

Strategic Report

Risk management

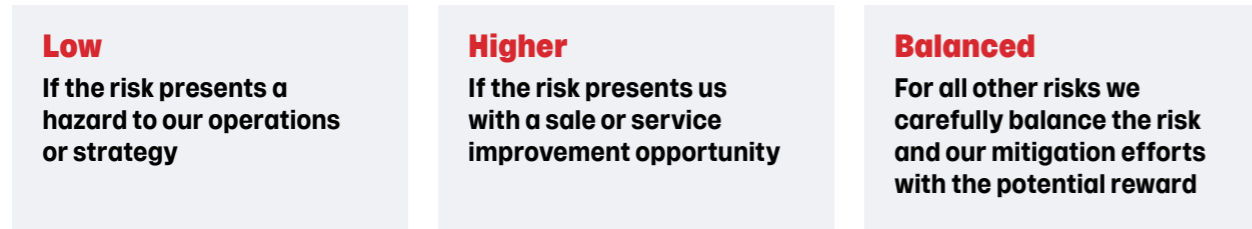
Our approach to risk, and emerging risks

Our approach to risk

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

Risk appetite

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



Emerging risks

We consider emerging risks as part of our routine risk management process. We discuss emerging risks regularly within the management team and, where appropriate, with the Board.

We conduct periodic 'horizon scans' of emerging risks with the Executive Committee to gain insight on what our long-term risk profile looks like. Conducting this process enables us to consider risk over three timescales:

Short term

Those risks that are strategically and/or operationally important to us now and into the near future. They are typically visible, understood and already covered well in our operational risk register.

Medium term

Risks that are tactically important to achievement of our longer-term objectives, development and growth plans.

Long term

Longer term trends that could impact on the development of our strategic objectives. The output of this process is discussed with the Executive Committee and the Board.

If a specific emerging risk requires a more immediate response, we discuss it with the Business Continuity and/or Executive Committee as appropriate. Examples of emerging risks we are currently considering are:

- The governance of Artificial Intelligence technology and its use in Howdens.
- The changing geopolitical situation in the Middle East, Eastern Europe and China, and its potential impact on our supply base and on the UK economy.

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

Climate-related risk

Climate-related risk is an emerging risk, but is not a principal risk for us. We handle climate risk in the same way as our other risks, albeit that time horizons may be longer. We have continued to develop our climate risk approach during 2023, and more detail on this can be found in our TCFD report at page 60. In 2023 our key climate risk developments include:

Risk identification

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

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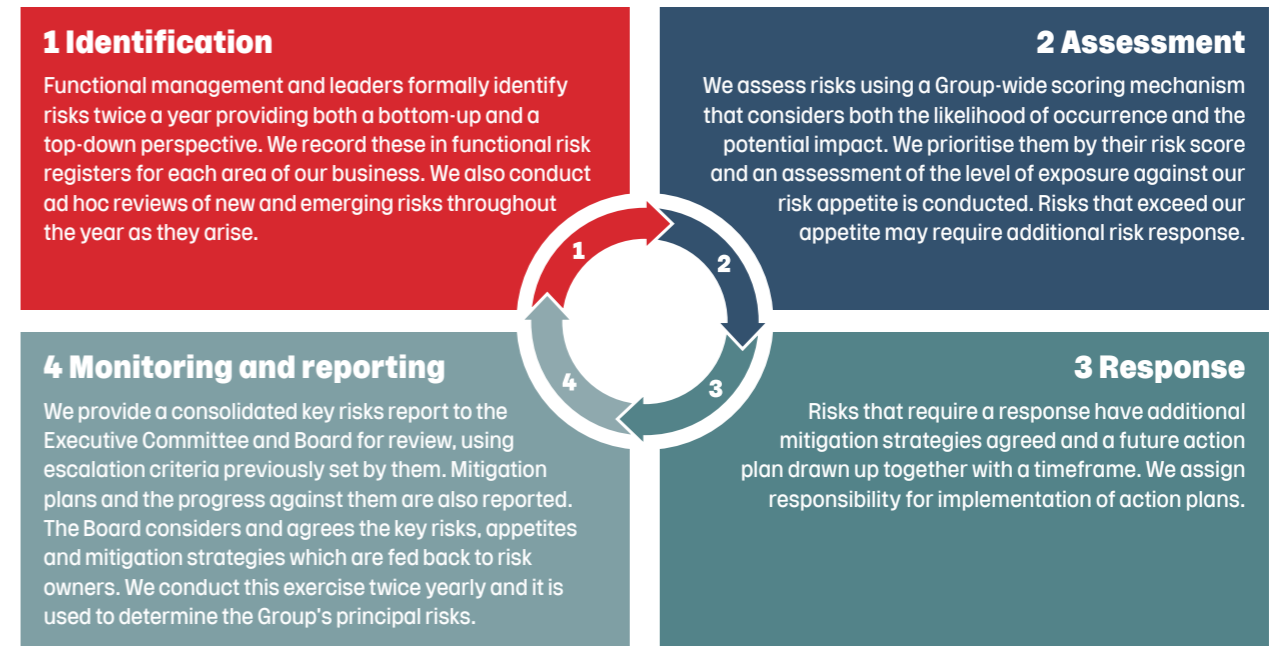
We have refined our risk assessment approach, that is modelled on the British Standard (BS EN ISO14091) and tailored to meet our needs, so that it enables robust prioritisation of risk exposures for treatment.

