

# Corporate Governance Report



## Board Meeting Attendance

Richard Pennycook (6/6)	Geoff Drabble (6/6)	Mark Robson (6/6)
Mark Allen (3/6) <sup>1</sup>	Louise Fowler (1/1) <sup>2</sup>	Debbie White (6/6)
Karen Caddick (6/6)	Tiffany Hall (5/5) <sup>3</sup>	
Andrew Cripps (6/6)	Andrew Livingston (6/6)	

1. Mark was unable to attend the February and April meetings due to his commitments at Dairy Crest and the November meeting due to health reasons. Mark received all of the Board papers in advance of the meetings and was able to feedback his views to the Chairman.
2. Louise was appointed to the Board on 1 November 2019.
3. Tiffany retired from the Board on 17 September 2019.

### INTRODUCTION FROM THE CHAIRMAN

The new principles-based approach adopted in the latest version of the UK Corporate Governance Code encourages companies to demonstrate throughout their reporting how the governance of the company contributes to its long-term sustainable success and achieves wider objectives. As such we have ensured that our Annual Report and Accounts as a whole address the Principles and Provisions of the Code.

### Reporting

Our reporting of culture and purpose are considered in detail in the Strategic Report. Consideration of our wider objectives and broader societal contribution is detailed in our 'Sustainability Matters' report.

The detail we have set out in the corporate governance reports is intended to provide you with more granular detail, not about our model or our results, but information about the teams delivering and overseeing those results and their reporting hierarchies.

In our Corporate Governance report we identify who our key stakeholders are, how we engage and foster relationships with them and how consideration of their needs have influenced our decision-making. In the Nominations Committee Report we consider in more detail how we manage succession at Board and senior management levels. In our Remuneration Committee Report we consider how our Executive pay aligns with strategy. And in the Audit Committee Report we consider what the procedural safeguards are that we have in place to protect the interests of our stakeholders.

We have updated our corporate governance reports this year to draw out more clearly the disclosures which matter most to our stakeholders. Parts of these reports unavoidably must cover statutory and other regulatory disclosures but, where possible, we have moved some of the information previously contained in these reports online or put them elsewhere in the Annual Report to prioritise the information which matters most.

### Agenda

Like many companies, the Board's agenda is driven by financial and non-financial matters and we have provided more detail this year to demonstrate how the matters we considered and the decisions we made are aligned with the different stakeholders. We have embedded good processes for employment engagement and equality, diversity and inclusion and we will improve these processes over time. We are also dedicating more time to our environmental agenda.

But the Board recognises that all of this is only possible if our purpose is clear, our commercial strategy is sound, our leadership teams are fit-for-purpose and our financial controls robust. These things must remain our primary focus and they will deliver the long-term, sustainable success for all of our stakeholders.

### Principles first

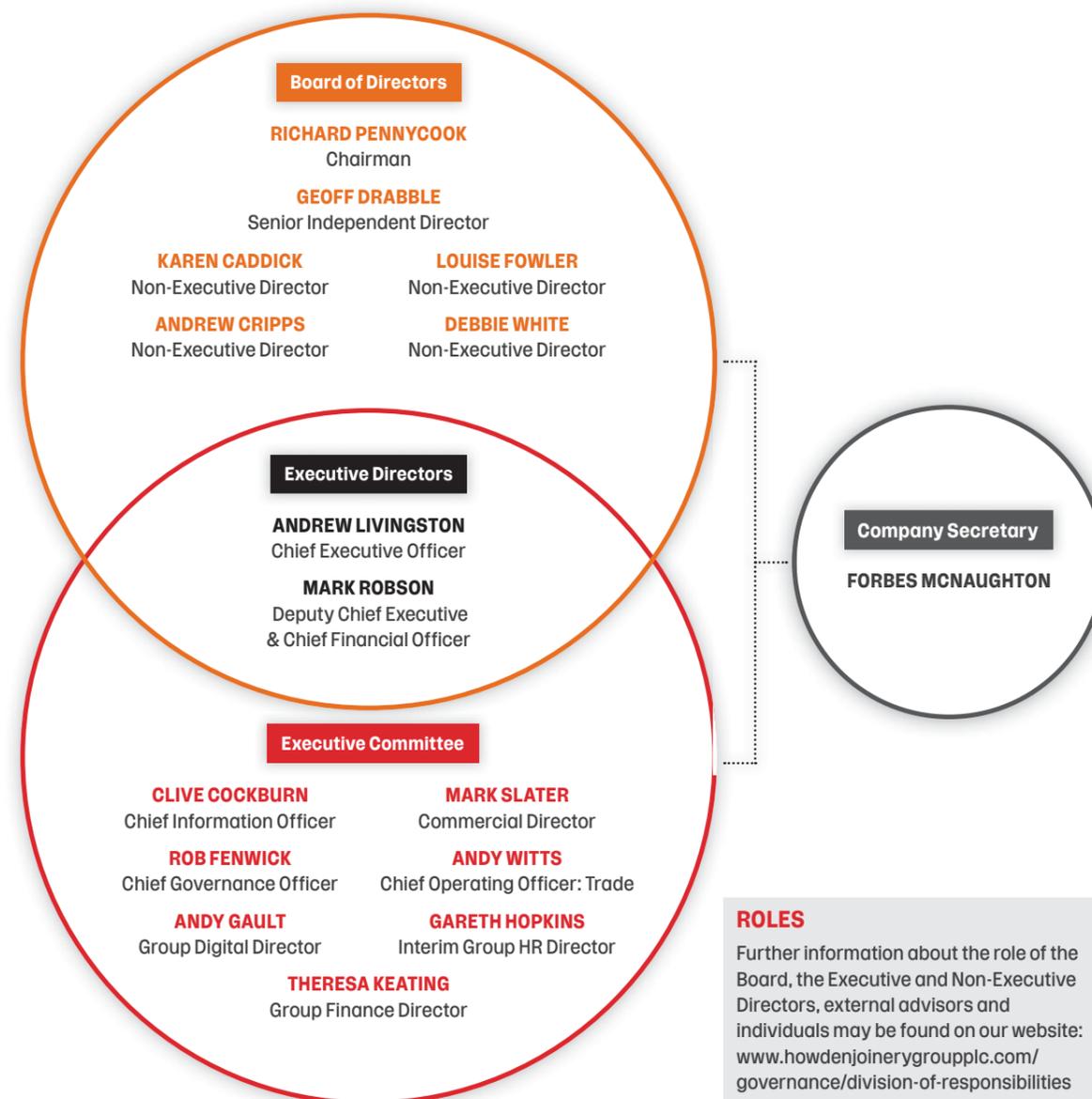
It is true to say that Howdens is no stranger to a principles-based approach. The Company was founded on the single principle that it must be worthwhile for all concerned. That is as true today as it ever was and it continues to underpin all strategic, all commercial and all governance decision making.

### 2020 ANNUAL GENERAL MEETING ('AGM')

Details of the 2020 AGM may be found in the 'Additional Information' section on page 176.

### SHARE CAPITAL AND SIGNIFICANT AGREEMENTS

Specific statutory and regulatory disclosures previously contained in this report have been moved to the 'Additional Information' section on pages 176 and 177.



