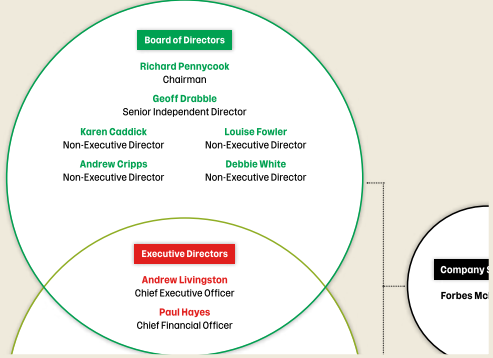


Corporate governance report

Includes the Chairman's introduction (pages 70 and 71) and the Board's key activities in 2020 and for 2021 (pages 74 and 75).



70

Executive Committee and Company Secretary

Our Executive Committee is made up of senior employees who assist the Executive Directors in the day-to-day management of the Company.



76

2018 UK Corporate Governance Code application and compliance

The UK Corporate Governance Code is the framework by which we can benchmark our governance arrangements.



88

Board of Directors

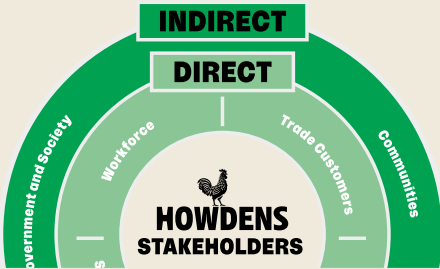
Each Director brings their own perspective, experience and skills, which collectively contribute to a Board which can effectively govern and contribute to the long-term sustainable success of the Company.



72

Section 172(1) statement and stakeholder engagement

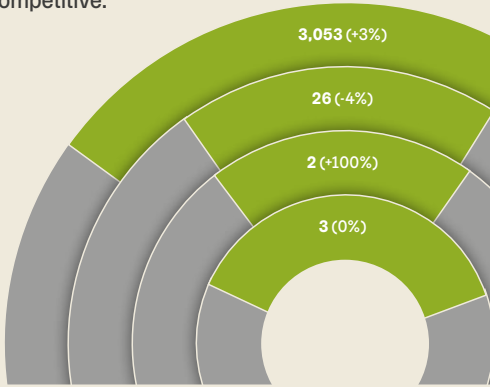
Our stakeholders are always considered in the decisions we make, but it's imperative that we engage and foster long-term relationships with them so that we truly understand their experience of the Company.



78

Nominations Committee report

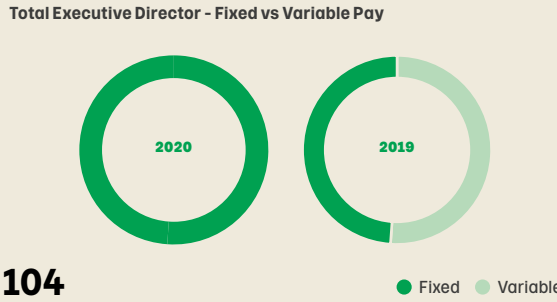
The recruitment of talented individuals to the Board and senior management team ensures we can remain competitive.



94

Remuneration Committee report

Fair and balanced remuneration practices for our Executive Directors and senior managers plays a key role in ensuring sustainable growth of the business and the fulfilment of our strategic objectives.



104

Audit Committee report

The oversight of the financial reporting process and the Company's system of internal controls is a crucial pillar in our governance framework.



126

Directors' report

The Directors' report is a requirement of the Companies Act 2006.



134

| | |
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| 70 | Corporate governance report |
| 70 | Introduction from the Chairman |
| 72 | Board of Directors |
| 76 | Executive Committee and Company Secretary |
| 78 | Section 172(1) statement |
| 80 | Adapting for COVID-19 |
| 82 | Stakeholder engagement |
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| 94 | Nominations Committee report |
| 104 | Remuneration Committee report |
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Governance

Corporate governance report



Richard Pennycook Chairman



Introduction from the Chairman

COVID-19

COVID-19 has impacted all of our lives in ways we could not have imagined a year ago. In 2020 even the best-laid plans had to be put on hold whilst the Board focused its energy on ensuring that operations could continue in a COVID-secure way and that the long-term future of the business was protected.

The strength of our employee, supplier and customer relationships was essential and enabled us to keep depots open and stocked. Similarly, the partnerships we have built with other stakeholders were never more important than when the Board moved to temporarily protect our cash position by suspending shareholder returns and deferring pension deficit repayments. It was through responsive management and the strength of our stakeholder relationships (underpinned by good governance practices and the principle that Howdens is worthwhile for all concerned) which has enabled Howdens to finish 2020 strongly and to go into 2021 with cautious optimism for the future.

