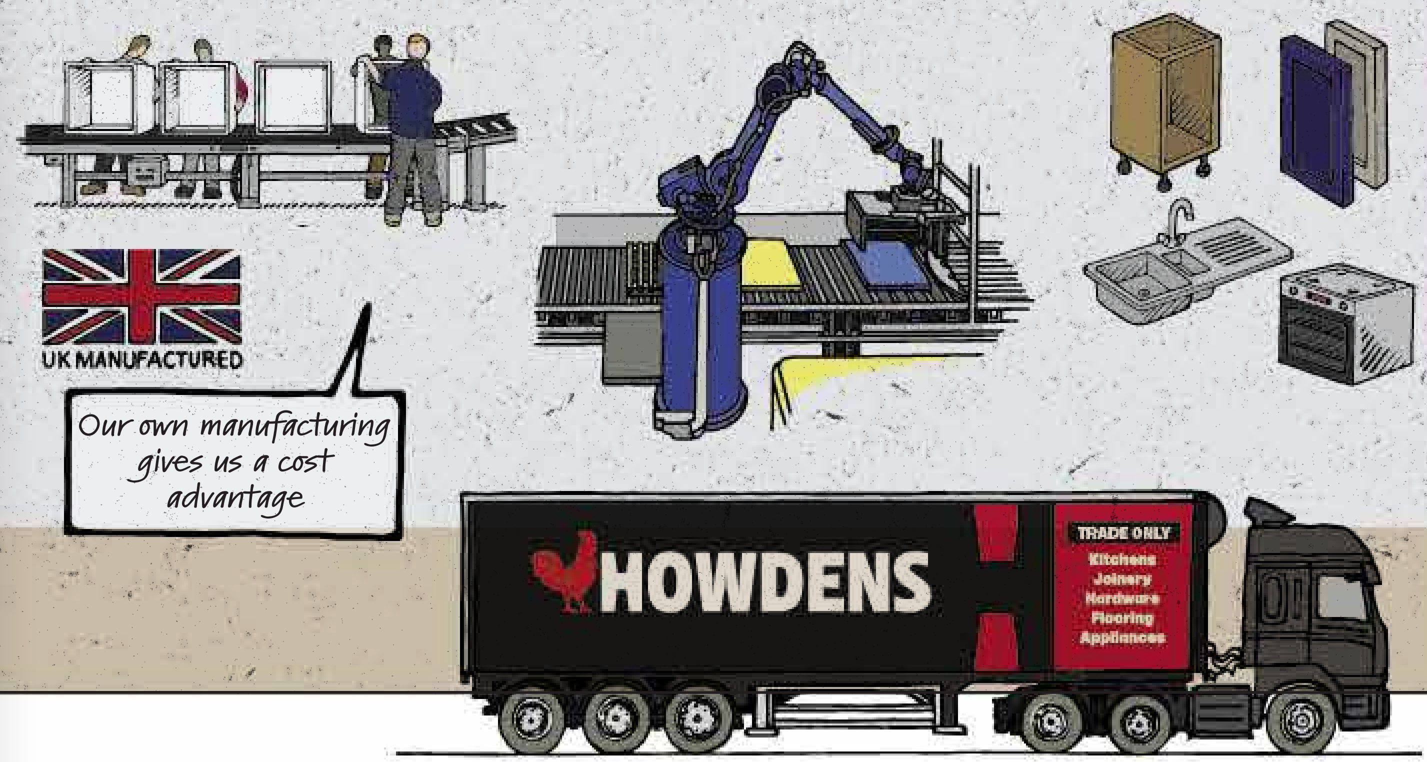
Compared to the UK, we have found that these markets have a lower proportion of integrated kitchens and a higher proportion of kitchens that are sold through retail, DIY and specialist shops. This was what the UK market was like when we first entered it with our trade-only model. Experience in our depots shows us that trade and end-users appreciate buying a kitchen in our way.

Our business model

Trade only

From local stock nationwide

Dedicated manufacturing sourcing and distribution



Our business model is:

- **Trade only. Completely focused on our trade customers. When they succeed, we succeed**
- **From stock, in local depots. Nationwide coverage with best local pricing**
- **Entrepreneurial, low-cost depots who understand their customers**
- **Supported by our own UK manufacturing sourcing and distribution operations**
- **Low cost and scalable. Flexible and proven. Generating cash for investment and returns**

TRADE ONLY. TRADE FOCUSED.

- The best way to source and install a modern kitchen is to work with a skilled local tradesperson.
- Our business model is completely focused on serving those trade customers.
- We provide quality products and excellent levels of service and support to help our customers succeed.
- When our customers succeed, we succeed.
- Trade accounts give builders up to eight weeks before they need to pay us.
- Builders can complete the job and get paid by their customer before their debt to us is due.
- We collect our debts. Total cost of credit control, bad debts and write-offs is less than 1% of sales.
- Our 1,600 specialist kitchen designers support the builder and help their profitability.
- Product website and catalogues help the builder sell to the end-user.
- Trade book and enhanced digital capability puts the depot in the builder's pocket.

FROM STOCK, IN LOCAL DEPOTS WITH NATIONWIDE COVERAGE

- Time is money for a small builder. They have to react quickly.
- End-users delay the start of jobs, so builders need to bring forward the next job and start immediately or they lose money.
- End-users change their mind part-way through a job, so the builder needs to change something or buy something extra.
- Our in-stock proposition and our nationwide network of local depots mean that builders can save time and make more money by choosing Howdens.
- 85% of our UK customers are less than 5 miles from a depot.

ENTREPRENEURIAL, LOW COST DEPOTS WHO UNDERSTAND THEIR CUSTOMERS

- A new Howdens depot opens with a manager and a small number of staff.
- We don't have the high costs associated with selling kitchens to retail customers.
- A typical Howdens depot is 10,000 square feet or less, is in an edge-of-town location which is cheaper to rent and more convenient for our trade customers, has a low fit-out cost, and breaks even in its second year.
- Depot manager and staff are responsible for growing their account base and their sales, and for managing their own depot margin.
- Profit-sharing is calculated locally, not centrally. Everyone is strongly incentivised to understand their customers' needs and to grow a profitable local business.
- The depot manager's autonomy is a key element of the Howdens' business model. Depot managers hire their own staff, do their own local marketing, set local pricing, manage the level of discount applicable to their account holders and manage their own stock levels to suit their own local customers.
- We attract and develop exceptional, entrepreneurial depot managers and staff who set us apart from the competition.
- The retail kitchen market typically sells to a customer once every 15 years or so. Our business is built on repeat purchases and long-lasting relationships with our trade customers. Our depots know that they have to deliver exceptional service every time, and our customers trust us to do this.

UK MANUFACTURING. EFFICIENT SOURCING AND DISTRIBUTION

- We design and manufacture all our own cabinets in our own factories in Yorkshire and Cheshire - over 4 million cabinets per year.
- Making our own cabinets gives us a significant cost advantage.
- We also make some of our cabinet frontals and worktops, as well as painted skirting boards. Other products are made to our specifications and bought in from suppliers with whom we have built long-standing relationships.
- We make what it makes sense to make, and we buy what it makes sense to buy.
- We continue to invest in our manufacturing, giving us the capacity to grow and the flexibility make product rather than to buy it in when appropriate.
- Both of our factories serve only one customer - Howdens. Their working practices and scheduling exactly match the requirements of our depots. The result is an efficient system with no unnecessary waste.
- Our in-house distribution operation provides excellent service to over 750 different depots.
- No two deliveries are alike, and each one must be correct, complete and on time. We've continued to invest in our warehousing and transport fleet to keep up with our growth and maintain our high depot service levels.

LOW COST AND SCALABLE. FLEXIBLE AND CASH-GENERATIVE

- The Howdens model is low-cost, efficient, flexible and scalable.
- We consistently generate high levels of cash which allows us to invest for growth and to return surplus cash to shareholders.

Howden Joinery Group Plc Annual Report & Accounts 2019

Our strategy

EXPAND OUR DEPOT NETWORK

Our strategy is to expand our depot network as a means to increase our share of the total addressable market.

We continue to see untapped requirement by builders for a local and convenient service. When we add a new depot near to an existing one, we see overall sales increase in the area within a short time.

We believe that there is some way to go before we have full coverage of the UK market and we continue to see significant opportunities to grow our business, with scope for up to 850 depots, some of which will utilise a smaller depot footprint. We discuss our expansion plans in more detail in our CEO's report, beginning on page 22.

DEVELOP OUR PEOPLE – MAINTAIN EXCELLENT CUSTOMER SERVICE

Our strategy is to develop our people to keep on offering even better service to our customers. Howdens' success is based on customer service: we do what we say and say what we mean. We invest to increase our empoyees' skills and to reinforce our culture, purpose and business model. All of this directly benefits our trade customers.

We look to attract the best people from outside the company and to retain the best people who are already with us. When we invest in the right people, we can grow our own leaders, who already understand the Howdens business model and culture.

INVEST FOR GROWTH. INVEST IN NEW PRODUCT

Our strategy is to invest for future growth. In order to deliver the potential we see in our market and ensure stock availability in depots as we expand, we have invested around £260 million in the last five years. We've used this investment to expand our depot network, to improve efficiency, provide for disaster recovery, increase manufacturing and distribution capacity, and to upgrade of our digital capabilities.

Investing in new product ensures that we stay relevant and can offer the latest styles and colours, which is what our customers and end-users want. We are always working on the new product pipeline.

USING DIGITAL TO REINFORCE OUR BUSINESS MODEL

We look at digital in a different way. We are investing in our digital capability as a means of further strengthening the human relationship between the builder, their customers and the depot.

Our three objectives for digital are: to increase builder and consumer awareness of the Howdens brand, making it easier for our customers to sell Howdens product; to improve communications between us, our trade customers and their customers, and to streamline and improve operating processes, freeing up staff and builder time for more productive interactions.

PRUDENT FINANCIAL MANAGEMENT

Our strategy is to be financially prudent. We maintain sufficient cash balances to allow us to meet the requirements of the working capital cycle, taking into account the marked seasonality of the business and returning surplus cash to shareholders as appropriate, which has been via share repurchases and dividend payments.

We discuss our uses of cash and our dividend policy in more detail on page 36.

RESULTS OF OUR STRATEGY IN 2019 AND STRATEGIC PRIORITIES FOR 2020

These are discussed in detail in our CEO's report, beginning on page 22, and are in the areas of:

- Expanding our depot network. 39 new depots in the UK, including 5 in Northern Ireland. 5 new depots in France.
- Evolving our depot model. Making more efficient use of space to better support our customers
- Range and supply management. New product, supply chain benefits and productivity gains.
- Digital. Brand awareness, process efficiency, putting the depot in the builder's pocket.

Chief Executive's statement

ANDREW LIVINGSTON
Chief Executive Officer

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

Revenues, margin and sales per customer all increased.

Strategic initiatives aimed at growing volumes and profits.

PERSPECTIVES ON 2019

2019 was a year of progress for Howdens and I am pleased with how the business has performed.

Both revenue and gross margin increased, and profitability improved, with operating profit increasing at a higher rate than revenues.

This in part reflects the timing of the price increase, which in 2019 was implemented in January, as compared with April in 2018, and maintenance of the improved depot margin discipline we exhibited in the second half of 2018.

In the first half of 2019 we found a more profitable balance between volume and price as compared with the first half of 2018, when a significant increase in volumes came at some cost to margin. This trend continued in the second half, against a stronger margin comparator.

In 2020, we will continue to evaluate how best to balance volume and price, to the benefit of overall profitability, in the light of prevailing market conditions as we see them.

Trading in the peak Period 11 weeks has set a new benchmark for us. Our depot teams were well incentivised and achieved record sales in the period, underpinned by the level of stock availability delivered by our supply chain and an IT infrastructure which performed without incident.

At the same time we continued to make investments in a number of strategic initiatives during the year. I will talk about these later, but first I would like to talk about our customers.

Our overall customer base in 2019 was stable and ended the year at around 470,000 credit and cash accounts. Two areas of focus were to improve our customer loyalty and the returns from our customer acquisition programme.