# Corporate Governance Report continued

## Board of directors

### Executive Directors



**ANDREW LIVINGSTON**  
Chief Executive Officer

Andrew was appointed CEO Designate in January 2018 and was appointed to the Board as Chief Executive Officer on 2 April 2018.

#### Other listed company appointments

Non-Executive Director at LondonMetric Property Plc

#### Contribution to the long-term sustainable success of the Company

Andrew has a strong track record of performance, execution and driving change through improving digital capability, ranges and new site openings. He also has knowledge of key European geographies, is a competent French speaker, and has a strong entrepreneurial mindset. Andrew's mindset fits the Howdens culture which has served the Company well and is fundamental to its success. He was previously the CEO of Screwfix.



**MARK ROBSON**  
Deputy Chief Executive  
and Chief Financial Officer

Mark was appointed Deputy Chief Executive in May 2014, having joined the Board in April 2005 as Chief Financial Officer.

#### Contribution to the long-term sustainable success of the Company

Mark has served on the Board since April 2005 and in this time has accrued deep sector and market knowledge relevant to Howdens. Mark has an excellent reputation underpinned by his record of achievement across a number of different sectors. He also has relevant financial experience from his major finance roles at Delta plc and ICI and trained as an accountant at Price Waterhouse.

### Non-Executive Directors



**RICHARD PENNYCOOK**  
Independent  
Non-Executive Chairman

Richard was appointed to the Board in September 2013 and became Non-Executive Chairman and Chairman of the Nominations Committee in May 2016.

#### Other listed company appointments

Chairman of On the Beach Group plc<sup>1</sup>

#### Contribution to the long-term sustainable success of the Company

Richard has in-depth knowledge of UK listed companies and the associated high corporate governance standards required by such companies. He has served in remuneration, audit and nominations committee chairman roles and as board chairman. Richard also has extensive experience in logistics, supply chain management, retailing, manufacturing and consumer goods, and therefore he brings a wealth of relevant knowledge to the Board.



**GEOFF DRABBLE**  
Senior Independent Director  
and Non-Executive responsible  
for workforce engagement

Geoff was appointed to the Board in July 2015 and became Senior Independent Director in September 2019.

#### Other listed company appointments

Chairman of Ferguson Plc<sup>1</sup>

#### Contribution to the long-term sustainable success of the Company

Geoff brings extensive experience of the building products and construction markets having spent over a decade as CEO of Ashted Group Plc in addition to his current appointment as Chairman of Ferguson plc. He also has extensive experience from his time as an executive director at the Laird Group, where he was responsible for the Building Products division. Geoff understands and has managed businesses with multi-site depot operations and he has strong business-to-business sector experience.

### Key to Board committee membership

- ⊕ Chair of Committee
- Remuneration Committee
- Nominations Committee
- Audit Committee

### Independence

The Board considered that all of the Non-Executive Directors were independent for the full duration of the period being reported on and that Richard Pennycook was independent upon his appointment as Chairman.

### Non-Executive Directors



**KAREN CADDICK**  
Independent  
Non-Executive Director

Karen was appointed to the Board in September 2018 and became Chair of the Remuneration Committee in September 2019.

#### Contribution to the long-term sustainable success of the Company

Karen's professional experience provides her with a strong diversity of perspective and cultural fit to help with the leadership of the Howdens business. Having served as the Group Human Resources Director of large listed organisations such as Saga plc and currently at RSA Insurance Group plc, Karen has particular strengths in organisational development, delivery of diversity programmes, and executive remuneration. These attributes have stood Karen in good stead when she succeeded Tiffany Hall as chair of the Remuneration Committee in September 2019 and has made her a valuable addition to the Nominations Committee.



**ANDREW CRIPPS**  
Independent  
Non-Executive Director

Andrew was appointed to the Board in December 2015 and became Chair of the Audit Committee in May 2016.

#### Other listed company appointments

Deputy Chair of Swedish Match AB

#### Contribution to the long-term sustainable success of the Company

Andrew brings extensive experience as a non-executive director and audit committee chair with particular knowledge of branded consumer and business-to-business products, manufacturing and distribution in the UK and continental Europe. His experience of multisite wholesale distribution to small business customers at Booker Group plc is valuable to the Board's decision-making process. He is a Chartered Accountant and former Finance Director with extensive recent and relevant financial experience.



**LOUISE FOWLER**  
Independent  
Non-Executive Director

Louise was appointed to the Board in November 2019.

#### Other listed company appointments

Non-Executive Director of Assura plc

#### Contribution to the long-term sustainable success of the Company

Louise has over 25 years' customer, brand and digital experience at a senior level. Her experience encompasses publically listed and private businesses, the mutual sector and not-for-profit organisations. Louise's strong background in consumer experience and reputation is valuable to the Company as it strives to provide a strong aftersales service to further support the builder customer. Her digital experience will also provide valuable insight given the investment the Company is making in its digital programme.



**DEBBIE WHITE**  
Independent  
Non-Executive Director

Debbie was appointed to the Board in February 2017.

#### Contribution to the long-term sustainable success of the Company

Debbie has direct operational experience in the business-to-business sector from her time as CEO at Interserve plc. She also has in-depth knowledge of the UK and French markets, both of which Howdens operates within. Her previous experience as a chief financial officer and as chair of the audit committee of the charity Wellbeing of Women ensures Debbie has strong financial awareness and competence. Debbie has also supported management in the formation and delivery of its equality, diversity and inclusion ('EDI') programme.