As a result of the support Howdens received from its stakeholders, the Board were able to announce in November 2020 that the Company would repay all Government support received in the first half of the year under the Coronavirus Job Retention Scheme and other deferred payments (such as pension deficit repayments) before the end of the year. It also enabled the Board to pay business rates from which the Company was entitled to relief. The Board are acutely aware of Howdens' societal responsibilities and we felt it appropriate to take a leading role in adoption this position. It was pleasing to see other businesses take the same position shortly after. At the Preliminary Results in February 2021, the Board will announce that it will recommence shareholder returns by way of dividend. This includes a 'catch-up' special dividend in respect of shareholder payments suspended during 2020.

I would like to take this opportunity to thank all our stakeholders, both direct and indirect, for their support during 2020. We have set out in more detail on pages 80 to 81 how the Board responded to the COVID-19 crisis throughout the year.

Board and Committees

It is sometimes easy to forget that there were other matters which required the Board's attention that were not related to COVID-19 during 2020. Many of these are set out in this report and in the supporting Committee reports. Our reporting of culture and purpose are considered in detail in the Strategic report and consideration of our broader ESG responsibilities are set out in the Sustainability report, which begins on page 48.

Consideration of Board effectiveness, succession and diversity matters are set out in the Nominations Committee report starting on page 94. This includes analysis of how the Board has managed Executive succession during 2020 and the onboarding of our new Chief Financial Officer, Paul Hayes. There is also an update on our equality, diversity and inclusion (EDI) initiatives.

Consideration of how our Executive pay aligns with strategy and Group performance is set out in the Remuneration Committee report starting on page 104. The Audit Committee report, which begins on page 126, details the procedural safeguards that have been put in place to protect shareholder interests.

Governance

In last year's Corporate Governance Report, I wrote that the Board's primary focus was on having a clear purpose, a sound commercial strategy, fit-for-purpose leadership teams, and robust financial controls. These disciplines have served Howdens well during the challenges of 2020 and will continue to do so as we develop the business in a sustainable way for the benefit of all our stakeholders.

2021 Annual General Meeting (AGM)

Details of the 2021 AGM may be found in the 'Additional information' section on page 194.

Share capital and significant agreements

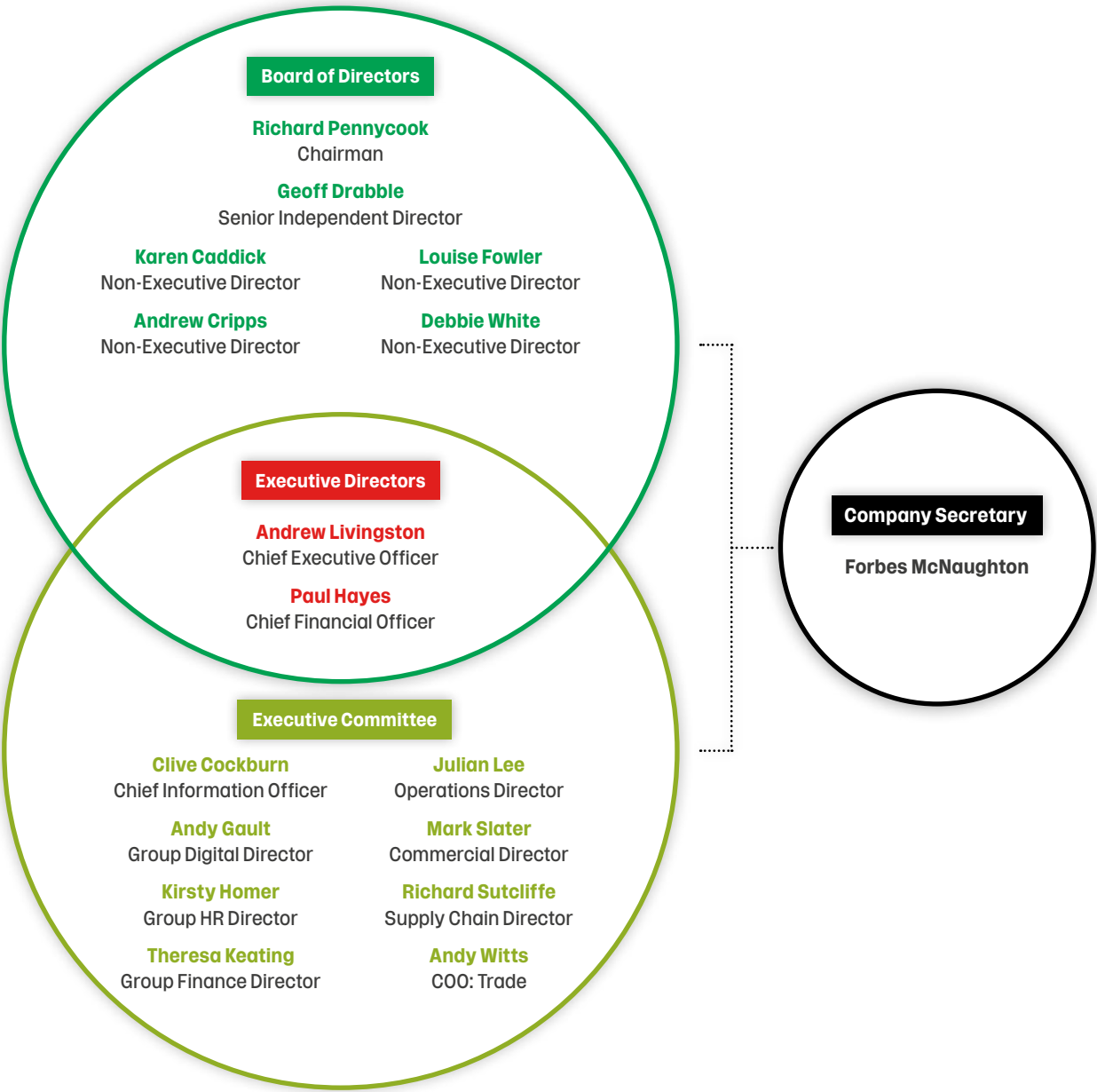
Specific statutory and regulatory disclosures previously contained in this report have been moved to the 'Additional information' section on pages 194 and 195.