Sales per customer increased, as total transactions and total spend grew, with our core customers buying more often and spending more with us.

With a similar number of new credit accounts being opened as last year, new customer spend increased significantly as did profit per new account, reflecting the higher level of sales and lower acquisition costs.

WHAT HOWDENS STANDS FOR

I believe these results show that Howdens knows what it stands for:

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

OUR BUSINESS MODEL

Our 'trade only' model is a powerful combination of locally empowered depot management teams served by a dedicated supply chain, which is both cost effective and critical to the success of our in-stock offer.

Depot managers hire their own staff, manage their own local relationships, set local pricing and manage their own stock levels to suit their own local customers. Profit-sharing is calculated locally, not centrally. Everyone is strongly incentivised to grow a profitable, local business.

Whilst the Supply operation serves only Howdens, it has more than 700 depot customers, each with individual and changing day to day requirements. Our Supply operation has scale, space and flexibility to respond to these needs, and meet demand in our peak weeks of 'Period 11' trading, when sales are typically more than double the level in other periods.

STRATEGIC INITIATIVES

We introduced a number of initiatives with potential to increase volumes and profits across the business, based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership. These were:

Evolving our depot model to use space more efficiently and to create the best depot environment in which to do business and to support our customers.

Improving range and supply management to help customers' buying decisions, to access supply chain benefits and to make productivity gains.

Using **digital** to raise brand awareness, to support the business model and to free up time for depot staff and customers to use more productively.

Together with the **development our operation in France** by way of a City-based approach.

Listening to our customers – builder forums

A key feature of Howdens success is that we're trade-only. Building trusted relationships with trade customers is central to everything we do.

We hold regular feedback sessions with our trade customers so that we can identify any areas where we need to improve our offer.

These sessions are always fully subscribed, which shows that our builders appreciate that we're listening to them.

They view our relationship as a business partnership, so it's in their interests to invest their time to help us make it even easier for them to serve their customers.

We take builder feedback very seriously and we have used it to make specific improvements to products and service levels.

Howden Joinery Group Plc Annual Report & Accounts 2019

Chief Executive's statement continued

Better customer environment. Increased efficiency.

Around
30
new UK depots planned for 2020.

DEPOT EVOLUTION

During 2019 we progressed our testing of a new depot format, aimed at creating the best depot environment in which to do business with our customers, at no material change to the fit-out costs of a new depot.

By racking product vertically in the warehouse section of the depot, we believe there are ways to make space utilisation improvements, with the potential to make productivity gains from reduced picking times.

By reallocating space, in the new format we can provide a more open front area to bring depot staff closer to customers, improve both the visibility and the standard of our design facilities and nearly double the space available to display a wider range of kitchen designs.

There is also room for a small items picking area behind the counter with an improved range of everyday essential products, including hardware and ironmongery, to add incremental profit and as a way of encouraging footfall and incremental kitchen sales.

We are confident that this format is an improvement, at the same cost, on the traditional one. It was adopted for all UK depots opened in 2019, and all UK depots opened in 2020 will also be formatted in this way.

The improved densities offered by re-racking vertically have also enabled us to put our full offering into a smaller space.

We opened 8 smaller footage depots this year and intend opening more such depots in 2020. With the smaller size depots, we continue to believe there is potential for around 850 depots in the UK.

In 2019 we opened a total of 39 UK depots, including five in Northern Ireland, with openings weighted towards the latter part of the year. This represents an increase in the number of openings as compared an average of 25 per year in the previous three years.

In 2020 we plan to open around 30 more UK depots.

As I explained last year, we put in place a test to understand the rollback opportunity of the updated format in the existing depot estate.

We initially converted three older depots, and these have now been trading in the updated format for eight months or so. These depots continue to show signs of improved performance relative to depots of similar vintage, type and location since conversion.

We then converted a further eight older depots prior to the start of our peak trading period, using variations of the format.

Managing the disruption a reformat causes to a depot's day to day operations and trading patterns is a key part of the process and our experiences with these depots have helped us improve our skill base, our planning for a reformat and our understanding of when in the year to implement them. They have also helped us to develop our thinking about how to scope, structure and execute a reformat, which we are now able to complete in eight weeks. We have also refined the reformat to incorporate a smaller hardware area, reducing refurbishment and ongoing running costs.

We are pleased with the feedback we have received from both depot teams and customers at the converted depots.

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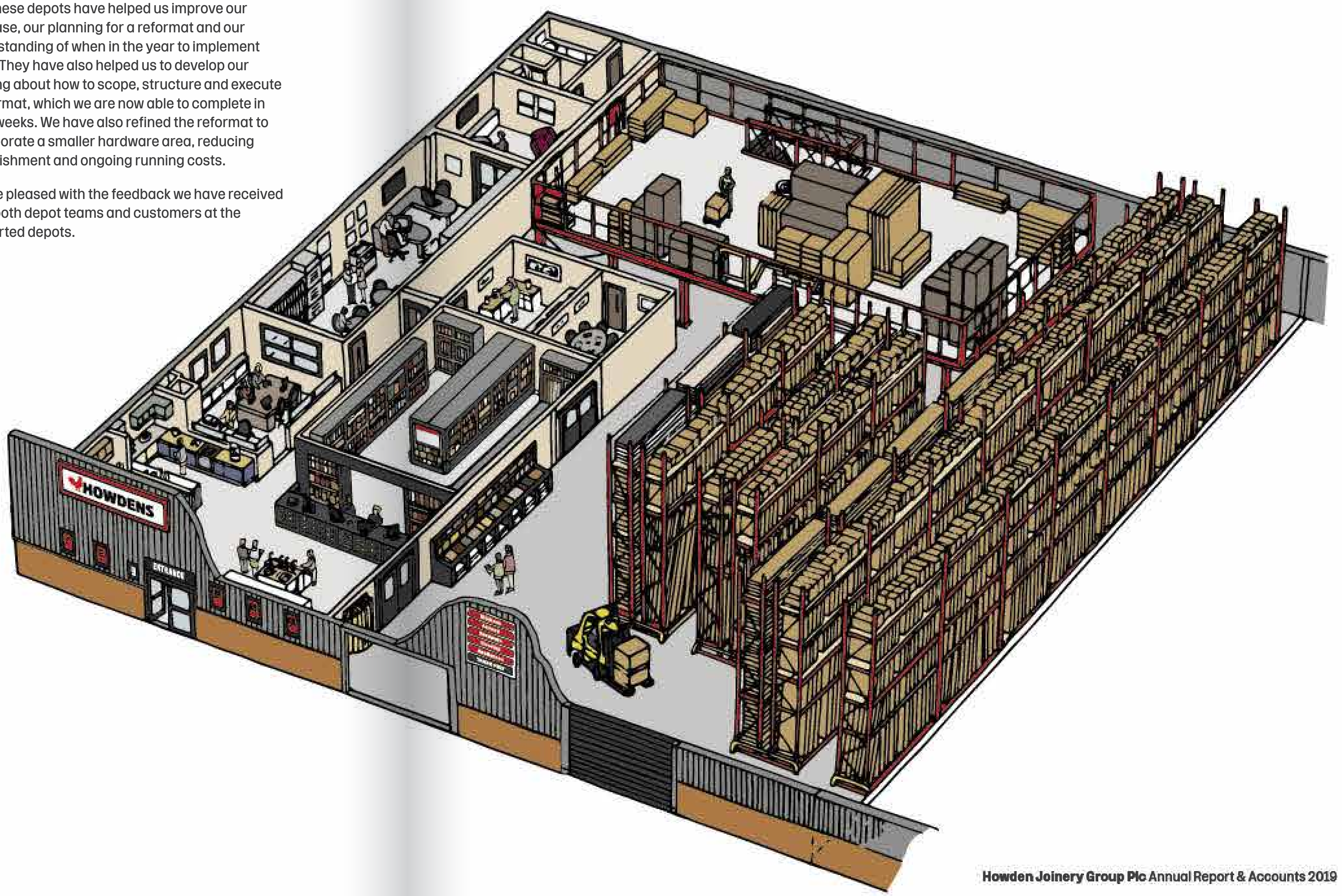
We have been sufficiently encouraged by their performance to date and the expectations of Depot Teams for them in 2020, to extend the test. We intend to convert around 30 more depots across the country so that we can continue to learn how best to apply this opportunity within the existing depot estate.

In 2020 we are budgeting for an average re-format spend of £225,000, as we apply the learnings from depots converted to date. We also plan to re-rack around a further 50 depots without other modifications in 2020.

At the end of 2019, we had a total of 71 new format depots, comprising 60 new ones and 11 refurbished ones, and we had re-racked a further 62 depots without other modifications.

By the end of 2020, assuming our depot plans for 2020 are implemented as I have described, we will have a total of 131 new format depots, comprising 90 opened in the new format plus 41 refurbished ones. We will also have re-racked a further 112 without other modifications.



Chief Executive's statement continued

12
new kitchen ranges.

25
new Lamona appliances.

RANGE AND SUPPLY MANAGEMENT

New kitchen ranges each year represent a significant portion of sales as product lifecycles shorten.

During the year we introduced 12 new kitchen ranges to all depots, with average sales per range above those of 2018.

These ranges are characteristic of the trends we are seeing for straight lines in modern kitchens, which accentuate the sense of space, contrasting colours and a cleaner look in shaker-style kitchens, and matt textures that benefit from the latest industrial technology advances that prevent finger marks.

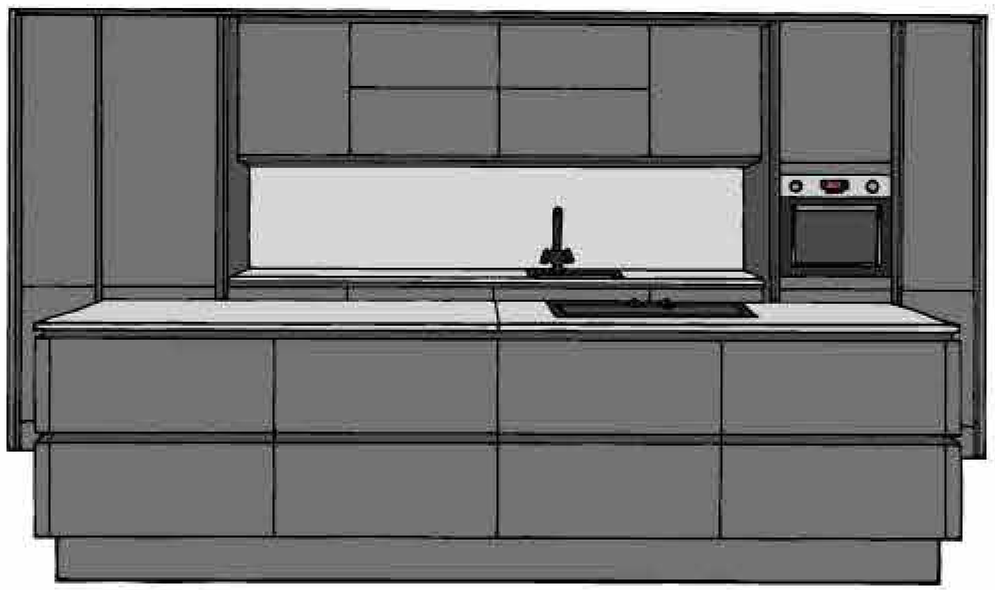
During 2019 we:

- Updated our light oak cabinet to a more natural oak tone.
- Led the mass market roll-out of anthracite-coloured storage systems which help define our mid and premium ranges.
- Extended our worktop range by 11 laminate worktops, and seven solid surface worktops.
- Added 25 appliances to our Lamona range, introducing new technologies in cooking, laundry and dishwashing products, while strengthening our core Lamona oven choice with the introduction of a new low-price-point fan oven.
- Strengthened the Lamona brand through the introduction of a three year warranty.
- Selected around 250 of the fastest sellers from the new hardware lines we trialled, for roll-out across the estate.
- Continued to support our customers by introducing pre-finished internal doors across the different styles, helping them save fitting time.
- Introduced three new flooring decors, manufactured with new technology which makes vinyl flooring quicker and easier for builders to fit.