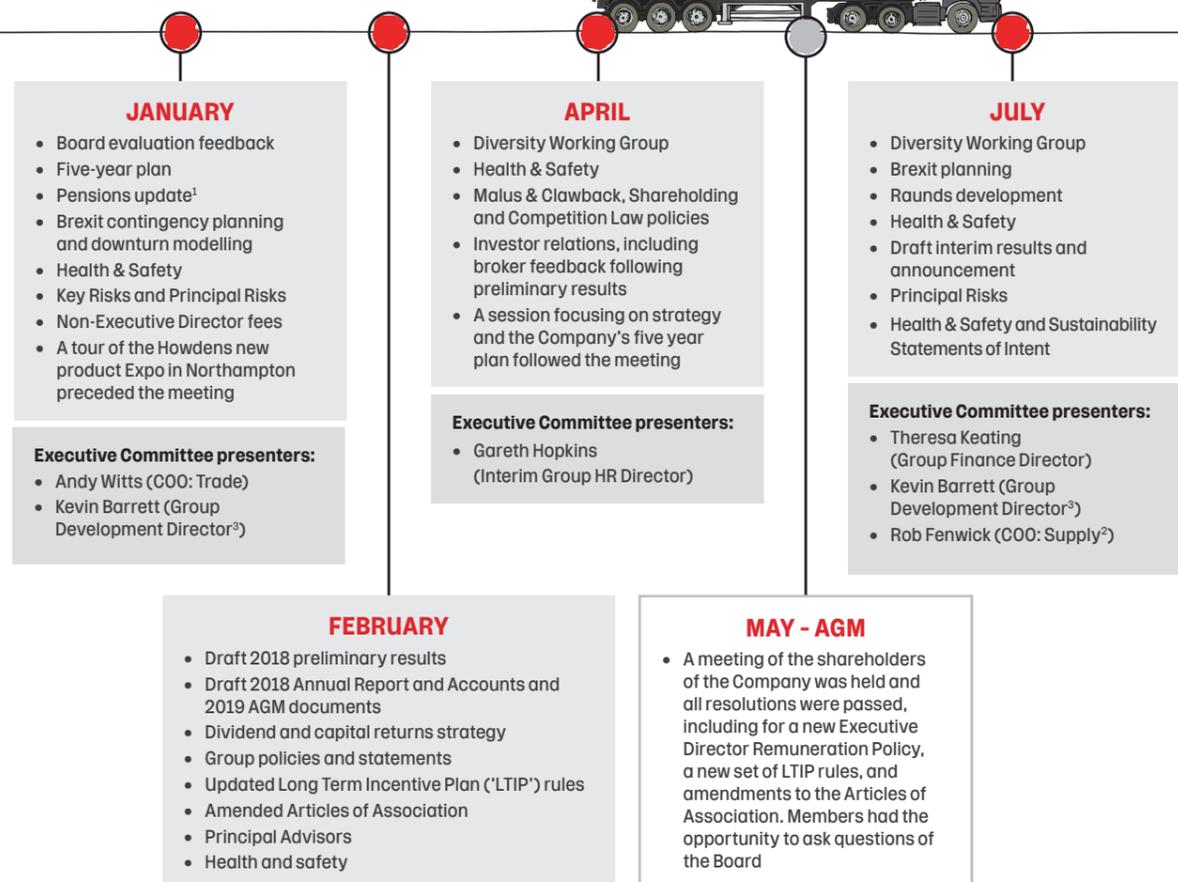
<sup>1</sup> The Board considered Richard's appointments as Chairman to On the Beach Group Plc and Boparan Holdings Ltd and Geoff's appointment as Chairman to Ferguson Plc prior to their appointment. The Board were satisfied that both had the requisite time available to commit to all of their responsibilities in their respective roles. In both instances the Board recognised that they were retiring from other roles. Further information is available on page 81.

# Corporate Governance Report continued

## Key Board Activity



### 2019



Set out above and on the facing page are highlights of the matters the Board considered (or will consider - see 2020 Activities on the opposite page) as part of its annual meeting cycle. Not all of the matters the Board considered or will consider are listed, therefore this should not be considered an exhaustive list of activities.

In addition to the matters shown on the timeline above, at each meeting the Board received detailed strategic, operational and financial updates from the CEO and DCEO & CFO. The Board also considered aspects of Group culture and strategy at various points during the year in addition to the more focused strategy session at the April meeting.

#### Governance and Risk

The Board received governance, legal and regulatory updates at regular intervals from the Company Secretary and the Board's advisors. It also continued to receive regular updates from the Brexit Readiness Sub-Committee (a sub-committee of the Executive Committee).

Risk remains a matter reserved for the Board and a detailed review of our risk management processes and principal risks can be found on pages 40 to 47. We have reviewed our risk management processes and remain satisfied that they are robust and effective. Reporting from our whistleblowing helpline is also considered by the Board on a biannual basis.

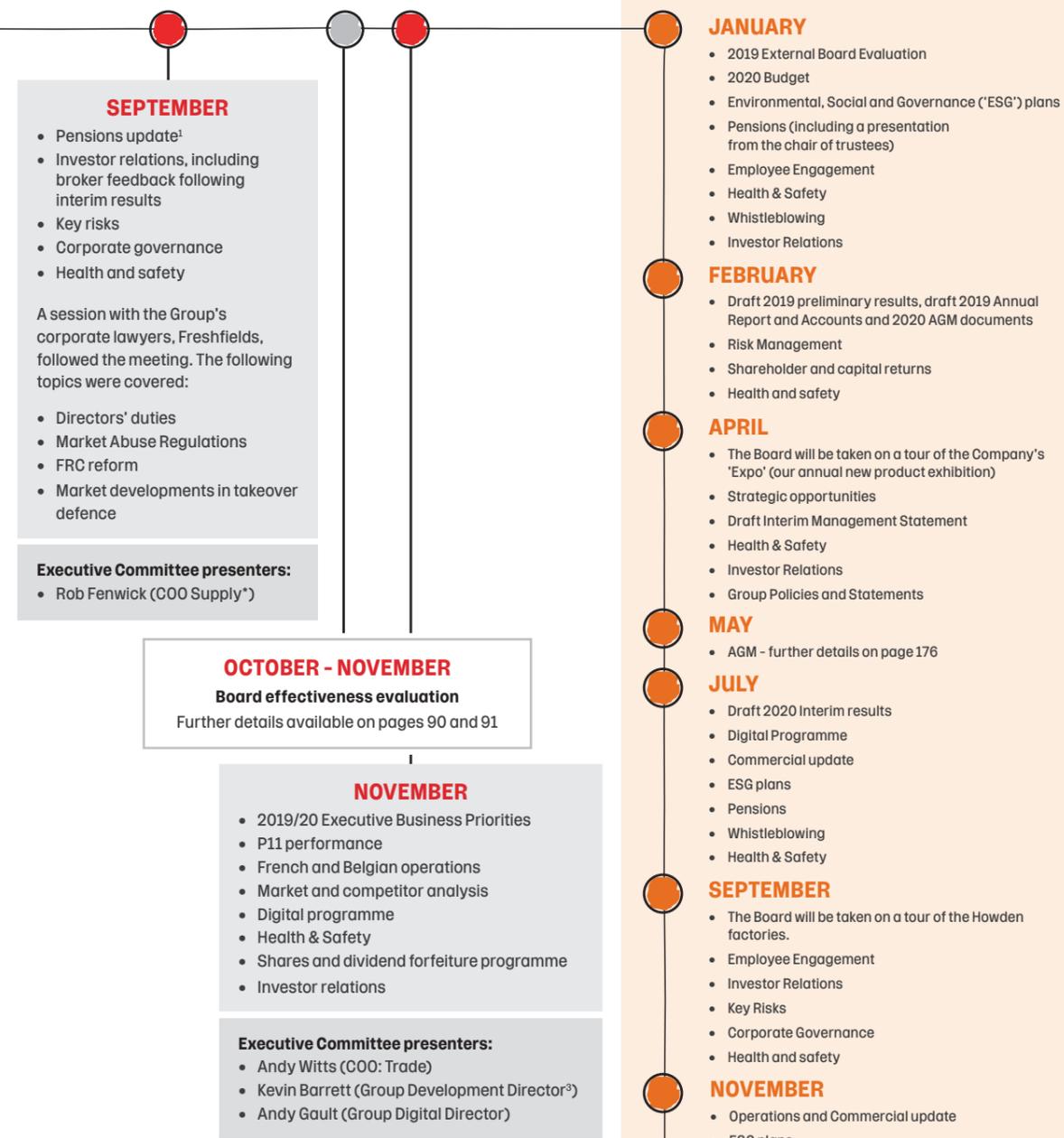
#### Attendees

Following the successful CEO transition process, the Board agreed that the standing invitations of the Divisional Operating Officers, Group Finance Director and Interim Group HR Director were no longer required for the smooth running of the meetings. Individual Executive Committee members and senior managers were invited to present to the Board and its Committees as required.