Board meeting attendance

| | | |
|-----------------------------------|-----------------------------------|---------------------------------|
| Richard Pennycook (10/10) | Geoff Drabble (10/10) | Mark Robson (9/10) ³ |
| Karen Caddick (9/10) ¹ | Louise Fowler (8/10) ² | Debbie White (10/10) |
| Andrew Cripps (10/10) | Andrew Livingston (10/10) | |

- 1 Karen was unable to attend the March Board meeting due to technical difficulties. Karen received all the Board papers in advance of the meeting and was able to feedback her views to the Chairman.
- 2 Louise was unable to attend the September Board meeting due to a pre-existing commitment entered into prior to joining the Company and a subsequent unscheduled meeting due to a family bereavement. Louise received all of the Board papers in advance of the meetings and was able to feedback her views to the Chairman.
- 3 Mark did not attend one of the October meetings as the meeting was called to discuss his succession.

Board and Executive Committee structure



Roles

Further information about the role of the Board, the Executive and Non-Executive Directors, external advisors and individuals may be found on our website: www.howdenjoinerygroupplc.com/governance/division-of-responsibilities

Corporate governance report continued

Board of Directors

Executive Directors



Andrew Livingston
Chief Executive Officer

Andrew 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 an entrepreneurial mindset. This mindset fits the Howdens culture which has served the Company well and is fundamental to its success. He was previously the CEO of Screwfix.



Paul Hayes
Chief Financial Officer

Paul was appointed to the Board as Chief Financial Officer on 27 December 2020.

Contribution to the long-term sustainable success of the Company

Paul is an experienced finance executive and has a proven track record in consumer and manufacturing businesses. From 2017 until its acquisition by Recipharm AB in February 2020, Paul was CFO of Consort Medical Plc, a leading drug and device manufacturing business. Before this, he was the Group Finance Director of Vitec Group plc from 2011 to 2017. Paul has extensive experience in senior finance roles at a number of UK and US listed companies including Signet Jewelers, RHM Plc and Smiths Group Plc. He is a chartered accountant having qualified with Ernst & Young and has a first class Masters degree in Mechanical Engineering, Manufacture & Management.

Non-Executive Directors



Richard Pennycook
Independent
Non-Executive Chairman

N

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

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

R

N

A

Geoff was appointed to the Board in July 2015 and became Senior Independent Director in September 2019 and Non-Executive Responsible for Workforce Engagement in 2019.

Other listed company appointments

Chairman of Ferguson Plc
Chairman of DS Smith Plc¹

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 Ashtead 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. Geoff is also Chairman of DS Smith Plc, the global provider of sustainable packaging solutions, paper products and recycling services.