In 2020, we plan to introduce 13 new kitchen ranges of which 11 have been launched to date. Features include:

Two new styles:

- A modern slab range, offering a trade up from our popular entry-priced Greenwich Gloss range. The new door has seamless edges and is available in three colours with a mirror gloss finish and two colours with super matt finishes featuring anti-fingerprint technology.
- An updated painted timber shaker range, which is a versatile design that can be dressed to achieve both modern and traditional looks, available in two new colours from January 2020, with an additional colour to follow in April.



More colours in more ranges:

- A new Green in our successful mid-priced Fairford shaker range.
- Pebble and Navy colours extended across three kitchen families, including the addition of Pebble to the Greenwich Gloss family, strengthening our entry price point offer.

New handleless cabinet:

- We have developed a new handleless cabinet platform to meet demand for a 'Linear' look. The cabinet can be used with our current ranges, which enables us to increase customer choice without a commensurate rise in our range count.
- We now offer 27 styles, and we have the flexibility to change the number of styles on offer in response to customer demand.
- With the handleless cabinet we can now provide a more affordable way for our customers to achieve the straight-line look, including in our entry price point Greenwich family.

Clearer choice:

- Introduction of the new cabinet also enabled us to redefine our range architecture into 'Modern', 'Linear' and 'Shaker', making it easier for customers to choose the kitchen that suits them best.
- New worktops for this year focus on lighter shades and thinner profiles, which in particular complement our new Linear kitchen range.
- We are extending the range of Lamona new technology appliances, including self-cleaning ovens, to lower price points. Design-led refrigeration is also being introduced at what we think are very affordable prices.

Managing the number of kitchen ranges efficiently is crucial for both best availability, which is highly valued by our customers, and profitability. We have made progress in getting back to the discipline of fewer deeply-stocked higher-performing ranges in the depots.

A key part of range discipline is the timely discontinuation of underperforming ranges and the management of clearance stock from the business.

- During the year, 19 ranges were cleared from the business, and by the end of 2019, we had around 67 current kitchen ranges, including initial stock of some of the ranges scheduled for launch in 2020.
- We believe about 65 current ranges is the right number for the market at present.
- In 2020 we are aiming to remove at least the number of ranges we add.

Chief Executive's statement continued

New structure increases efficiency and customer value.

NEW COMMERCIAL TEAM

During 2019, as part of our focus on range management, we combined the divisional commercial functions into a single commercial team, organised in categories. This structure provides clearer accountabilities for ranging decisions and accessing supply chain benefits.

The changes remove duplication of effort, easing communication and bringing our commercial team closer to depot managers.

We have seen the benefit of clearer accountabilities and closer working practices between Trade, Commercial and Supply which enabled:

- Our new kitchen brochure and Trade Book to be launched in week three of 2020 (the first of three editions during the year, synchronised with our promotional 'Rooster' offers).
- The stock for all new kitchens to be in depots before the Trade Book and brochure were published.

Use of digital to reinforce the Howdens model.

Through this structure, we also aimed to ensure that the business is well planned at least 18 months out with our suppliers, that we are being offered innovative product first and that we are offering the best value to our customers.

We have benefitted from significant engagement with our supply base in support of our 2020 plans for improved product range, availability and price.

UK MANUFACTURING

We keep under review what we believe it is best to make or to buy.

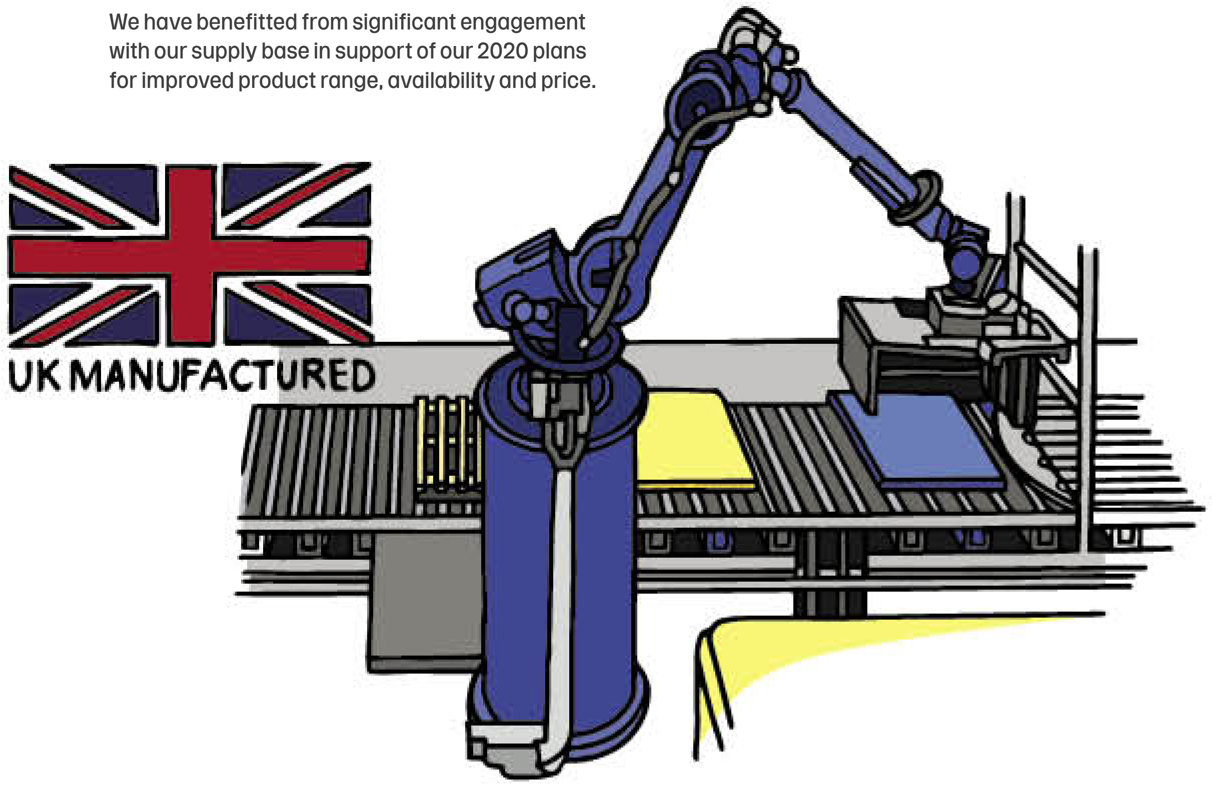
In 2019 investment in manufacturing technology enabled us to make the doors for five of our new kitchen ranges, reducing the cost of these doors and increasing supply chain flexibility.

We also installed a small batch line to make low volume but important items which third party vendors cannot supply at competitive prices.

In December we were awarded the Manufacturing Guild Mark, a reflection of the excellence in our manufacturing operations, and we were delighted to be re-awarded the Royal Warrant during the year.

Our Supply operation achieved certification under the new International Health and Safety Standard, ISO45001, which replaces the certification we held under the incumbent UK standard (OHSAS18001).

As well as recognising the effectiveness of our formal safety management systems, the audit process for certification demonstrated that we have a leadership and workforce positively engaged and committed to getting everyone home safe, every day.



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USE OF DIGITAL

We see digital as a means to reinforce the Howdens model of strong local relationships between depots and their customers. We are building a digital capability with three objectives:

- Increase builder and consumer awareness of Howdens to help our customers sell Howdens product.
- Improve the communications between Howdens, tradespeople and their customers.
- Streamline and improve operating processes, freeing up time for depot staff and customers to use more productively.

Our new web platform offers customers improved product search and information, and has moved Howdens.com into more prominent positions, raising brand awareness with consumers.

Since June 2019:

- Howdens.com 'impressions' present in 1.5 million more search results a month.
- Visits to the site have seen growth of 22% year on year, exceeding an average of 3,000,000 visitors a week for the first time.
- Contacting of depots through the website has increased by 35%.

We also completed a programme to restructure and digitise our content. A new hierarchy, enriched product content and new advisory and editorial material make it easier and quicker for the user to find the information they want to view.

Around 80% of visitors are now entering the site via pages relating to specific search queries or terms, underpinned by search engine optimisation improvements targeting search terms most relevant to our products.

Views of product categories have increased both in kitchens, where visits to kitchen pages have risen by 43%, and in under-represented product categories such as hardware (up 76%) and doors (up 77%).

Refining style and product selections is now easier as we have provided the capability for each user to tailor these to their own requirements, enabling a more focussed discussion of consumers' needs with their builders and our designers.

In the second half of 2019, we tested ways of developing our digital offering further, in line with our aim to 'put a tradespersons' local depot in their pocket'.

- Working with account holders to understand their key requirements we developed and tested a secure trade-customer-only area of the website where they can manage their accounts and interface more efficiently with Howdens and their chosen depot in particular.
- Customers, behind a secure login, can view their credit details, make payments and access account details and download invoices and information at any time.
- During the test period 44% logged in outside of depot hours, 60% made a payment, and half downloaded documents. Average payments per customer were also well above the average company level.

Chief Executive's statement continued

5
new depots in France in 2019

In January 2020 we instituted full roll-out of these trade account facilities which are now available to all customers. User feedback has been favourable, with usage rates rising.

We will be supporting our depots with on-boarding their customers to our new Trade platform, which we believe will enhance the strong local relationships the depots have with their builder customers.

In 2020 we will continue to improve content and add more capabilities to our platform. We aim to develop further account and project management features together with functionality which assists local communications between depots and their customers.

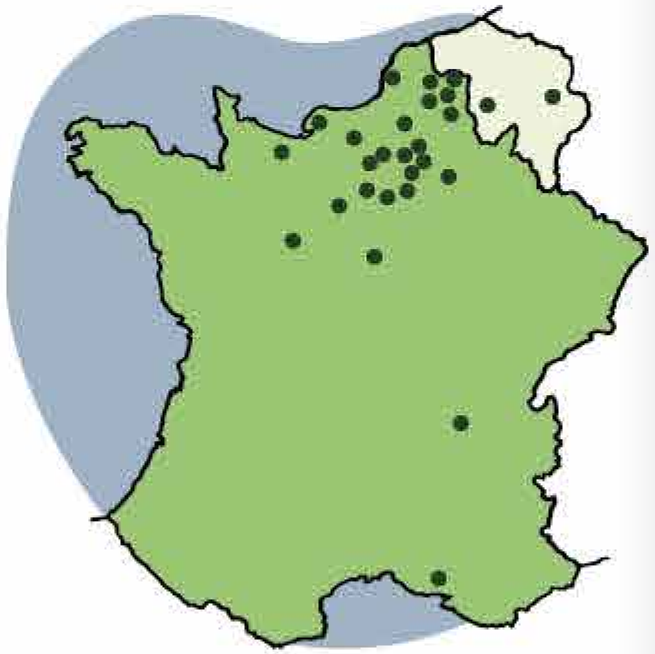
We aim to test a new more efficient on-line account opening process for new customers. Having 'digitised' our product and marketing content in 2019 we can deploy these cost effectively across multiple channels and programmes and add fresh content efficiently.

Around
5
new French depots planned for 2020.

INTERNATIONAL

Last year I explained why we believe there is potential for a viable city-based business in France. In 2019 we:

- Opened five new depots, four around Paris and one in Lille.
- Completed the rebranding of our international business from Houdan to Howdens which should enable the business to gain advantage from the UK brand equity, online search reputation and business efficiencies.
- Appointed a French national to lead our City based business in France, who has been in post since Autumn 2019.
- Completed the closure of our operations in Germany and the Netherlands with closure costs being in line with our expectations.
- The 22 depots opened before 2019 are now sufficiently profitable to cover all central costs, which are scaled for a larger business. Total sales of the depots opened in 2019 are in line with expectations.



We have identified further sites which would enable us to open more depots in France in 2020. Consistent with our policy of staffing new depots with 'Howden trained' teams, and assuming our business in France continues to perform in line with our expectations, we are targeting around five depot openings in 2020.

TURNING TO 2020

We aim to retain a profitable balance, in the light of prevailing market conditions, between price and volume , whilst working with suppliers to keep product and input costs down.