#### Shareholder Engagement

Information about how we interact with shareholders can be found in our new section on Stakeholder Engagement on pages 76 to 78.

### 2020



1. The Company's actuaries reported to the Board on routine funding and investment matters.  
 2. Rob Fenwick was appointed Chief Governance Officer in January 2020. Prior to this, he served as Chief Operating Officer of the Supply Division. Further information about Rob's change of role may be found in the Nominations Committee Report on page 89.  
 3. At the date of this report, the role of Group Development Director was no longer an Executive Committee role.

# Corporate Governance Report continued

## Executive Committee and Company Secretary

### Executive Directors

**ANDREW LIVINGSTON**  
Chief Executive Officer

**MARK ROBSON**  
Deputy Chief Executive and Chief Financial Officer

*Andrew and Mark's profiles  
may be found on page 68*

### Executive Committee Members



**CLIVE COCKBURN**  
Chief Information Officer

Clive joined Howdens in October 2002 and has been a member of the Executive Committee since January 2016.

Clive was appointed Chief Information Officer having joined Howdens in 2002 as Head of IT Infrastructure and Service Delivery. Prior to joining, he held senior IT positions in Hays Logistics UK, United Transport Limited and Exel Logistics Plc.



**ROB FENWICK**  
Chief Governance Officer

Rob joined Howdens in January 2001 and has been a member of the Executive Committee since April 2005.

Between October 2005 and December 2019, Rob was responsible for the Supply Division. As part of the succession planning for the Executive Committee, Rob was appointed Chief Governance Officer in January 2020, further information about which may be found on page 89. Prior to joining Howdens, Rob worked in the automotive and FMCG sectors.



**ANDY GAULT**  
Group Digital Director

Andy joined Howdens in April 2018 as a member of the Executive Committee.

Andy has over 20 years' retail eCommerce experience having worked at leading retailers such as Screwfix, B&Q and Travis Perkins. His eCommerce experience encompasses the disciplines of supply chain and buying. He is also a member of the IMRG Advisory Board and has served on the Google Retail Advisory Council ('EMEA').



**GARETH HOPKINS**  
Interim Group HR Director

Gareth joined Howdens in April 2015 as a member of the Executive Committee.

Gareth was appointed Interim Group HR Director having previously worked in the business as a HR consultant for 15 months. He has worked as an interim HR Director in FTSE 250 companies for 15 years and was previously Group HR Director at Dairy Crest and Whitworths.



### Executive Committee Members



**THERESA KEATING**  
Group Finance Director

Theresa joined Howdens in September 2000 and has been a member of the Executive Committee since February 2012.

Theresa was appointed Group Finance Director in May 2014, having been Group Financial Controller since 2007. She joined the Group Finance team in 2000 having previously held various commercial finance roles at Waterstones, HMV and Heals. Theresa is also a trustee of E-Act, a multi-academy trust.



**MARK SLATER**  
Commercial Director

Mark joined Howdens in June 2019 as a member of the Executive Committee.

Mark has over 25 years' experience in retail and trade businesses working in senior commercial, marketing and strategy roles. Prior to joining the business Mark held senior commercial positions with Travis Perkins Plc, Home Retail Group and Dixons Carphone.



**ANDY WITTS**  
Chief Operating Officer: Trade

Andy joined Howdens in July 1995 and has been a member of the Executive Committee since September 2008.

Andy was one of the founding members of the Howdens depot management team, having joined from Magnet in 1995. He was promoted from the regional team to become Sales Director in January 2007 and was appointed Chief Operating Officer of Trade in January 2014.

### Company Secretary



**FORBES MCNAUGHTON**  
Company Secretary

Forbes joined Howdens in July 2012 and was appointed Group Company Secretary in May 2014.

Forbes joined the Company as Deputy Company Secretary in 2012 following a period of secondment from KPMG. He is a fellow of the Institute of Chartered Secretaries and Administrators ('ICSA') and is Secretary to the Executive Committee as well as to the Board of Directors.

# Corporate Governance Report continued

## Directors' Duties

### SECTION 172(1) STATEMENT

A director of a company is required to act in a way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, the director must have regard, amongst other matters, to the following:



#### ENVIRONMENT AND COMMUNITY

The impact of the company's operations on the community and the environment.



#### LONG-TERM THINKING

The likely consequences of any decision in the long term.



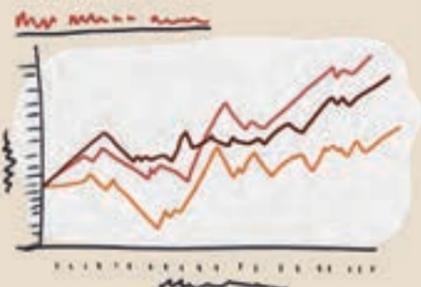
#### REPUTATION

The desirability of the company for maintaining a reputation for high standards of business conduct.



#### INVESTORS

The need for every member to be treated fairly and for no member to be favoured over another member.



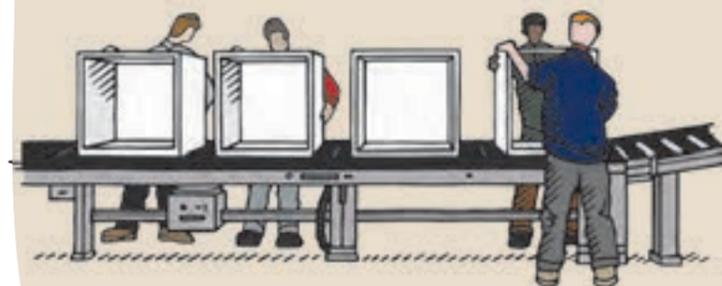
#### SUPPLIERS

The need to foster the company's business relationships with (amongst others) suppliers and...

...customers.

#### WORKFORCE

The interests of the Company's employees.



#### CUSTOMERS



Howdens is a company that strives to be worthwhile for all concerned. It's the principle that it was founded on. But balancing the needs and views of all of our stakeholders is challenging as there are often competing interests. This is why the Board first and foremost considers our purpose, our culture, our mission and our strategy to ensure all decisions have a clear and consistent rationale. For details on the matters which the Board discussed and debated during 2019 please see pages 70 and 71. Details about our key stakeholders, how we engage with them, and how we foster relationships with them may be found on pages 76 to 78.

As Directors, when we discharge our duty as set out in section 172 of the Companies Act 2006 ('Section 172'), we have regard to the other factors set out on the previous page. In addition to these factors, we also consider the interests and views of other stakeholders, including our pensioners, regulators and the government, and the customers of our trade customers.

We have set out some examples below of how the Directors have had regard to the matters in s.172(1)(a)-(f) when discharging their Section 172 duty and the effect of that on certain decisions taken by them in 2019.

#### LONG TERM INCENTIVE PLAN

In February 2019, the Board approved a new set of long-term incentive share plan ('LTIP') rules to be put to shareholders at the AGM in May 2019. The new LTIP rules had been updated to ensure they reflected best market practice and regulatory changes. In reaching its decision to put the new LTIP rules to shareholders, the Board had regard to a number of factors. The Directors considered the flexibility the rules afforded the Board to grant a variety of share award types over the lifetime of the LTIP, which would ensure the Board could award the most appropriate type of award to individuals or groups in order to drive desirable behaviours. This is particularly important from a long-term risk management point of view.