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

R

N

A

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 for her role as Chair of the Remuneration Committee and has made her a valuable addition to the Nominations Committee.



Andrew Cripps
Independent
Non-Executive Director

R

N

A

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

R

N

A

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 publicly 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 continues to make in its digital programme.



Debbie White
Independent
Non-Executive Director

R

N

A

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.

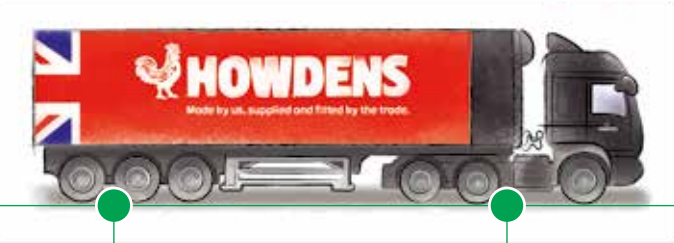
1 The Board considered Geoff's appointment as Non-Executive Director and Chairman Designate to DS Smith Plc prior to his appointment. The Board was satisfied that Geoff had the requisite time available to commit to his responsibilities in his roles as Senior Independent Director and Non-Executive responsible for workforce engagement. Further information is available on page 90.

Corporate governance report continued

Key Board activity

2020

H1



January

- ESG review
- Health & Safety
- Pensions update¹
- 2020 priorities and budget
- Workforce engagement
- Investor relations update
- External Board Evaluation feedback

Executive Committee presenters:

- Rob Fenwick (Chief Governance Officer)
- Theresa Keating (Group Finance Director)
- Gareth Hopkins (Interim Group HR Director)³

February

- COVID-19 contingency planning
- Draft 2019 preliminary results
- Draft 2019 Annual Report and Accounts and 2020 AGM documents
- Dividend and capital returns strategy
- Risk update
- NED fees
- Amended Articles of Association
- Principal Advisors

Executive Committee presenters:

- Gareth Hopkins (Interim Group HR Director)³

March

(Out of cycle meeting held in response to the COVID-19 crisis)

- Health & Safety
- Government guidance
- Cash flow scenario analysis
- Final dividend
- Crisis risk structure and analysis
- Safety stocks

H2

July

- ESG review (including EDI Committee and wellbeing update)
- Health & Safety
- Pensions update
- Broker update
- Draft interim results and announcement
- Principal Risks

Executive Committee presenters:

- Rob Fenwick (Chief Governance Officer)
- Theresa Keating (Group Finance Director)

September

- Update on strategic initiatives (including Digital, XDC, and manufacturing and logistics)
- Health & Safety
- Investor relations, including broker feedback following interim results
- Corporate governance update

Executive Committee presenters:

- Andy Gault (Group Digital Director)
- Julian Lee (Operations Director)
- Richard Sutcliffe (Supply Chain Director)
- Theresa Keating (Group Finance Director)

October

- CFO Succession

- Broker update
- Q3 IMS considerations

Executive Committee presenters:

- Theresa Keating (Group Finance Director)

Set out above and on the facing page are highlights of the matters the Board considered (or will consider - see 2021 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 strategic, operational and financial updates from the CEO and CFO. The Board also considered aspects of Group culture and strategy at various points during the year.

Governance and risk

The Board received governance, legal and regulatory updates at regular intervals from the Company Secretary and the Board's advisors.

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 38 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. In 2020 the Board reviewed and approved a Group Risk Charter. More information on the Group Risk Charter is set out on page 39.

Shareholder engagement

Information about how we interact with shareholders can be found in our section on Stakeholder Engagement on page 87.

2021

April

- Health & Safety
- Cash flow scenario analysis
- Pensions update
- AGM planning
- NED perspectives and external experiences of the COVID-19 crisis

May - AGM

Details of how the meeting was held in light of the COVID-19 pandemic may be found on page 87. All resolutions were passed, with the exception of the resolution for the final dividend which was withdrawn.

June

(Out of cycle meeting held in response to the COVID-19 crisis)

- Health & Safety
- Cash flow scenario analysis
- H2 trading
- Pensions - future provision
- AGM feedback

November

- ESG update
- Health & Safety
- P11 performance
- Pensions update²
- Shares and dividend forfeiture programme update
- 2021 Board calendar

Executive Committee presenters:

- Andy Witts (COO: Trade)
- Mark Slater (Commercial Director)
- Rob Fenwick (Chief Governance Officer)

February 2021

Board effectiveness evaluation

1 The Company's actuaries reported to the Board on routine funding and investment matters and the Chair of the Pension Trustees attended to provide an overview of the Trustees' funding and investment strategy and to seek approval from the Board of its long-term strategy proposal.