We plan to open around 30 depots in the UK, five in France and intend to convert around 30 existing depots to the new format.

We have a right-sized line up of new product for the first half which has been launched and is in-stock earlier than in 2019, which we believe will benefit sales across this year.

We also have a well-planned programme of second and third phase product introductions in place for later in the year, together with a series of Rooster promotions to encourage further footfall.

This year we will be making more of the product we sell in our UK factories.

Our new online trade account facilities are now available to all customers and in 2020 we will continue to improve content and add more capabilities to our digital platform.

We remain cautious on market conditions given economic uncertainties, including the UK's exit from the EU, the impact that forthcoming trade negotiations may have, and the consequences of Coronavirus outbreaks in a number of countries.

With respect to coronavirus, we are monitoring our supply chain closely and have increased forward stock levels for product sourced from China, whilst reviewing alternative sources and means of supply.

Whilst we are aware of the economic uncertainties that we face, we remain confident in our business model through changing economic conditions and of the benefits our initiatives will bring to our performance.

Andrew Livingston
Chief Executive Officer

26 February 2020

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

- Ri Failure to maximise growth potential.
- Re Depot staff bonuses are directly linked to their depot's sales.

Progress

We are pleased with our progress. We saw total UK sales of £1.6bn in 2019, representing annual growth of 4.8%.

Profit before tax

Why we measure it

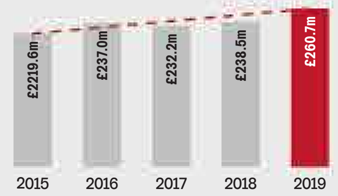
Profit before tax is a simple and widely understood measure. We consider that it gives a complete picture of our performance as it includes all of our operating, selling and distribution, admin and financing expenses.

Links to strategy, risks and remuneration

- Ri Failure to maximise growth potential.
- Ri Deterioration of model & culture.
- Re Executive Committee and senior management bonuses are directly linked to PBT.

Progress

We are pleased with our progress. Profits before tax grew faster than revenues at 9.4%, from £238.5m in 2018 to £260.7m in 2019.



Cash

Why we measure it

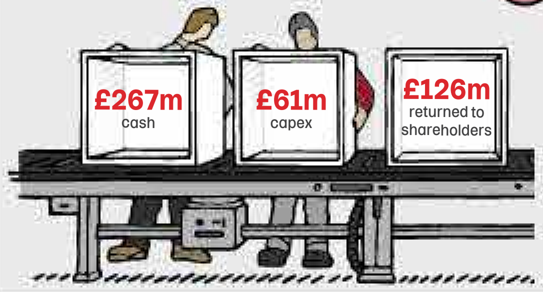
We aim to generate sufficient cash throughout the operating cycle to cover our investment needs, to retain at least one year's working capital requirement and to pay a dividend in line with our stated dividend policy (detailed on page 36).

Links to strategy, risks and remuneration

- St Prudent financial management.
- St Invest in our people & infrastructure.
- St Return surplus cash to shareholders.
- Re Executive Committee and senior management bonuses are directly linked to cash generation targets.

Progress

We are pleased with our progress.



St Strategy Ri Risk Re Remuneration

NON-FINANCIAL

Depot openings

Why we measure it

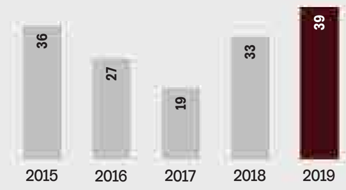
We believe that there is some way to go before the UK market is saturated. We continue to identify possible sites for new depots over the medium term whilst at the same time keeping our model flexible, and allowing us to take account of economic conditions and phase the speed of our growth accordingly.

Links to strategy, risks and remuneration

- St Expand our UK depot network.
- Ri Failure to maximise growth potential.
- Ri Deterioration of model & culture.

Progress

In line with our target, we opened 39 new UK depots in 2019, and five in France. We expect to open around 30 UK depots in 2020, plus up to five in France.



Health & Safety

Why we measure it

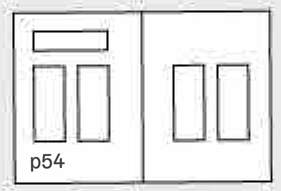
We have around 10,000 employees working in our factories, our logistics operation, our support sites and our depots and we need to keep them all safe at work.

Links to strategy, risks and remuneration

- St Our people.
- Ri Health & Safety.

Progress

We are pleased with our progress. See page 54 for more details.



Use of FSC® or PEFC certified materials

Why we measure it

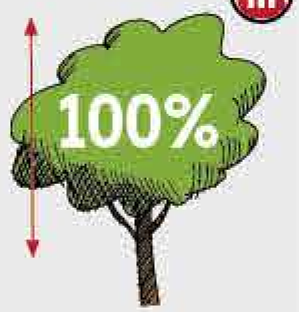
We use over a quarter of a million cubic metres of chipboard and MDF in our factories. FSC® and PEFC are the two main certification bodies, so ensuring that all our MDF and chipboard is certified by them gives us assurance over their provenance.

Links to strategy, risks and remuneration

- Ri Product relevance.
- Ri Continuity of Supply.

KPI

100% of wood-based material used in our manufacturing processes from FSC® or PEFC certified sources for the last 5 years



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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

St Prudent financial management.

Progress

We are pleased with our progress. 99.8% of our production waste was recycled or reused. See page 58 for more details.

St Strategy Ri Risk Re Remuneration

Financial review

MARK ROBSON
Deputy Chief Executive and Chief Financial Officer

FINANCIAL RESULTS FOR 2019

Revenue

Total Group revenue increased £72.3m to £1,583.6m. Howden Joinery UK depot revenue rose 4.9% to £1,550.3m (2018: £1,477.3m). UK revenue increased by 2.5% on a same depot basis to £1,507.1m (2018: £1,470.9m); this excludes the additional revenue from depots opened in 2018 and 2019 of £43.2m (2018: £6.4m).

4.8% Increase in revenue

Revenue £m	2019	2018
Group:	1,583.6	1,511.3
Howden Joinery UK depots - same depot basis	1,507.1	1,470.9
UK depots opened in previous two years	43.2	6.4
Howden Joinery UK depots - total sales	1,550.3	1,477.3
Howden Joinery Continental European depots	33.3	34.0

Revenue €m	2019	2018
France and Belgium -same depot basis	37.4	36.3
Depots opened in previous two years	0.3	-
France and Belgium - total sales	37.7	36.3

8.3% Increase in operating profit

Depot revenue in Continental Europe was £33.3m (2018: £34.0m), reflecting the closure of our depots in the Netherlands and Germany in January 2019. On a local currency basis, sales at our depots in France and Belgium increased by 3.8% and by 3.1% on a same depot basis. The profit earned by the depots opened before 2019 covered all European central costs in the year.

Gross Profit

Gross profit increased to £986.2m (2018: £932.2m). The gross profit margin of 62.3% (2018: 61.7%) reflected the impact of a price increase in January 2019. This resulted in an improved balance between price and volume.

Operating Profit

Operating profit rose to £260.0m (2018: £240.1m), giving an operating profit margin of 16.4% (2018: 15.9%).

Selling and distribution costs and administrative expenses were £726.2m (2018: £692.1m). Costs increased, as expected, due to continued investments in areas across the business, including new depots, digital upgrades and the additional depreciation arising from recent investments. There were also the one-time costs associated with the closure of our depots in Germany and the Netherlands of £5.8m, and the absence of the £3.8m GMP equalisation charge, incurred in the prior year.

Profit before and after tax

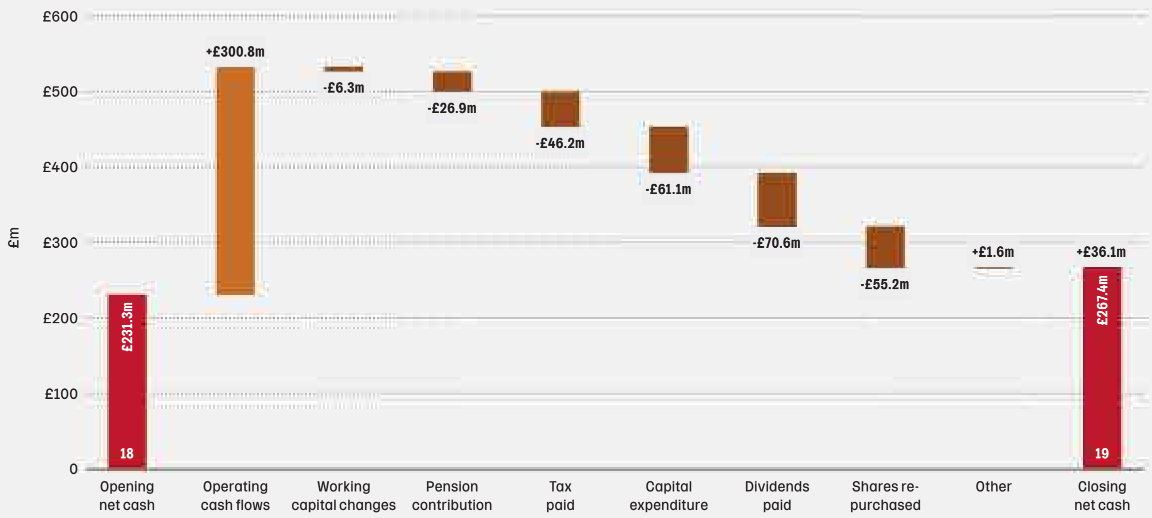
Net interest income was £0.7m (2018: charge of £1.6m), reflecting the lower finance expense in respect of pensions of £0.4m (2018: £2.3m). Profit before tax was £260.7m (2018: £238.5m).

The tax charge on profit before tax was £51.7m (2018: £48.1m), representing an effective rate of tax of 19.8% (2018: 20.2%). As a result, profit after tax was £209.0m (2018: £190.4m).

Financial review continued

SOURCE AND USES OF CASH

Net cash and cash flow



Uses of cash

Earnings per share

Reflecting the above and the reduced share count following share repurchases, basic earnings per share were 35.0p (2018: 31.3p).

Dividend policy and dividend

The Group's 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.

The Board has recommended to shareholders a final dividend of 9.1p (2018: 7.9p), giving a total dividend for the year of 13.0p (2018: 11.6p), an increase of 12.1%. This equates to a dividend cover of 2.7x (2018: 2.7x).

The final dividend payment of 9.1p per share will, if approved by shareholders, be paid on 19 June 2020, with an ex-dividend date of 21 May 2020 and a record date of 22 May 2020.

Cash flows

There was a net cash inflow from operating activities of £221.4m (2018: £163.2m).

Net working capital increased by £6.3m, mainly due to debtors that were up by £7.1m. This was due to Period 11 trading ending in early November, allowing payments to fall into the 2020 financial year, which started on 29 December 2019. Stock increased £5.5m due to depot openings, offset by creditors, up £6.3m.

Capital expenditure on assets including new depots, digital upgrades and investment in the next phase of our Raunds distribution centre, totalled £61.1m (2018: £44.3m). Net tax paid was £46.2m (2018: £45.4m), dividends paid were £70.6m (2018: £68.3m) and share repurchases totalled £55.2m (2018: £62.2m).

Overall, there was a net cash inflow of £36.1m, leaving the Group with net cash of £267.4m at year end (29 December 2018: £231.3m net cash).

Capital structure

The Board targets a capital structure that is both prudent and recognises the benefits of operational and financial leverage, and that, after considering our capital requirements, will return surplus cash to shareholders as appropriate. The Group has significant property leases for the depot network and continues to have a material 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.

The Group will adopt IFRS 16 in 2020 which will bring leases onto the balance sheet for the first time. Note 2 to the Financial Statements gives details of the effect.

SHARE REPURCHASE

In March 2018, we announced a £60m share repurchase programme, of which £30.0m was remaining at the start of 2019. In February 2019, we announced a further share buyback programme of £50m to be completed during the following two years.

During 2019, the Group acquired 10.8m shares for a consideration of £55.2m. This completed the 2018 share repurchase programme and £25.0m of the February 2019 programme remains. Shares that were bought in the market during 2019 were cancelled.

