

Strategic Report

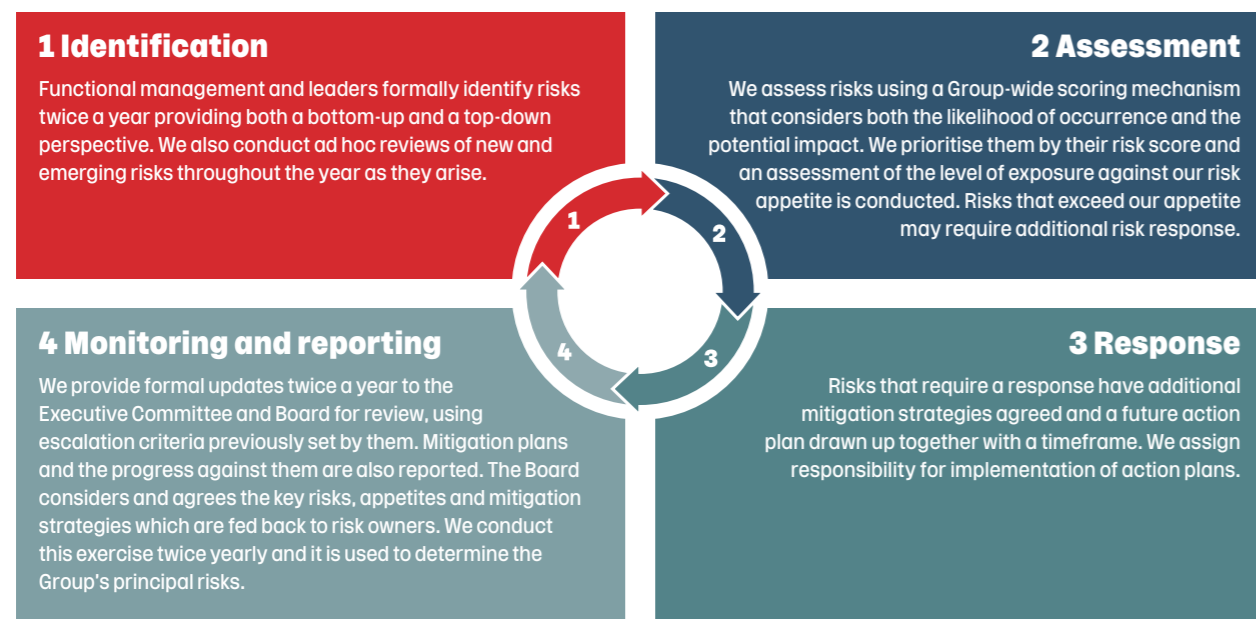
Risk management

Our approach to risk

When we look at risks, we specifically think about internal and external drivers of operational, reputational, compliance, 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.

The risk management process

The main steps in the process are set out below:



Risk governance

Key activities	People responsible	Reports/documents
<p>Risk monitoring and reporting</p> <p>We determine our principal risks from the key risk report and agree them with Executive Committee and Board.</p> <p>Executive Committee and Board challenge and agree the Group's key risks, appetites and mitigation strategies twice yearly.</p> <p>Key risks, assessments and responses are consolidated into a key risk report.</p> <p>Risk response</p> <p>Where risks exceed our appetite, mitigation plans are drawn up by functional leaders and agreed with the Executive Committee.</p> <p>Risk assessment</p> <p>Risks are prioritised using a Group-wide scoring mechanism and are compared to our risk appetite.</p> <p>Risk identification</p> <p>We conduct operational risk register reviews regularly to monitor current and emerging risks.</p> <p>We review internal/external emerging issues prior to each register review.</p>	<p>Top-down</p> <p>Board Executive Committee Audit Committee Risk team</p> <p>Bottom-up</p> <p>Functional leaders Operational management Risk team</p>	<p>Principal risks</p> <p>We consolidate the principal risks from the key risk report. These are those risks that we consider could have a potentially material impact on our operations and/or achievement of our strategic objectives.</p> <p>Key risk report</p> <p>We consolidate our key risk report from the risk registers. This report outlines the highest scoring risks, emerging risk issues, the biggest influences to our risk profile and changes to the risks reported. The key risk report also provides a Group-wide perspective on risks escalated.</p> <p>Risk register</p> <p>We record risk registers for each functional area, aligned with the operating model of the business. The register includes all of the information required to accurately capture the risk and is maintained on our risk management information system. We identify an owner for each risk register responsible for its maintenance as well as the risks it contains.</p>

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.

<p>Low</p> <p>If the risk presents a hazard to our people operations or strategy</p>	<p>Higher</p> <p>If the risk presents us with a sale or service improvement opportunity</p>	<p>Balanced</p> <p>For all other risks we carefully balance the risk and our mitigation efforts with the potential reward</p>
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Emerging risks

We conduct periodic 'horizon scans' with the Executive Committee to understand our long-term emerging risk profile. This process considers risks over three timescales:

- **Short term** - Current and near future risks that are strategically and operationally important, and are already covered in the operational risk register.
- **Medium term** - Risks important for achieving long term objectives, development and growth plans.
- **Long term** - Trends that could impact the development or success of achieving strategic objectives.

If a specific emerging risk requires a more immediate response, we discuss it with the Business Continuity and/or Executive Committee as appropriate. Emerging risks currently being considered can be found on page 41.