The Chair of the Remuneration Committee consulted extensively with shareholders and investor groups

whilst the policy relating to the LTIP was being formulated. Whilst no specific changes to the rules were requested, the Remuneration Committee introduced an additional financial measure to the LTIP following feedback from shareholders. More information on the additional measure can be found on page 105.

Enforceable malus and clawback provisions are essential in protecting the interests of a wide range of stakeholders and are important in the management of reputation of the Company (see page 15 for discussion of our culture and our commitment to being worthwhile to all concerned). The Board noted during the approval process that the rules governing malus and clawback had been extrapolated from the rules into a separate policy. Although not included within the new LTIP rules, the Board was satisfied that malus and clawback provisions were extensively covered and could be applied to any share awards made under the new LTIP (as well as to the annual bonus award).

#### INTERNATIONAL STRATEGY

The Board reviewed and approved management's proposals regarding international strategy at the beginning of 2019. They concluded that there was a viable, city-based business for Howdens in France and Belgium and approved five new depot openings. In conjunction, operations in Holland and Germany were closed.

After careful consideration of factors detailed in s172(1), the Board concluded that these decisions would promote the success of the Company for the benefit of its members. In particular, the Board considered the amount of human resource and capital that would be required to make the Howdens model profitable in the different international jurisdictions. The Board took into account the mature depot estate in France and Belgium and the ability to utilise the existing operational leverage available. Whilst full coverage of the UK market is not imminent, the Board were also mindful of having additional capacity outside of the UK available before that occurred. As such, the investment in the French depot network was intended to safeguard sustainable growth in the longer term.

In contrast, the Dutch and German businesses were not profitable and to make them profitable would have required significant additional investment. The Board were mindful of the detrimental impact closure of these businesses would have on local employees. Redeployment of employees was considered but not possible given the scale of local operations and as such appropriate compensation arrangements were made with the workforce who had been made redundant.

#### SHAREHOLDER RETURNS

Following the Company's year end, the Board made an assessment of the strength of the Company's balance sheet and future prospects relative to uncertainties in the external environment. Details of our long-term approach to dividends and our policy are set out on page 35 of the Financial Review.

In February 2019, the Board recommended an increased final ordinary dividend of 7.9 pence per ordinary share, up from 7.5 pence in 2018 (an increase of just over 5%). In making their decision, the Board considered a range of factors including the long-term viability and business plan (including financing requirements) of the Company, the Company's Defined Benefit pension scheme deficit, as well as the availability of alternative strategic options which would benefit the Company in the long term.

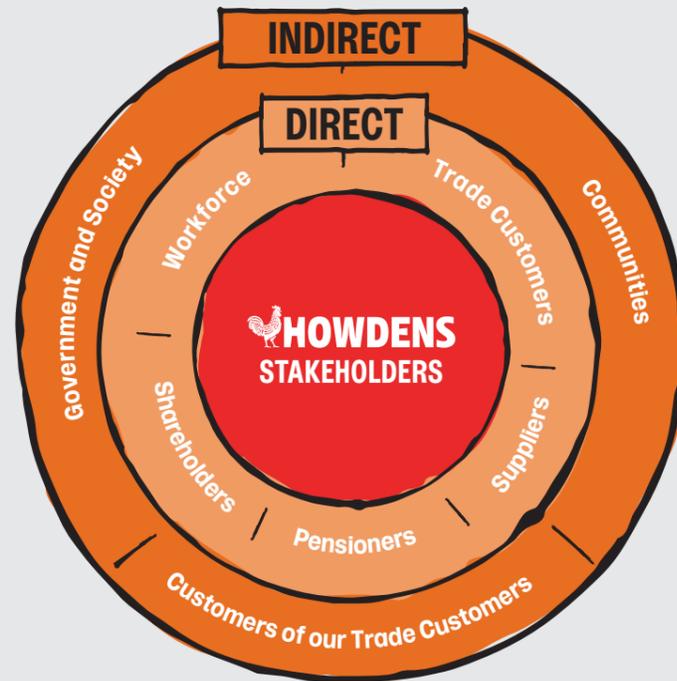
The Board take regular feedback from shareholders on the most appropriate method of returning capital, including at the AGM where all shareholders, regardless of the size of their shareholding, are invited to attend and ask questions of the Board. Dividend policy, other shareholder returns and alternative uses of capital are regularly considered by the Board. Management also discuss this during investor roadshows following results announcements. In light of this regular feedback, it was noted that the Company had a reputation for a well-understood and prudent capital structure and dividend policy and therefore the Board should not deviate from or change these at this time. The increase of just over 5% was therefore approved.

# Corporate Governance Report continued

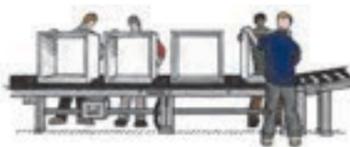
## Stakeholder Engagement



### STAKEHOLDER MAP



Stakeholder and Forms of Engagement	Engagement detail and how it has influenced Board discussions and decision-making
<p><b>Workforce</b></p> <p>Engagement with our workforce includes the following:</p> <ul style="list-style-type: none"> <li>Employee surveys</li> <li>Senior Leadership meetings</li> <li>Town Hall-style meetings</li> <li>Regional Board meetings</li> <li>Meetings with the trade union</li> <li>French Workers' Council meetings</li> </ul>	<p><b>Non-Executive Director responsible for workforce engagement</b></p> <p>During 2019, the Board appointed Geoff Drabble as the Non-Executive Director responsible for workforce engagement.</p> <p><b>All-Employee Survey</b></p> <p>In the second half of 2019, all employees were given the chance to participate in the Sunday Times Best Companies to Work For survey. The survey assessed 8 key factors which inform how desirable a company is to work for. The Company was pleased that the overall score remained in the 'Outstanding' category; however, further analysis of the scores by business area and collation of the employee feedback is ongoing. This will provide the Board with more in-depth information around the key learnings and will inform the next steps they take in response to the survey. In particular, the Board will consider a number of opportunities for improving employee wellbeing with management during 2020.</p> <p>The survey result was considered as part of the decision-making process of the Remuneration Committee when it set Executive Director remuneration in February 2020.</p> <p><b>Senior Leadership Meetings ("SLMs")</b></p> <p>During 2019, a Senior Leadership Team ("SLT") was formalised and began meeting on a quarterly basis. The SLT is made up of around 25 leaders from across the business who work closely with the Executive Committee to develop and deliver our business plans. The SLMs are designed to encourage open and frank discussions across all business matters. Following the success of the first meetings in 2019, members of the SLT will be invited to present to the Board directly when relevant, which is both important for individuals' development, but also provides the Board with an ongoing view of the talent pipeline below Executive Committee level.</p>