Following the Board's recent review, it has been decided to complete the remaining £25.0m of the £50m 2019 share buyback programme in 2020 and return a further £85m to shareholders through another share purchase programme over the next two years.

Pensions

At 28 December 2019, the pension deficit shown on the balance sheet was £56.6m (29 December 2018: £36.0m). The increase in the deficit was due to a £196.9m increase in liabilities (the main elements of which are a £244.8m increase in liabilities primarily due to a reduction in the net discount rate, and a £47.9m decrease in liabilities due to adopting updated longevity assumptions), partly offset by an increase in asset returns of £149.8m and a £46.9m cash contribution.

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 agreed to make annual deficit contributions of £30m per annum for up to five years until June 2023.

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 percent of the scheme's funding basis for two consecutive months and resumed if the funding position subsequently falls back below 100 percent.

The contribution to the pension deficit in the financial year ended 28 December 2019 was £30.0m (2018: £27.5m).

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Financial review continued

CURRENT TRADING AND OUTLOOK FOR 2020

Current trading

Howden Joinery UK depots sales in the first two periods of the new financial year (to 22 February), increased by 1.6% (-0.2% on a same depot basis), with one fewer trading day than in 2019. Excluding the first week of trading (which this year had 2.5 trading days, one fewer than in 2019), sales in 2020 were up 3.5% (1.6% on a same depot basis.

Outlook for 2020

In 2020, we expect additional operating costs of £20m to be incurred in respect of: the one-year impact of running the old National Distribution Centre whilst also incurring the costs of the second phase of our new Raunds distribution facility; digital upgrades; increased pension charges; and additional depreciation. These are in addition to the impact of ongoing growth in the business, inflationary pressures, new depots and any impact of foreign exchange rates. Compared to 2019, we will benefit from not bearing the £5.8m costs of closing our operations in the Netherlands and Germany. Capital expenditure of around £80m is expected, including the final phase of the Raunds distribution centre, together with further investment in digital and new depots.

The Group will adopt IFRS 16 for the year to 26 December 2020. The first report under IFRS 16 will be the June 2020 half-year report, released on 23 July 2020. Further details can be found in Note 2 to the Financial Statements on page 128.

With respect to coronavirus, we are monitoring our supply chain closely and have increased forward stock levels for product sourced from China, whilst reviewing alternative sources and means of supply.

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.

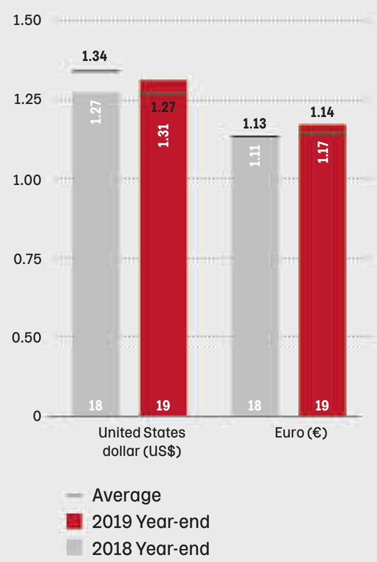
No speculative use of derivatives, currency or other instruments is permitted. The Treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements.

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 adverse impact of exchange rates on currency transactions in the year was £2.5m. 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 2019 and is in place until December 2023.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout 2019. 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 2019 year end, the Group had £267m 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 2019 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 2019 had a material implication for the Group.

CAUTIONARY STATEMENT

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

By order of the Board

Mark Robson
Deputy Chief Executive and Chief Financial Officer

26 February 2020

Principal risks and uncertainties

What's changed in 2019?

- No new principal risks
- No changes to risk scores
- Biggest influences on risks over the year have been
  - Brexit uncertainty
  - Preparations to exploit growth opportunities

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 14 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.

CLIMATE, ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

Our approach to identifying risks considers a wide spectrum of exposure areas that includes environmental and climate risks as well as social and governance issues.

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.

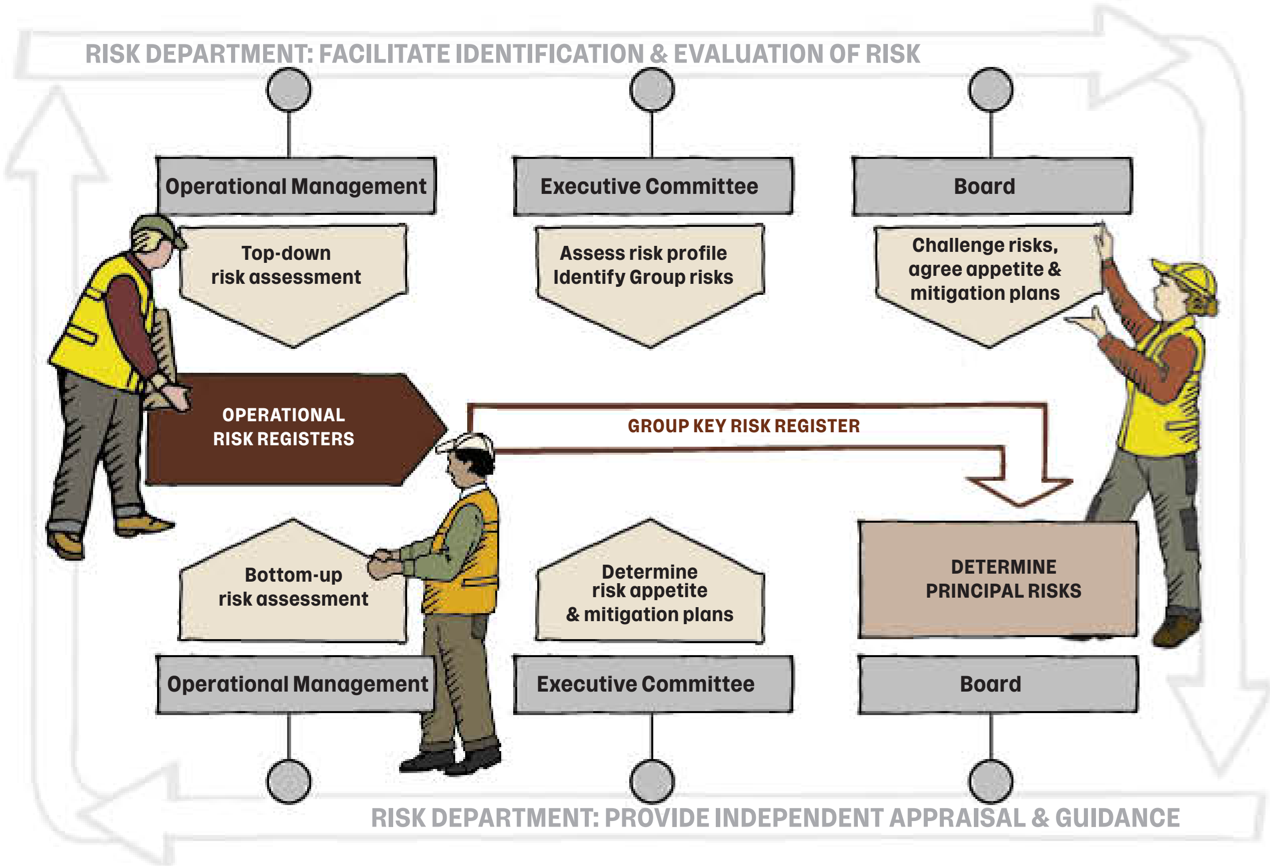
EMERGING RISKS

Our process considers both our current and emerging risks. Emerging risks are considered by the business and the risk management team as a part of every risk review. Both internal expertise and external resources are used to identify emerging issues and the potential impact of these could have on our business. Where appropriate, these are escalated to the Executive Committee and Board as part of our regular risk reporting.

With the World Health Organisation declaring the coronavirus outbreak a public health emergency of international concern, citing worries about its spread, we are identifying potential risks across our business, taking appropriate mitigation action as necessary and ensuring we keep up to date with the rapidly developing situation.

The risk management process

The main steps in the process are set out below:



- **Operational 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 Register** 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 Register to assess any changes to our risk profiles. They also identify the risks that they are managing at a Group level. They then determine 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 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 62.

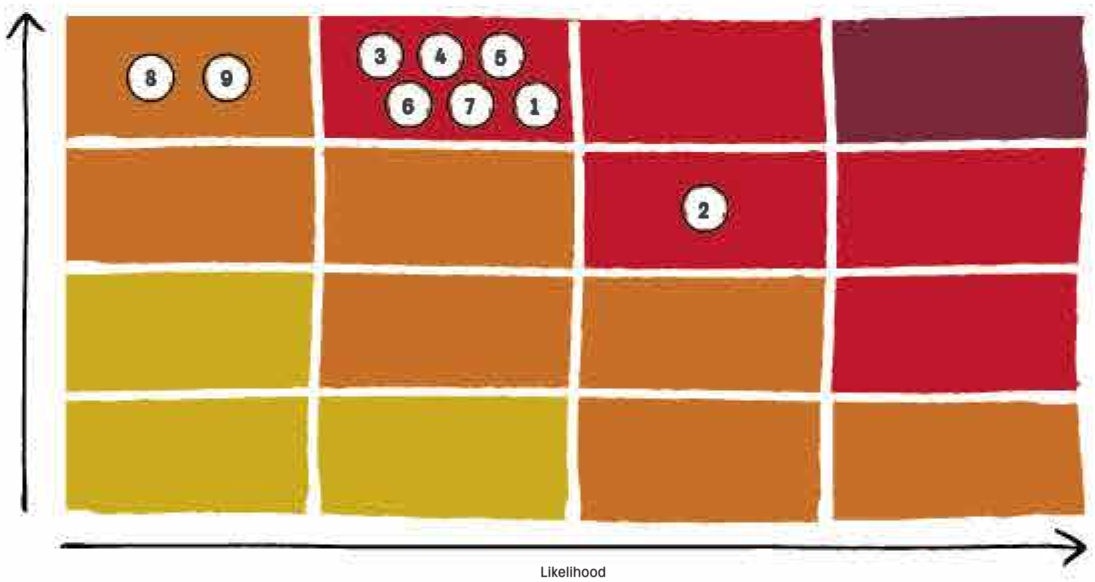
Principal risks and uncertainties continued

Principal risks

- **No new principal risks**
- **No changes to risk scores**
- **Brexit remains a key risk influence**
- **2019 Updates to mitigation actions**

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 movement in 2019

- Increased
- Stayed the same
- Decreased

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

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BREXIT RISKS

In line with the way we manage risks within the business, we have not presented a separate principal risk relating to Brexit. Brexit will impact a number of our existing risks, with the severity and timeframes varying significantly, depending on the nature of the UK's withdrawal from the EU.

The following table summarises some of the key risk areas. It also shows which of our principal risks these elements are managed under, and gives examples of key mitigating actions.

What are the Brexit risks	What this could mean to us	What we are doing about this	Managed within principal risks
Trade & Customs Risks			
No longer inside the EU Single Market/Free Trade Area Exit from the EU Customs Union No agreed regulatory co-operation	Tariffs could lead to higher prices for product and raw materials sourced from EU Supply chain delays as goods sourced from outside the UK come through a new customs regime Regulatory uncertainty as recognition of UK standards and regulations ceases across the EU	Modelling the challenges and opportunities across the supply chain Reviewing whether the way in which we obtain our products is the most cost effective after Brexit Obtained preferred importer/exporter status to reduce potential customs delays Carefully monitoring our stock position to make sure that it remains optimum for most likely Brexit scenarios Reviewing contracts to ensure product supply remains sustainable after Brexit	1, 2, 3, 4
People & Immigration Risks			
No free movement between the UK & EU	Possible shortage of migrant labour for us Labour shortages for our stakeholders, particularly in the supply chain Our customers could also be affected	Evaluating our workforce composition both internally and externally with suppliers Reviewing how we can help migrant workers to understand their rights and with working visa applications	1, 4
Strategy & Business Plan Risks			
Consumer uncertainty Investor uncertainty Currency and Stock Market volatility	Consumer uncertainty may impact on our sales and future strategic growth decisions Increased costs due to currency fluctuations	Modelling the challenges and opportunities across the entire business, to ensure we optimise strategic plans given the various scenarios	1, 2, 3, 4

Principal risks and uncertainties continued

2019 Principal Risks

The arrows alongside each risk show the year on year change

1. FAILURE TO MAXIMISE THE GROWTH POTENTIAL OF THE BUSINESS

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, and systems, and our manufacturing and distribution capabilities to equip them for growth.
- Growth activities are reviewed in the light of our risk appetite, values, business model and culture.