Compliance risks

We conduct regular assessments of specific risk areas to help identify key compliance exposures to the business (for example anti-bribery and corruption, fraud and tax compliance). The output of these are embedded in our operational risk process to ensure clear ownership and action plans across the business. These risks are prioritised and escalated where appropriate to the Executive Committee and Board.

2024 Principal risks and uncertainties

The arrows alongside each risk show the year on year change

Links to strategy

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

1. Market conditions R O P F ◀ ▶

<p>Risk and impact</p> <p>We sell our products to independent 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.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> • 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.
<p>Risk appetite</p> <p>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.</p>	<p>Trend</p> <p>Cost of living, political change and ongoing inflationary pressures all continue to impact on our end-users' confidence. Whilst some factors of this risk have reduced slightly over the year, the economic uncertainty has remained throughout 2024.</p>

Strategic Report

Risk management continued

2024 Principal risks and uncertainties continued

The arrows alongside each risk show the year on year change

2. Supply chain R O P F

<p>Risk and impact</p> <p>A failure in governance or 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.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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.
<p>Risk appetite</p> <p>We have a low appetite for supply chain risks and put considerable effort into identifying them early to enable us to prevent stock issues at our depots.</p>	<p>Trend</p> <p>Whilst our supply base has returned to a more pre-pandemic environment, changing legislation, ongoing geopolitical issues and extreme weather events continue to challenge the continuity of our supply-chain and impact cost of freight.</p>

3. Maximising growth R O P F

<p>Risk and impact</p> <p>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.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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.
<p>Risk appetite</p> <p>We have a balanced appetite for risk when it comes to growth. We are willing to accept some risk where we see opportunity but we carefully balance that risk with the potential reward presented.</p>	<p>Trend</p> <p>An ongoing unpredictable economic environment and continued uncertainty for consumers, has resulted in tough trading, however our strategy has continued to grow our share of the kitchens market.</p>

Links to strategy

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

4. People R O P F

<p>Risk and impact</p> <p>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.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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 is 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 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.
<p>Risk appetite</p> <p>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.</p>	<p>Trend</p> <p>Ongoing cost of living, wages and inflationary pressures, management of hybrid working practices and changes of working laws and rights has created a challenging environment for our people and management teams. Maintaining the wellbeing and motivation of our people has been a focus area across the entire business.</p>

5. Health and safety R O P F

<p>Risk and impact</p> <p>We have a large estate which employs various activities that could cause harm to our staff, our customers, their customers and the communities around us.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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.
<p>Risk appetite</p> <p>We put a great deal of effort into identifying and managing health and safety issues before they occur and have a low appetite for health and safety risks.</p>	<p>Trend</p> <p>A well-established health and safety framework manages this risk effectively. We have continued to learn from constantly monitoring near misses, changes to our operating environment and changing legislation, ensuring this risk remains stable.</p>

Strategic Report

Risk management continued

2024 Principal risks and uncertainties continued

The arrows alongside each risk show the year on year change

6. Cyber security R O P F ◀▶

<p>Risk and impact</p> <p>A major cyber security breach could result in systems being unavailable, causing operational difficulties, and/or sensitive data to be unavailable or compromised.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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.
<p>Risk appetite</p> <p>We have a low appetite for cyber security risk and manage IT security closely to secure the confidentiality, integrity and availability of these systems.</p>	<p>Trend</p> <p>Cyber security threats continue to develop globally through the combined use of emerging technologies such as artificial intelligence, increasingly dynamic use of social engineering techniques and gaining physical access.</p>

7. Business model & culture R O P F ◀▶

<p>Risk and impact</p> <p>If we lose sight of our values, model, or culture we will not successfully service the needs of the local independent builder and their customers, and our long-term profitability may suffer.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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.
<p>Risk appetite</p> <p>We have a 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.</p>	<p>Trend</p> <p>Growing international operations, bringing in many new people, has required increased focus on ensuring the Howdens culture is maintained across all areas of the business. UK operations remained stable with established management teams' consistent focus on our core principles and business model.</p>

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

Links to strategy

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8. Product R O P F ◀▶

<p>Risk and impact</p> <p>If we do not support the builder with products that they and their customers want, we could lose their loyalty and sales could diminish.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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.
<p>Risk appetite</p> <p>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.</p>	<p>Trend</p> <p>Over the year we have continued to work on understanding our customers' and end-consumers' wants and needs, regularly reviewing our product offering to ensure we continue to meet them.</p>

9. Business continuity & resilience R O P F ◀▶

<p>Risk and impact</p> <p>We have some key business operations and locations in our infrastructure that are critical to the continuity of our business operations.</p>	<p>Mitigating factors</p> <ul style="list-style-type: none"> 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.
<p>Risk appetite</p> <p>We have a low appetite for business continuity risk, ensuring that critical functions are resilient and appropriate business continuity plans are in place to protect them.</p>	<p>Trend</p> <p>Though we have not experienced any significant events we continue to develop and test our business continuity capabilities, whilst ensuring resilience by design as we continue to grow.</p>

Emerging risk

Geopolitical risk

The changing political situation in the Middle East, Eastern Europe and China, coupled with major changes in governments at home and abroad continue to have the potential to impact our supply base and the economies we operate in. We monitor the situation in the relevant territories and take a risk-based approach to any identified exposures.

Legislative environment

Increasing legislative requirements around climate and corporate governance have the potential to impact our operations at home and abroad and/or to distract our focus on our customer.

We review emerging legislative requirements as well as our compliance with existing legislation to understand how and when they could impact on us and what we need to do to comply.

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 2024, and more detail on this can be found in our TCFD report on pages 63 and 66.