Stakeholder and Forms of Engagement	Engagement detail and how it has influenced Board discussions and decision-making
<p><b>Workforce continued</b></p>	<p><b>Whistleblowing Helpline</b></p> <p>The Company uses an third-party operated, confidential whistleblowing helpline. The helpline is multilingual and available 24 hours a day. The Company Secretary provides the Board with a bi-annual report which details the number and nature of whistleblowing instances made during the period. Whilst no specific complaints were escalated for Board attention, the governance processes are in place should this be deemed necessary. The Board encouraged management to ensure that employee communication about the helpline were refreshed during the year and that there be a continuous communication programme put in place.</p>
<p><b>Trade Customers</b></p> <p>Engagement with our trade customers includes the following:</p> <ul style="list-style-type: none"> <li>Local depots</li> <li>Builder Forums</li> </ul>	<p><b>Local Depots</b></p> <p>The primary method of engaging with our trade customers since Howdens opened its doors in 1995 has been through the conversations at the local depot. The relationship between the depot manager and the trade customer has always been at the heart of what we do. Our depot managers feed back builder views to management at Regional Board meetings, which the COO of Trade is present at and which the CEO and other members of the Executive Committee often attend. Feedback from Regional Board meetings influences product and pricing decisions. However, it also reinforces our strategic decisions on new depot openings, ensuring that we are maintaining excellent customer service and investing in new product.</p> <p>The strategic digital improvements, as set out on page 23 of the Chief Executive's Statement, were extensively tested on a cohort of trade customers to ensure that our digital offering is aligned to their needs as possible.</p> <p><b>Builder Forums</b></p> <p>To ensure we're hearing all the concerns and feedback of our trade customers, we have set up regular direct feedback sessions with them in the form of Builder Forums. These forums see a small group of customers coming together in an informal setting to talk about their experiences. We have nearly 40 forums planned for 2020. The agenda is driven by the customers themselves so we can be sure we're hearing everything that's on their mind. Our CEO has regularly reported specific feedback from these sessions to the Board. In response to feedback from the forums, we made improvements to our worktop specifications and the way we store the worktops in the depots to ensure their quality is not compromised.</p> <p>Ensuring all levels of our organisation understand the challenges of our trade customer is fundamental to ensuring our service proposition is worthwhile to them. A case study on our Builder Forums may be found in the Chief Executive's Statement on page 23 of the Strategic Report.</p>
<p><b>Suppliers</b></p> <p>Engagement with our suppliers includes the following:</p> <ul style="list-style-type: none"> <li>Supplier Conference</li> <li>Category Team relationships</li> </ul>	<p><b>Supplier Conference</b></p> <p>Each year, our key suppliers are invited to join senior leadership at our annual Supplier Conference. This is an important date in our calendar as it's a time when the Company is able to communicate its priorities and any changes in the business to its suppliers, ensuring a consistent message is heard by all. The 2019 conference was particularly important given the changes which had been made during the year to introduce a commercial function into the business and also for continuing discussions around Brexit preparedness. It is also an opportunity for our suppliers to provide their feedback to a wider Company audience. Our Non-Executive Directors have standing invitations to the conference.</p> <p><b>Category Team Relationships</b></p> <p>In our Chief Executive's Statement on page 28 you will find detail about the establishment of a new commercial structure, which is organised into categories. This structure provides clearer accountabilities for ranging decisions and with greater internal accountability comes the fostering of stronger relationships with our suppliers. Suppliers are now engaging with focused teams within the organisation and this clarity brings the opportunity for even more valuable discussions.</p>

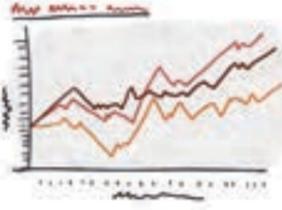


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# Corporate Governance Report continued

## Stakeholder Engagement

Stakeholder and Forms of Engagement	Engagement detail and how it has influenced Board discussions and decision-making
<p><b>Pensioners</b></p> <p>Engagement with our pensioners includes the following:</p> <ul style="list-style-type: none"> <li>Board engagement with the Trustee Board</li> <li>Annual Newsletter</li> <li>Triennial valuations</li> </ul> 	<p><b>Board engagement with the Trustee Board</b></p> <p>The Trustee Board, chaired by an independent trustee, is responsible for investment strategy and for the day-to-day running of the Howden Joinery Defined Benefit Pension Plan (the 'Plan'). There are a number of matters reserved for the Company as sponsor under the Trust deed and the Board invites the Chair of the Trustees to present to the Board on an annual basis and provide an update on matters affecting the membership. In January 2020, following extended interaction between the Trustees and the Company, the Board approved the long-term strategy proposed by the Trustees. The Company will monitor Trustee performance against the strategy.</p> <p><b>Triennial valuations</b></p> <p>At 31 December 2019, the Plan had 10,681 members (more than the total number of current employees), of which 1,371 were active members, 5,488 were deferred members and 3,822 were pensioners. Whilst safeguarding the long-term viability of the Company is the primary imperative for these members, ensuring that there is an appropriate balance between shareholder distributions and Plan deficit funding is a priority for the Board. The Company has historically made contributions well in excess of peers but this will be reviewed during the 2020 valuation process and the Board will review the balance of distribution of capital between the different stakeholder groups.</p>
<p><b>Shareholders</b></p> <p>Engagement with our shareholders includes the following:</p> <ul style="list-style-type: none"> <li>Annual General Meeting</li> <li>Shareholder consultations</li> <li>Investor site visits</li> <li>Prelims and Interims Roadshows</li> </ul> 	<p><b>Annual General Meeting ('AGM')</b></p> <p>At the Company's AGM, shareholders are given the opportunity to ask questions to the Board members directly. At the 2019 AGM, shareholders asked the Board about Brexit readiness, debtors per depot, and capital returns. Following the meeting, the Board agreed that more detailed commentary would be provided in Company reporting when the timing of peak trading had made financial metrics anomalous.</p> <p><b>Shareholder Consultations</b></p> <p>The Chairman of the Board and of the Nominations Committee, Richard Pennycook, wrote to our major shareholders after the 2019 AGM with the offer of a meeting to discuss governance and strategy matters (or any other matters of interest) without the Company's management present. Richard met with the shareholders who requested a meeting in June and July and discussed topics including executive remuneration, strategy, ESG, Brexit and the transition to a new CEO. The discussion regarding ESG in part informed the Nominations Committee's support of Rob Fenwick's appointment as Chief Governance Officer on the Executive Committee, focusing on the Group's ESG agenda (see page 89 of the Nominations Committee Report for further details of Rob's new role).</p> <p>In January 2019, Tiffany Hall, who chaired the Remuneration Committee at the time, wrote to major shareholders (and the Investment Association and other proxy advisors) to set out the proposed changes to the Executive Remuneration Policy and welcoming any views on these proposals. Following these meetings, the Remuneration Committee reduced the pension provision further for executive director joiners to ensure it was in line with the pension provision available to the majority of employees in the organisation and increased the stated minimum percentage of bonus measures attributable to financial performance.</p> <p><b>Investor Site Visits</b></p> <p>During 2019, investors were invited to attend the Company's annual exposition ('Expo'). Those that attended received presentations from members of the senior leadership team, which covered depot format, digital development and kitchen ranges. They were then given a tour of the Expo, which covered kitchens, flooring, doors, appliances and depot formats. Investors were also invited to join a tour of the Company's site in Howden, East Yorkshire.</p> <p><b>Results Roadshows</b></p> <p>Following the preliminary results announcement, the Executive Directors met with more than 40 investors. At these meetings investors showed particular interest in the initiatives that the business was pursuing and conversely the level of investment needed, and the returns and margin expected. Following the interim results, the Executive Directors met with around 30 investors.</p>

Howden Joinery Group Plc Annual Report &amp; Accounts 2019

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## 2018 UK Corporate Governance Code: Application and Compliance

The Financial Reporting Council ('FRC') published its most recent iteration of the UK Corporate Governance Code (the 'Code') in 2018, which applies to accounting periods beginning on or after 1 January 2019. The period we are reporting on is 30 December 2018 to 28 December 2019. Although this period began prior to the Code's date of application, the Board updated its processes to meet the 2018 Code for the 52 weeks ended 28 December 2019 and has reported accordingly. In meeting the 2018 Code, the Board considers that it also applied the Principles and complied with all the Provisions of the 2016 Code throughout the period.