Mitigation actions in 2019

- Rooster Depots; creating the best environment for our staff and customers to do business with us.
- Howdens.com; improved digital interface between customers and depots, to enhance those relationships and streamline operating processes to free up time in the depot.

2. DETERIORATION OF BUSINESS MODEL AND CULTURE

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 2019

- Regular Board and Executive Committee events with staff across the business to emphasise Business Model and Culture.
- 2019 'Rooster Awards' event, bringing together almost 1,000 managers from across the business to discuss our Model and Culture.

Links to strategic areas

Growth · Depots · People · Finance · Digital

3. CHANGES IN MARKET CONDITIONS

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.

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, such as those discussed on the previous page in relation to Brexit.

Mitigation actions in 2019

- Brexit preparations and investment in contingency stock.
- New Commercial function with customer focused market place insight.

4. INTERRUPTION TO CONTINUITY OF SUPPLY

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.

Mitigation actions in 2019

- New Commercial structure to provide clearer accountabilities and closer working practices between Supply, Commercial and Trade teams.
- Obtained 'AEO' preferred importer/exporter status to reduce potential Customs delays.

Principal risks and uncertainties continued

2019 Principal Risks continued

The arrows alongside each risk show the year on year change

5. LOSS OF KEY PERSONNEL

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 2019

- Focus on Executive succession planning by Nomination Committee.

6. HEALTH AND SAFETY

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 54 for our related KPI and discussion of our performance in recent years.

Mitigation actions in 2019

- Continued focus on H&S leadership & behavioural safety programmes across the business.
- Commenced phased enhancement from ISO18001 to ISO45001 standards across the entire business.

7. CYBER SECURITY INCIDENT

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 2019

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

Links to strategic areas

Growth Depots People Finance Digital

8. PRODUCT DESIGN RELEVANCE

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 2020.

Mitigation actions in 2019

- 12 new kitchen ranges introduced including a new handleless design.
- Improved how we align our product offering to our customers and their customers' needs.
- Lamona appliance range improved and increased.

9. CREDIT CONTROL FAILURE

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 400,000 customer trade accounts.

Mitigation actions in 2019

- Builder log-on on Howdens.com, providing customers with improved ways to manage their trade account.
- Insurance obtained to mitigate the risk of exploiting large account opportunities.

Sustainability Matters

Introduction: Why sustainability matters to us

Links to long-term value, our culture, our business model and our risks. Material areas and KPIs.

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Our impact on our stakeholders

A summary of our social and environmental footprint.

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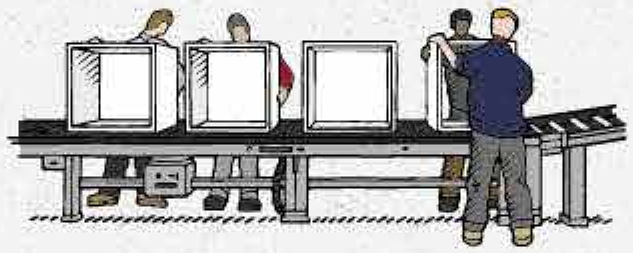
Sustainable supply chain

Timber management, supplier engagement and assessment, ethical procurement.



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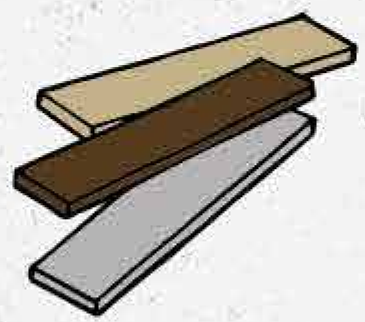
Sustainable product

Efficient, durable, reliable products.



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Our people

Keeping our people safe, offering them rewarding careers and a great place to work and grow.

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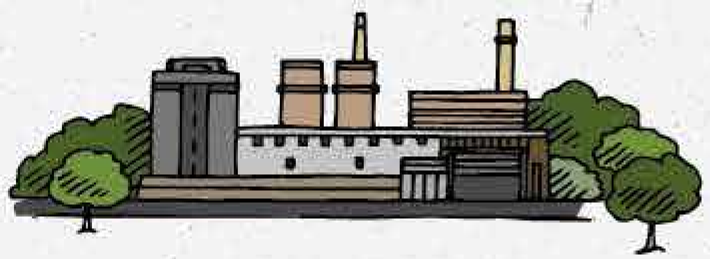
Our environment

Reducing waste, responsible operations, lowering emissions.



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Our communities

Local community projects, our national partnership with Leonard Cheshire, Community Kitchens.

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Sustainability Matters

Why Sustainability Matters to us

SUSTAINABLE BEHAVIOUR GENERATES LONG-TERM VALUE

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 BEHAVIOUR IS PART OF OUR CULTURE

When we talk about the Howdens culture, we describe it 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 operate in.

SUSTAINABLE BEHAVIOUR SUPPORTS OUR UNIQUE 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 both our suppliers and customers means that our relationships with them need to work for all parties over the long term.

We have over 750 depots in the UK and Europe, and the relationships that those depots rely on to trade profitably mean that our success relies on us being a good neighbour in each of those communities.

SUSTAINABLE BEHAVIOUR MITIGATES OUR RISKS

We discuss our principal risks on pages 40 to 47. Sustainable behaviour helps us to address some of those risks.

For example, we place a 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 the 'Interruption to continuity of supply' risk, and energy-efficient, safe, tested and durable product mitigates our 'Product design relevance' risk.

THE BOARD LEADS 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.

WHAT ARE THE MATERIAL SUSTAINABILITY AREAS FOR US AND OUR STAKEHOLDERS?

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

People: keeping them safe, offering rewarding careers.

Sustainable supply chain: sustainable sourcing, shared values throughout the supply chain, active monitoring of suppliers.

Sustainable product: safe, traceable, energy-efficient and durable.

Environment: reducing waste, responsible operations, lowering emissions.

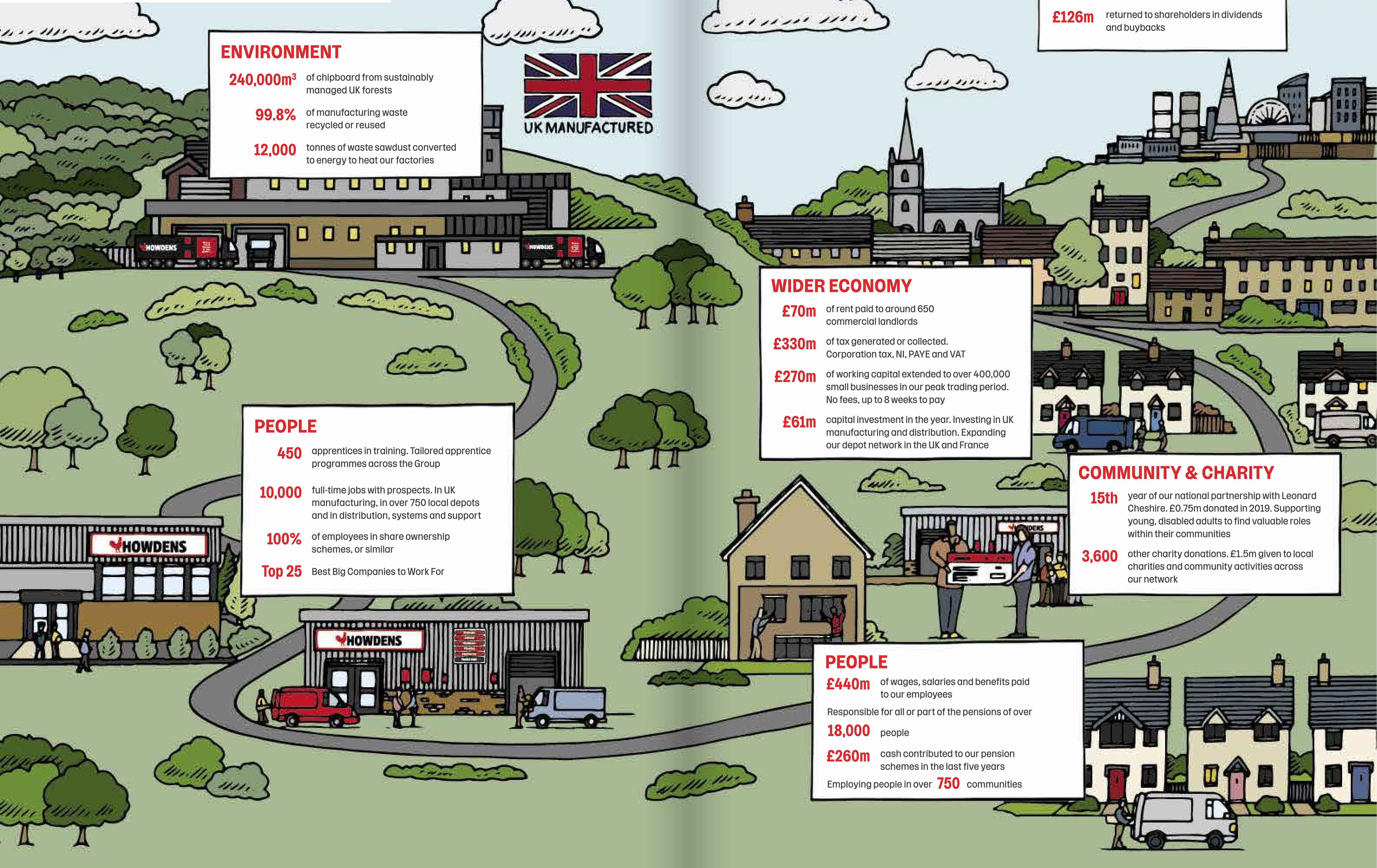
Communities: local community projects, our nationwide work with Leonard Cheshire Disability, Community Kitchens.

OUR SUSTAINABILITY KPIS

Our sustainability KPIs cover safety, use of wood from certified sources and re-use, recovery and recycling of waste. You can find them on pages 54, 56 and 58.

Sustainability Matters

Our impact on our stakeholders



ENVIRONMENT

240,000m³ of chipboard from sustainably managed UK forests

99.8% of manufacturing waste recycled or reused

12,000 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

Top 25 Best Big Companies to Work For

SHAREHOLDERS

£126m returned to shareholders in dividends and buybacks

WIDER ECONOMY

£70m of rent paid to around 650 commercial landlords

£330m of tax generated or collected. Corporation tax, NI, PAYE and VAT

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

£61m capital investment in the year. Investing in UK manufacturing and distribution. Expanding our depot network in the UK and France

COMMUNITY & CHARITY

15th year of our national partnership with Leonard Cheshire. £0.75m donated in 2019. Supporting young, disabled adults to find valuable roles within their communities

3,600 other charity donations. £1.5m given to local charities and community activities across our network

PEOPLE

£440m 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 five years

Employing people in over **750** communities

Sustainability Matters

Our people

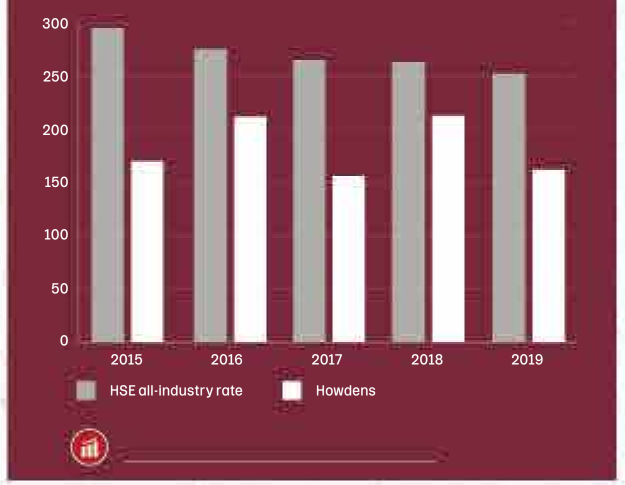
Keeping them safe and healthy, offering them rewarding careers

Keeping our people safe and healthy

Focusing on a safety culture, supporting employees' physical and mental health

KPI

Reportable injuries/100k employees
36% below HSE all-industry average in 2019



We have around 10,000 employees and we want all of them to go home, safe and healthy every day.