Integration into our risk management framework

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

The risk management process

The main steps in the process are set out below:



Risk governance



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Principal risks and uncertainties

2023 Principal risks

The arrows alongside each risk show the year on year change

1. Market conditions R O P F

Risk and impact

We sell our products to small builders who install them in different types of housing. Our sales depend on the demand for repair, maintenance, and improvement services. If activity falls in these areas, it can affect our sales.

Mitigating factors

- We have proven expertise in managing selling prices and costs. Data on competitors, depot activity and pricing is discussed by the Executive Committee at each meeting.
- We use insights from our depot network, our builders' forums and other channels. This is reviewed regularly by the Executive Committee and the Board.
- We use our good relationships with our suppliers to alert us of any changes. Our suppliers update us on their assessment of trading and market performance through regular reviews with our leadership team. We also gather insights from supplier visits and our Supplier Conference.

Risk appetite

We have a low appetite for market conditions risks and we maintain close relationships with our customers and suppliers to identify movements early to enable appropriate action to be taken.

2. Supply chain R O P F

Over 2023 this risk has decreased as our supply base continues to improve and return to a more pre-pandemic environment.

Risk and impact

Disruption to our relationship with key suppliers, manufacturing and distribution operations could affect our ability to service our customers' needs. If this happened, we could lose customers and sales.

Mitigating factors

- We maintain strong relationships with our suppliers. We use long-term contracts and multiple sourcing to safeguard the supply of key products.
- We have invested in our supply chain and distribution to secure capacity and agility when it is required. We have optimised our stock levels.
- Supplier reviews are discussed regularly with the Executive Committee. In addition, a sub-committee monitors governance of supplier risk and considers potential issues.

Risk appetite

We have a very low appetite for supply chain risks and put considerable effort into identifying them early to enable us to prevent stock issues at our depots.

3. Maximising growth R O P F

Risk and impact

Failure to recognise, innovate and exploit opportunities could impact on growth, we must align our business model, risk appetite, structures, and skills with opportunities to maximise our growth potential.

Mitigating factors

- 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. Our strategic priorities are actively discussed at the senior leadership, Executive Committee and Board level. The Board is updated on the strategic plan regularly, and there is a regular programme of 'Spotlight' sessions which examine specific areas of the strategy.

Risk appetite

We have a balanced appetite for risk when it comes to growth, we are willing to accept some risk where we see opportunity but carefully balance that risk with the potential reward presented.

Links to strategy

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

4. People R O P F

Risk and impact

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

Mitigating factors

- We continue to invest in our employee value proposition, striving to provide the best possible working environment and growth opportunities for our employees.
- The Executive Committee and senior leadership team assess succession plans for key roles regularly to ensure that appropriate continuity in place.
- The Remuneration Committee and Board are regularly updated on key people activity such as our internal projects to improve diversity as well as key programmes such as employee financial education.
- We continue to support a wide variety of apprenticeships, accreditations and development programmes across all areas of our business.

Risk appetite

We have a low appetite for people risk and work hard in ensuring that they feel valued, rewarded appropriately, and have opportunities to develop and progress in their Howdens career.

5. Health and safety R O P F

Risk and impact

We have a larger estate which employ various activities that could cause harm to our staff, our customers, their customers and the communities around us.

Mitigating factors

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

Risk appetite

We put a great deal of effort into identifying and managing health & safety issues before they occur and have a very low appetite for Health & Safety risks.

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Principal risks and uncertainties continued

2023 Principal risks continued

The arrows alongside each risk show the year on year change

6. Cyber security R O P F

Risk and impact

A major cyber security breach could result in systems being unavailable, causing operational difficulties, and/or sensitive data to be unavailable or compromised.

Mitigating factors

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

Risk appetite

We have a very low appetite for cyber security risk and manage IT security closely to secure the confidentiality, integrity and availability of these systems.

7. Business model & culture R O P F

Risk and impact

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

Mitigating factors

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

Risk appetite

We have a very low appetite for risks that can adversely impact on our business model and culture and put great emphasis on identifying issues and addressing them early.

Links to strategy

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

8. Product R O P F

Risk and impact

If we do not support the builder with products that they and their customers want, we could lose their loyalty and sales could diminish.

Mitigating factors

- Our product team regularly refresh our offerings to meet builders' and end-users' expectations for design, price, quality, availability and sustainability.
- We work with our suppliers, 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.

Risk appetite

We have a balanced appetite for product risk and are willing to take some calculated risks when selecting new products to continue to meet the need of our customers.

9. Business continuity & resilience R O P F

Risk and impact

We have some key business operations and locations in our infrastructure that are critical to the continuity of our business operations.

Mitigating factors

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

Risk appetite

We have a very low appetite for Business Continuity risk, ensuring that critical functions are resilient and appropriate business continuity plans are in place to protect them.