We are pleased to report that the Company applied all the Principles of the Code throughout the period and we have reported in summary below how we have done so. We are also pleased to report that, in the first year in which we applied the new Code, the Company was compliant with all 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 contribution 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 so carefully and proportionally over time. Both of our 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 contribution rates will be in line with the wider workforce by the AGM in 2022.

### SECTION 1: BOARD LEADERSHIP AND COMPANY PURPOSE

**A**

**A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.**

Howdens' founding principle of being worthwhile for all concerned supports the premise that its role is to ensure long-term, sustainable growth and value for all its stakeholders. During 2019, the Company (led by the Board) increased shareholder returns, paid more tax, employed more people and contributed to the communities in which we operate. More information on our sustainable business model and strategy can be found on pages 18 to 21 and our contribution to wider society can be found in our Sustainability Matters report beginning on page 48.

Governing in an effective way ensures the framework and controls needed to align our operations with our strategy are in place. It's only by doing this that we can ensure long-term strategic success of the Company for our stakeholders. We discuss throughout the Governance section how our actions support the strategy. For example, we have set out on page 96 of the Remuneration Committee Report the way our remuneration structure supports our strategic aims.

The effectiveness of the Board was reviewed by an independent third party in line with Code requirements (see pages 90 and 91).

**B**

**The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.**

An explanation of our purpose, values and strategy are set out in the Strategic Report which starts on page 10. The Board regularly discusses the importance of Howdens' unique culture and are mindful that it remains aligned with its purpose, values and strategy. This remains an area of regular scrutiny following the transition from the Founder CEO. Workforce engagement is an important part of the Board's agenda and an independent survey of employee views was undertaken during 2019, the results of which were presented to the Board. More information on workforce engagement can be found on pages 76 and 77.

Integrity and sympathy to the Howdens culture are paramount when the Board recruits new members to the Board. More information about our recruitment and inductions process can be found on page 88.

**C**

**The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.**

The Board are satisfied that the necessary resources are in place to ensure that the Company meets its objectives and measures performance against them. Our KPIs and how we have performed against them can be found on pages 32 to 34.

More information on our risk processes, including our principal and emerging risks, can be found in the Principal Risks and Uncertainties section starting on page 40. Our Audit Committee report provides a summary of our internal control framework on page 118.

Strategic report

Governance

Financial statements

Additional information

Howden Joinery Group Plc Annual Report &amp; Accounts 2019

# Corporate Governance Report continued

## 2018 UK Corporate Governance Code: Application of Principles



### SECTION 1: BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

**D**

**In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.**

Howdens has a broad group of clearly defined stakeholders and the Board actively engage with each of these groups on a regular basis. A detailed explanation of our engagement with our shareholders and wider stakeholder base and how this engagement has informed the Board's decision making processes can be found on pages 76 to 78. How the Board members discharged their s.172 statutory directors duties is described on pages 74 and 75.

**E**

**The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.**

The Board and its committees review workforce policies and practices on a regular basis. A Group policy framework has been established and is reported on to the Board on an annual basis, as well as any updates needed for Group policies. Part of this review includes ensuring that policies remain aligned to the Howdens culture and support long-term success.

One example of this is how our Remuneration Committee consider the pay policies and practices of the wider workforce when determining Executive reward. More information in this regard can be found on page 102.

All employees are able to raise any matters of concern via the confidential whistleblowing helpline. The helpline is available 24 hours a day, is multilingual and operated by an independent third party. The Board receive reporting from the helpline twice a year and any matters of significant concern are escalated as appropriate by the Company Secretary who oversees the helpline with support from the internal audit team.

### SECTION 2 - DIVISION OF RESPONSIBILITIES

**F**

**The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.**

The Board confirms that Richard Pennycook was independent on appointment when assessed against the circumstances set out in Provision 10 of the Code. The roles of Chief Executive and Chairman are not held by the same individual and the Chairman has never held the position of Chief Executive of the Company. These factors help ensure that the Chairman demonstrates objective judgement throughout his tenure.

The Chairman is mindful of his role in facilitating constructive board relations and promoting a culture of openness and debate amongst the Board. This in turn encourages the effective contribution of all the Non-Executive Directors. The 2019 externally-facilitated Board evaluation concluded that the Board's culture was one of transparency, support, constructive challenge and balance. Further information about the outcomes and process of the 2019 Board evaluation may be found on pages 90 and 91 of the Nominations Committee Report.

The Chairman is also mindful of the need for the Directors to receive information which is accurate, timely and clear. He is supported in this by the Company Secretary, who ensures the effective flow of information in a timely manner between the Board and senior management.

**G**

**The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.**

At least half of the Board was made up of Independent Non-Executive Directors (not including the Chairman) throughout the reporting period. The Non-Executive Directors which the Board considered to be independent are shown as such on pages 68 and 69. The Board confirms that all the Non-Executive Directors (excluding the Chairman) were independent during the reporting period and that the Chairman was independent on appointment.

There is a clear division of responsibilities between the leadership in the organisation. The responsibilities of the Chairman, Chief Executive, and Senior Independent Director may be found on the Company's website ([www.howdenjoinerygroupplc.com/governance/division-of-responsibilities](http://www.howdenjoinerygroupplc.com/governance/division-of-responsibilities)) and the function of the Board Committees may be found in the respective committee terms of reference, also available on the Company's website ([www.howdenjoinerygroupplc.com/governance/corporate-governance-report/introduction-from-the-chair](http://www.howdenjoinerygroupplc.com/governance/corporate-governance-report/introduction-from-the-chair)).

### SECTION 2 - DIVISION OF RESPONSIBILITIES CONTINUED

**H**

**Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.**

The number of Board meetings which were held during the reporting period and the attendance at each of these meetings may be found on page 67. Similarly, the number of each Board Committee's meetings and attendance may be found on the following pages:

- Nominations Committee: page 85
- Remuneration Committee: page 93
- Audit Committee: page 113

When reviewing the Nominations Committee's recommendation to appoint a new Director, the Board will always assess whether the candidate is able to allocate enough time to the role. Similarly, when assessing the acceptability of an existing Director's wish to take on external appointments, the Board will assess the additional demand on that Director's time before authorising the appointment.