We are pleased that our safety KPI - the level of RIDDOR reportable injuries - continues to be significantly below the UK industry average, and we continue to invest in safe behaviours, processes and machinery to continue to maintain and improve these high standards.

In 2018 we reported in detail on our Safe to Trade programme for our depot network, and Safe to Supply for our factories and logistics network. In 2019 we extended this to the solid surface fitters involved in kitchen and worktop fitting with Safe to Fit.

Safe to Fit offers practical safety guidance to our own employees as well as subcontractors and our customers, to reduce risks associated with processing and installation of solid stone products. The final element of our 'Safe to..' strategy is Safe to Support, for our colleagues in support functions, which will give us a unified but tailored approach across the whole business.

Our focus on building robust systems and processes has given us strong foundations to drive the maturity of our safety culture forward. The 'Safe To..' programme is built on strong safety leadership, engagement and inclusion of everyone in safety, and working towards a fair and just culture where everyone takes responsibility for themselves and others - an interdependent culture.

Given our focus on driving further improvement through developing a strong safety culture, we welcome the new global health and safety standard ISO 45001. This builds upon the outgoing standard, OHSAS 18001 - which we have held since 2008 - with an increased emphasis on safety leadership, culture and employee participation.

We are very pleased to have achieved ISO 45001 certification in 2019 for our factories and logistics network, and our objective is to have the new standard in place across the whole Group by the first half of 2021.

We continue to work with other leading companies and external consultants to share best practice, to help us benchmark and to learn and challenge ourselves. We hope that these actions will improve our safety record even further in the future.

We also recognise the benefits of supporting our employees' mental health and wellbeing, both at work and at home. Our free and completely confidential Employee Assistance Program is available to all employees and offers mental and physical health support, counselling, coaching, help with challenging life situations and legal advice.

Offering rewarding careers

Great rewards, great opportunities to develop, great place to work

We pay a good basic salary; all of our pay rates are above living wage and most of them are well above it.

We also offer a range of benefits, including pension schemes which we contributed £57m to in 2019, for the benefit of our 18,000 current and past employee members. We give free shares to all our people who stay with the company for at least three years so that they can share in our growth.

Part of our culture and our business model is that we offer staff the chance to get significant bonuses for exceptional performance. Depot, manufacturing and warehouse staff bonuses are directly linked to the specific profitability or productivity of their area, so teams are directly rewarded for their hard work.

We offer rewarding career opportunities because we want to recruit the best people, and when we've found them we want to keep them. We're very proud that a lot of our staff choose to stay with us to develop their careers. When carrying out some analysis of our HR records during 2019, we found that almost half of our staff have been with Howdens for more than 5 years, and 85% of manager vacancies had been filled by existing employees.

We also employ 450 apprentices throughout the business, offering a range of worthwhile futures and high-quality nationally-recognised qualifications to people across the country. We work with local colleges to develop bespoke apprentice programmes, tailored to the specific skills and development needs of our apprentices, and which also fit the needs and demands of a growing modern business. See a video about our apprentice programs on our website here: www.howdenjoinerygroupplc.com/about/our-people.asp

We've increased the number of apprentices in the business in 2019 and we currently have apprentices working and learning skills in areas such as sales, customer service, warehouse work, senior leadership, business admin, HR, manufacturing, engineering, IT, design, truck driving and business improvement techniques. These programmes offer development opportunities for all levels - from school leavers learning foundation skills to experienced staff doing master's degree level qualifications.

Find out more about working with Howdens, and see our current vacancies on our careers website at https://careers.howdens.com.

Employee engagement:

Best Big Companies to Work For 2020

As part of our employee engagement activities, we have taken part in the Sunday Times Best Big Companies to Work For assessment process every three years since 2010. This involves a comprehensive survey, sent in confidence by an independent third party to every one of our employees.

The survey asks them for their views on their manager, their team, their wellbeing, personal growth and future prospects, whether they think they get a fair deal, the company as a whole, the leadership, and whether they think that Howdens gives back to society and has a positive impact.

We are very pleased that our employees' views have led to us being in the top 25 Best Big Companies to work for on every occasion, as well as being awarded a 2 Star Best Companies accreditation which recognises 'an outstanding commitment to workforce engagement'.

We also won a special 'Giving Something Back' award, recognising the work we do in our communities, with particular recognition given to the volunteer On-Call Firefighter and Emergency Medical Responder teams that operate from our factory and warehouse sites and work with their local Fire and Rescue Services to save lives and support their local communities.

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2020

BEST COMPANY 2020

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Sustainability Matters

Sustainable supply chain

Sustainable sourcing, actively engaging with our supply chain

Sustainable sourcing

Timber management and chain of custody, shared values throughout the supply chain

KPI

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

FOR FURTHER KPIS SEE PAGES 32-34

In 2019 we used 237,000 cubic metres of chipboard and 44,000 cubic metres of MDF in our factories - that's enough to fill the Royal Albert Hall more than three times. We use either FSC or PEFC certified chipboard & MDF in our manufacturing process. All the new kitchen ranges we introduced during 2019 were from one of these certified sources.

This 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 a member of the Timber Trade Federation which requires our commitment to implementing an environmental due diligence system to fulfil the Federation's responsible purchasing commitments.

We continually look to improve our processes and our awareness of timber sourcing risks. This includes attending workshops run by The Office for Product Safety and Standards who monitor and enforce the Timber Regulations, so that we can keep up to date with the latest developments.

We only want to work with suppliers who share our ethical values. We are clear about our expectations and we aim to align them through our whole supply chain.

Every year we bring our main suppliers together at a forum to talk about shared issues. This benefits both us and our suppliers, and is an example of the principle that our business needs to be 'worthwhile for all concerned'.

As well as talking to our suppliers about product development, we use the supplier forum as an opportunity to repeat and reinforce our expectations for sustainability and ethical behaviour. We tell our suppliers what we need from them and we work together to come up with solutions.

Active engagement with our supply chain

Supplier assessments, risk-based testing, ethical procurement

We know that there will always be potential ethical, social and environmental risks in our supply chain, and we are committed to understanding, identifying, and minimising them as much as possible. We will only trade with a supplier when we have carried out a thorough risk assessment and are satisfied that we have credible evidence that they meet our high standards.

In 2019 we have continued to strengthen our approach to reducing supply chain risks. We make our expectations clear in our supplier contract terms and conditions, which include specific ethics and sustainability clauses. We also have a Supplier Code of Conduct where we set out what we expect and how we will monitor that suppliers are complying.

After clearly setting out our standards and expectations, we then work to understand the specific risk profile of each supplier.

In 2018 we started to use Sedex, a leading worldwide platform for sharing responsible sourcing data, to help us assess supplier risk and to verify any specific mitigations which may be in place. Sedex is used by over 50,000 members in over 150 countries. It is a place where suppliers can share a wide range of sustainability data and accreditation information for their companies and their individual operating sites, as well as the results of independent third party sustainability audits.

We encourage all our suppliers to become members of Sedex. For those who are not, we use a combination of specific questionnaires and targeted verification processes - which may include us commissioning an independent sustainability audit.

We need our people to understand and demonstrate best practice and integrity, so we've given them training to support them in their dealings with suppliers. 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.

There is more information about the work we do to safeguard against human rights violations, in both our own business and our supply chain, in our modern slavery statement. You can find this in the Sustainability section of our investor relations website.

Sustainable product

Offering our customers a range of high-quality, durable products

We need to offer our customers and end-users a range of high-quality products which are durable, energy-efficient and responsibly produced, as well as looking good and offering excellent value for money.

We have direct control of these factors with the cabinets, frontals and worktops that we make in our UK factories. We know where the raw materials are sourced from, and we can test the finished products to levels beyond industry standards in our own test laboratories. This allows us to be confident offering a 25 year guarantee on our cabinets, for example. It's part of our mission statement: 'No-call-back quality'.

For the product we buy in, our aim is to develop long-lasting and trusted relationships with responsible suppliers. As the UK's number one kitchen brand, we can offer suppliers sufficient volume to make it worth their while committing investment funds to develop efficient products to our demanding specifications. It's part of our culture: 'Worthwhile for all concerned....creating the conditions that allow everyone to succeed'. It also allows us to offer a three-year warranty on all our Lamona appliances.

We're always working in our factories and with our suppliers to make our product offer more sustainable.

Some of our current highlights are shown below:

A Lamona heat-pump tumble dryer

- Co-developed with a long-term supply partner, requiring the supplier to commit to significant R&D expenditure in a project that lasted several years
- A unique product on the market - the first integrated heat-pump tumble dryer. Required the supplier to re-engineer the pump to fit into an integrated appliance
- We can encourage suppliers to do this because we have sufficient scale
- A+ energy rating. Uses 41% less energy than the product that it replaced.
- 98% recyclable at the end of its life

B Lamona dual cavity single oven

- Top and bottom fans with dividing shelf in the middle
- Allows you to just heat half of the oven, or to heat both halves to different temperatures, saving energy. Also allows you to use the whole oven as one space if you need it
- 91% recyclable at the end of its life

C Lamona dishwasher

- A++ rated
- Saves an average of 560 litres of water/yr over our standard dishwasher, and is 5db quieter
- 84% recyclable at the end of its life

D Cabinets

UK MANUFACTURED

- Made in our own UK factories from 100% FSC or PEFC compliant raw materials, sourced from UK forests
- 25 year guarantee - we know it's made to last
- Cabinet foot made out of recycled plastic

E Howdens bamboo flooring

- Twice as durable as oak - can be sanded and refinished up to 5 times
- Bamboo is renewable and much faster-growing than hardwood
- 25 year residential guarantee

Sustainability Matters

Our environment

Reducing waste, responsible operations, lowering emissions

Reducing waste

Reducing amounts to landfill, highly-efficient production, turning production waste into energy

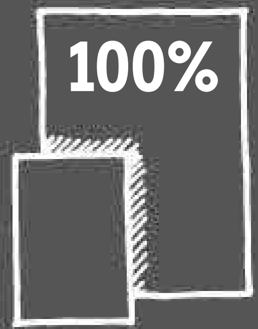
KPI

Total % of production and warehouse waste reused, recovered and recycled

99.8%

FOR FURTHER KPIS SEE PAGES 32-34

100% of all packaging used in our manufacturing is from recycled or certified sources



We're very pleased to have improved our KPI from last year's figure of 98.5% to this year's 99.8%. We are even more pleased that by the end of 2019 we had managed to find a way of recycling the one remaining element of waste so that we will be operating at 100% in 2020.

Highly-efficient production is one of our strategic aims as it gives us a competitive cost advantage. Over the years we've invested in efficient production machinery and in software that takes the constantly-changing production mix, and maximises the number of panels that we can get from each sheet of chipboard. We've also worked with our chipboard supplier to develop a new size of board that allows us to minimise cutting waste even further.

Nevertheless, the sheer scale of our manufacturing operations means that we still generate a lot of sawdust waste. At both of our factories, we have invested in biomass boilers which burn this waste to produce heat. They allow us to reuse waste, they reduce our emissions and they save us the cost of the equivalent bought-in fuel.

In 2019, we converted 12,000 tonnes of sawdust into energy at our Howden and Runcorn sites. This is enough sawdust to fill 15 Olympic swimming pools. Burning it onsite means that it doesn't have to be transported elsewhere to be reused. It also saves us money. We generated 46,000 MWh of energy from our biomass boilers in 2019, equivalent to the average annual electricity consumption of around 12,000 households.

Responsible operations

Energy-efficient factories and warehouses

All our factories, warehouses and transport sites hold the ISO 14001 standard for Environmental Management. This assures us that we have sustainable processes in place, and it encourages us to look for improvements.