During the reporting period, the following additional significant appointments were authorised by the Board:

- **Geoff Drabble's appointment as Chairman of Ferguson plc**  
Prior to Geoff's appointment as Chairman of Ferguson Plc, the Board considered whether Geoff could allocate enough time to his role as Non-Executive Director of the Company in addition to a chair role of a FTSE 100 company. The Board was satisfied that, following his retirement as Chief Executive of Ashted Group Plc, Geoff had the requisite time to fulfil the new role as well as both his current role with the Company and his role as Senior Independent Director of the Company once Tiffany Hall had retired.
- **Richard Pennycook's appointment as Chairman of On the Beach Group plc**  
Prior to Richard's appointment as Chairman of On the Beach Group plc ('OTB'), a FTSE small cap company, the Board carefully considered the additional time

requirement. The Board was satisfied that, following his retirement from the board of The Hut Group the previous year, which required a similar time commitment as the role with OTB, Richard would still be able to fulfil his time commitment with the Company and therefore authorised his appointment as Chairman of OTB's board.

- **Richard Pennycook's appointment as Chairman of Boparan Holdings Ltd**

Prior to Richard's appointment as Chairman of Boparan Holdings Ltd ('Boparan'), the Board again carefully considered the additional time requirement. The Board was satisfied that, as his time as Chairman of the British Retail Consortium would be concluding in early 2020 (with the last meeting being in February 2020) and he would be retiring from his role as Chairman of Fenwick Ltd in Q1 of 2020, Richard would be able to dedicate enough time to the Company and to a new role as Chairman of Boparan. The appointment was therefore authorised.

The feedback received during the 2019 externally-facilitated Board evaluation (which was received from both management and the Board) was that the relationship between the Board and senior management was very strong and there was mutual respect. Further information about the Board evaluation may be found on pages 90 and 91.

Members of the senior management team regularly presented to the Board on their respective areas of the business (please see pages 70 and 71 for a timeline of Board meetings and information regarding any Executive Committee attendees), which provided an opportunity for the Board to constructively challenge and to provide advice to our senior management team. The April strategy sessions also offered a chance for the Board to provide the senior management team with direct guidance on strategy and the business's five-year plan.

Information about the management of conflicts between the duties Directors owe the Company and either their personal interests or other duties they owe to a third party may be found on page 119.

**I**

**The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.**

All of the Directors of the Company have access to the advice of the Company Secretary, who is responsible for advising the Board on all governance matters.

The Board have implemented a Group Policy framework which is considered by the Board on an annual basis. Individual policies and associated practices are considered alongside the framework review process.

As stated in the Schedule of Matters Reserved for the Board (which may be found at [www.howdenjoinerygroupplc.com/governance/corporate-governance-report/schedule-of-matters-reserved-for-the-board](http://www.howdenjoinerygroupplc.com/governance/corporate-governance-report/schedule-of-matters-reserved-for-the-board)) the appointment and removal of the Company Secretary is a decision for the Board as a whole.

# Corporate Governance Report continued

## 2018 UK Corporate Governance Code: Application of Principles

### SECTION 3 - COMPOSITION, SUCCESSION AND EVALUATION

**J**

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The Nominations Committee engages external search consultancies when searching for Board position candidates. An external search consultancy, Russell Reynolds Associates, was engaged to find candidates for the Nominations Committee prior to the Board's decision to appoint Louise Fowler. Further information about the appointments process is available on page 88 of the Nominations Committee Report and the Board's Diversity Policy is available on page 87.

The Nominations Committee regularly reviews the tenure of each Board member and the skills matrix (please see page 86 for further details). This ensures the Board's succession plan remains aligned with the natural rotation of Directors off the Board and the strategic objectives of the business.

The succession plans for the senior management team are regularly reviewed by the Nominations Committee (please see the Nominations Committee timeline on pages 84 and 85).

**K**

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

As mentioned above, the Board uses a skills matrix to ensure it has the necessary combination of skills, experience and knowledge to meet its strategic objectives, business priorities and to ensure the unique Howdens culture is maintained. The skills matrix may be found on page 86.

The tenure of each Director may be found on page 88 of the Nominations Committee Report. The Board has a good balance of new and longer-serving Directors (as at the year end date, tenures of the Non-Executive Directors (including the Chairman) range from just under two months to just over six years, and the average tenure is just over three years).

**L**

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Details of the 2019 externally-facilitated Board evaluation process and outcomes may be found on pages 90 and 91 of the Nominations Committee Report.

The specific reasons why the Board considers that each Director's contribution is, and continues to be, important to the Company's long-term sustainable success may be found on pages 68 and 69 of this report. Reference to the specific reasons and where to find them in the Annual Report and Accounts will accompany the resolutions to re-elect the Directors in the 2020 AGM Notice. The Board recommends that shareholders vote in favour of the re-election or election of all the Directors.



### SECTION 4 - AUDIT, RISK AND INTERNAL CONTROL

**M**

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The Board has established formal and transparent policies and procedures, which ensure the external auditor and internal audit function are independent and effective and are accountable to the Audit Committee. The Board also monitored the integrity of the financial statements of the Company and any other formal announcement relating to its financial performance via the Audit Committee. Further information about the work of the Audit Committee, including the subjects above, may be found on pages 112 to 119.

**N**

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

A statement regarding the Directors' responsibility for preparing the Annual Report and Accounts and the Directors' assessment of the Annual Report and Accounts, taken as a whole, as being fair, balanced and understandable and providing the necessary information for shareholders to assess the Company's position, performance, business model and strategy may be found on page 63.

**O**

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

The Board is responsible for the Group's systems of internal control and risk management, and for reviewing their effectiveness. The Board is assisted with these responsibilities by the Audit Committee. Such a system is designed to manage rather than eliminate the risks of failure to achieve business objectives. The Board has conducted reviews of the effectiveness of the system of internal controls through the processes described within the Principal Risks and Uncertainties section of the Strategic Report (pages 40 to 47) and are satisfied that it accords with the Code and with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board has not identified, or been advised of, any failings or weaknesses which it has determined to be significant.

The assessment of the principal and emerging risks, the uncertainties facing the Group, and the ongoing process for identifying, evaluating and managing the significant risks faced by the Group is set out on pages 40 to 47. The Board confirms that it has conducted a robust assessment of the principal and emerging risks as set out on pages 40 to 47.

### SECTION 5 - REMUNERATION

**P**

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

The way the Remuneration Committee has ensured our remuneration policies and practices are aligned with our culture, our strategy and risk management is discussed in the Remuneration Committee Report, which starts on page 92.

**Q**

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

The Remuneration Committee has delegated responsibility for setting the Executive Directors' remuneration under the shareholder-approved Director Remuneration Policy (the full Policy is set out in full at [www.howdenjoinerygroupplc.com/governance/remuneration-policy](http://www.howdenjoinerygroupplc.com/governance/remuneration-policy)). The Remuneration Committee also has delegated responsibility for setting the Chair of the Board's remuneration and the remuneration of senior management (i.e. the members of the Executive Committee and the Company Secretary). No Director is able to determine their own remuneration outcome.

The Remuneration Committee reviews workforce remuneration and related policies when setting Executive Director remuneration. Ensuring these factors are always considered means our remuneration policies are largely predictable and clear. Further information may be found in the Remuneration Committee Report on page 102.

**R**

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Remuneration Committee membership is made up of only independent Non-Executive Directors.

Details of how the Remuneration Committee exercised its discretion during the year may be found on page 95 of the Remuneration Committee Report.

By order of the Board

**Richard Pennycook**  
Chairman

26 February 2020