2019 initiatives in our factories should give us an aggregate energy saving of around 0.8 million kWh per year, the equivalent of the annual energy use of 50 average homes. Our total electricity used in manufacturing was 4% less than last year, despite a 5% increase in factory production volumes.

The cumulative effect of the energy saving projects in our factories since 2010 means that despite manufacturing 45% more finished goods per annum in 2019, we used 18% less electricity to make them.

Safe and efficient transport fleet

Our sustainability-award-winning transport fleet drives over 16 million miles per year, so it needs to be efficient and safe.

All of our trucks are of the latest and most efficient European standard. We then add further measures to the standard vehicles to increase efficiency.

We also invest in safety and energy-efficiency training for our drivers. We combine this with 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 who need help to improve.

We keep looking for further improvements and we continue to work with industry bodies and truck manufacturers in trials of new technology.

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Lowering emissions

Efficient operations lead to reduced emissions

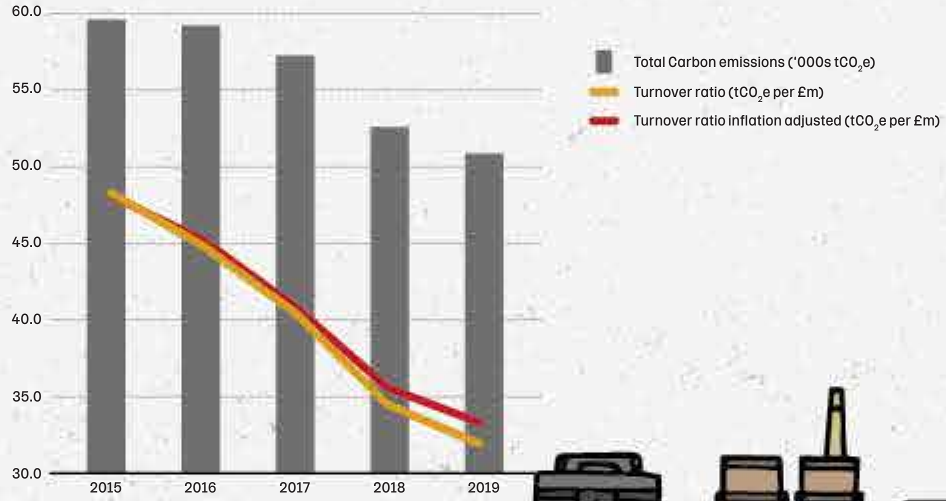
GREENHOUSE GAS AND EMISSIONS REPORTING

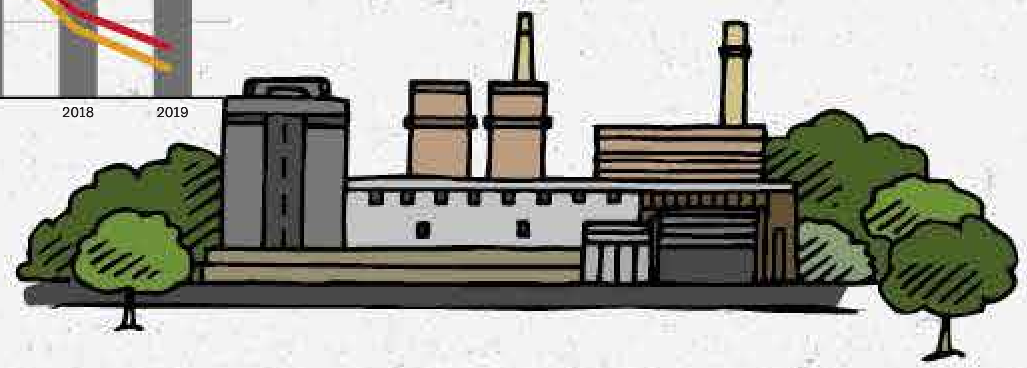
We are pleased to report that our total emissions have reduced in 2019 despite an increase in turnover.

Turnover increased by 4.8% in 2019, whilst the turnover ratio decreased by 7.6% and the inflation adjusted turnover ratio decreased by 6.4%. We will continue to look for further improvements. Our record over the past five years is shown on the chart below.

	Total CO_2 Emissions (Tonnes) 2019	Total CO_2 Emissions (Tonnes) 2018
Scope 1 - Direct: Gas	2,622	3,472
Scope 1 - Direct: Diesel	28,705	26,683
Scope 1 - Direct: Other fuels	690	898
SCOPE 1 - DIRECT: TOTAL	32,016	31,053
Scope 2 - Indirect: Electricity	18,517	21,130
SCOPE 2 - INDIRECT: TOTAL	18,517	21,130
TOTAL (Scope 1 and 2)	50,532	52,183
Turnover (£m)	1,583.6	1,511.3
Turnover ratio (tCO_2e per £m)	31.9	34.5
Inflation adjusted turnover ratio (tCO_2e per £m)	33.3	37.0

Emission source data is converted to carbon tonnes using the conversion factors published by Defra. Source data includes meter readings for electricity and gas and purchasing records for other fuels.





Sustainability Matters

Our communities

Local community projects

Local involvement on a nationwide basis, thousands of donations, £1.5m contributed

Each of our depots, and every one of our manufacturing, distribution and support sites, has an important role in the life of its local community. Each site depends on the local community for its success and growth; for customers and staff.

Our culture is based on personal relationships and individual accountability, and we encourage our people to support and engage with local activities and charities.

We make our products, time and cash available for staff to get involved in all sorts of ways. This year we have donated 40 kitchens to local good causes, and paid for them to be fitted. These kitchens go into places like village halls and community centres, as well as to organisations that provide education and employment skills training for young adults with additional needs. It helps them to continue to serve their neighbourhoods.

We also support thousands of small local projects with cash donations. Typical donations may be just a few hundred pounds, but they will make a big difference. They might cover things like:

- Helping local hospices to fund vital care for patients or counselling for bereaved families.
- Donating cash to local air ambulance charities, helping them to keep on providing essential emergency services.
- Buying kit for a local children's sports team.
- Donating cash to a local hospital's appeal for vital equipment.
- Donating stock to help renovate facilities at a local community centre or scout hut.

In 2019, we've made over 3,600 separate donations which have involved us giving cash or products worth £1.5m.

Our culture of giving back to the local community also shows in the actions our people take as individuals. Every year, we support our people as they take the Howdens culture and make it personal. They give up their time and put themselves to the test to raise money for all sorts of local and national causes. Some of the amazing things our people do are showcased in a video on our website here: www.howdenjoinerygroupplc.com/about/our-people.asp

We hold the Charities Aid Foundation Gold Award in recognition of the high level of employee participation in payroll giving. As an example, in 2019 a team of nine from our East Midlands region raised over £19,000 for a local children's hospital by completing a gruelling million metre row.

Leonard Cheshire

15th year of partnership. £750,000 donated, 27 inclusive kitchens donated, 'Can Do' projects

We've had a successful partnership with Leonard Cheshire since 2004 it continues to grow. In 2019 we have donated cash and goods worth £0.75m.

Leonard Cheshire's aim is to support individuals to live, learn and work as independently as they choose, whatever their ability. They work for a fairer, more inclusive society that recognises the contributions that we all make and where we can all play our part.

Like Howdens, they value local relationships, and their work supports people to be active and proud members of their local communities.

Our work with Leonard Cheshire is currently focused in two areas:

- Designing and fitting inclusive kitchens in their care homes and day centres so that disabled people can live more independently.
- Helping young people living with disabilities to play an active role in their communities through Howdens' sponsorship of the 'Can Do' volunteering programme.

Inclusive kitchens

Howdens are experts at designing inclusive and democratic kitchens that can help a wide range of people with different needs. This could range from features that help the youngest and oldest members of multi-generational families, to features that can help people with limited mobility, sight or other additional needs.

All of our kitchen ranges are available with a variety of inclusive features such as easy access cabinets, pull-down shelves and pull-out storage, variable-height worktops for sinks and preparation areas, high-contrast work surfaces and cupboards to help with limited sight, and raised plinths to allow wheelchairs to pass below.

There is an obvious fit between our skills in inclusive kitchen design and the needs of Leonard Cheshire's residents. We have pledged to supply and fit inclusive kitchens from our range wherever they are needed in any of Leonard Cheshire's homes across the country, and we have been doing this for many years. In 2019 we fitted a further 27 kitchens nationwide.

One of the kitchen users commented: "I struggle with my disability every day and find baking a great way to improve the mobility in my arms. For me it's like occupational therapy in that it keeps my hand movement going. At first, I struggled to maintain a grip on items, but I'm building strength now."

The manager of one of the Leonard Cheshire homes where we fitted an inclusive kitchen told us: "Having a fully accessible kitchen for our service users is extremely important for their independence. I couldn't begin to describe the hours of freedom and joy, and the levels of independence this kitchen will bring to our residents."

Can Do

We began to support the Can Do programme in 2010 and we are its single biggest funder. Can Do is a skills development programme for people aged 16-35 with a disability or long-term health condition. It gives them the chance to develop important life and work skills, boost their self-confidence, give back to their community and add something to their CV.

It does this by supporting them to devise and take part in a range of projects in their local community. The participants design their projects according to their specific needs and interests, so they cover a wide range of activities.

In 2019, for example, projects have ranged from community sports events to garden renovation to making videos to raise awareness. The Can Do programme provides these activities in a safe environment where young disabled people can step out of their comfort zone to develop their skills, while mixing with their peers and having the opportunity to gain a City & Guilds qualification.

Howdens support has helped Can Do expand from four locations in 2010 to 24 locations in 2019, supporting 3,000 young people per year through meaningful projects in their local communities.

90% of participants said that they had learnt new skills which would help them in the future.

Some feedback from Can Do participants in 2019 were: "I now feel far more confident in myself and have gained more skills. I have also tried things I've never done before.", that it "gave me a good sense of independence", and "I have achieved a lot in a short time on Can Do and there's a lot of improvements to master in the future".

Case Study

Community kitchens

During 2019 we worked with one of our suppliers, NEFF, to donate new kitchens to two community centres, in Leeds and London. The aim behind these community kitchens is to bring local residents together to share recipes and learn new skills.

With a national decline in cooking skills, the project provides a space for people of all generations to share recipes, cook, socialise and eat well together, as well as catering for community events.

Home cooking skills are crucial to healthier, more sustainable diets. In response to local demand, the kitchens run courses to support people to build life skills in cooking, and also budgeting, self-reliance and caring for their own health through better diets.

Our depots are at the heart of local communities, so we're proud to support initiatives like this.

Going Concern and Viability statements

GOING CONCERN

The Group meets its day-to-day working capital requirements through cash generated from operations. If required, the Group also has access to an asset-backed lending facility of £140m which expires in December 2023.

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in economic conditions and trading performance. The results of this testing show that the Group should be able to operate within the level of its current net cash balances and its committed bank facility, and that it would not breach the facility covenants.

After making due enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 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 profits, strong net profit margins
- debt-free. Consistently cash-generative. Proven ability to maintain strong cash balances whilst also investing for growth and returning cash to shareholders. £140m lending facility available 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 40 to 47, together with details of the principal risks and mitigations
- the Directors are satisfied that they have carried out a robust assessment of the Company's principal risks

Assessment of Viability

The Directors' review of the Company's long-term viability was mainly done with reference to the Company's annual strategic planning process, which looks forward over a three-year period.

The three-year plans were subjected to sensitivity analysis which modelled reduced income, cash flow and capital expenditure scenarios, modelled on the biggest downturn in sales and margin that the Company has ever experienced over a three year period.

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 downturn scenarios.

The results of the sensitivity analysis showed that the Company would remain profitable over the three-year period, and would not need to use its current lending facility. The testing did not factor in any mitigating actions that would be open to the Company in the event that such a downturn was experienced.

Having taken into account the Company's current position, strategic plans 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 2022.

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the Financial Statements.
- 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 76 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 74 and 75. On page 75, we have set out examples of how the Directors have had regard to the matters in s.172(1)(a) - (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 121 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

Mark Robson
Deputy Chief Executive and Chief Financial Officer