2 The Company's actuaries reported to the Board on routine funding and the valuation and the Chair of the Pension Trustees attended to provide an overview of the Trustees' funding and investment strategy.

3 Gareth retired from the Executive Committee in April 2020.

January

- 2021 Budget
- ESG update
- Pensions update
- Health & Safety
- Whistleblowing
- Investor Relations
- Group Policies and Statements

February

- Draft 2020 preliminary results, draft 2020 Annual Report and Accounts and 2021 AGM documents
- Risk Management
- Shareholder and capital returns
- Health and safety
- NED fees
- Board Evaluation feedback
- Principal advisor review

April

- Strategic opportunities and long-term planning
- Draft Interim Management Statement
- Health and safety
- Investor Relations

May

- AGM - further details on page 194

June

- Trading update
- AGM feedback

July

- ESG update
- Pension update
- HR update
- Health & Safety
- Digital Programme
- Draft 2021 Interim results
- Broker update
- Whistleblowing

September

- France and Belgium update
- Supply Chain update
- Employee engagement
- Health and safety
- Investor relations update
- Key risks
- Corporate governance (including presentation from the Group's corporate lawyers, Freshfields)

November

- Trading and commercial update
- Health & Safety
- Investor relations update
- Board Committees' Terms of Reference review
- Schedule of Matters Reserved for the Board review
- 2022 Board calendar

Corporate governance report continued

Executive Committee and Company Secretary

Executive Directors

Andrew Livingston
Chief Executive Officer

Paul Hayes
Chief Financial Officer

*Andrew and Paul's profiles
may be found on page 72*

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.



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').



Kirsty Homer
Group HR Director

Kirsty joined Howdens in September 2020 and was appointed to the Executive Committee in December 2020.

Kirsty is a highly experienced HR practitioner, who has previously served as Global People & Governance Director at Mothercare Plc and held senior HR roles at Waitrose and John Lewis before being appointed Personnel Director there in 2013.



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.

Executive Committee members



Julian Lee
Operations Director

Julian joined Howdens in 2003 and was appointed to the Executive Committee in July 2020.

Julian joined Howdens as a leader of the Manufacturing Division and then moved to Asia in 2005 to head up the International Sourcing and Supply Chain. Since returning to the UK in 2009, he has made a major contribution to the development of our Supply Chain and Operations, taking full responsibility for these in early 2020. Julian's role encompasses Manufacturing and Distribution Operations at our sites in Howden and Runcorn as well as our new facilities in Raunds. Prior to joining Howdens, Julian worked in a number of Strategic and Operational roles within the Silentnight Group.



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.



Richard Sutcliffe
Supply Chain Director

Richard joined Howdens in June 2019 and was appointed to the Executive Committee in July 2020.

Prior to joining Howdens, Richard was Director of Supply Chain at Screwfix. Before this, he held senior supply chain and business planning roles at Hobbycraft, Wyevale Garden Centres and B&Q. He was appointed to help optimise stock holdings across the business and has improved stock availability both nationally and locally. Richard is also leading the XDC project, which will deliver superior service levels and availability to depots.



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 Chartered Governance Institute (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.



Reputation

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



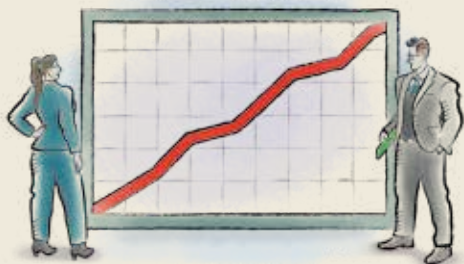
Long-term thinking

The likely consequences of any decision in the long term.



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...



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 we were 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 2020 please see pages 74 and 75.

The Board regularly considers feedback from the Company's stakeholders. These are set out in detail on pages 82 to 87. The Board considers this engagement to be effective and in keeping with the Company's culture. For example, much of the feedback is conversational rather than formal but where there is need for confidentiality, such as whistleblowing, this is also provided. Stakeholder feedback can directly affect the Board's decision making (such as feedback received in relation to the Directors' remuneration policy) but it also provides the context for decision making, particularly where there are competing stakeholder interests.

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 section 172(1)(a)-(f) when discharging their Section 172 duty and the effect on certain decisions taken by them in 2020.

Restarting operations

Following the announcement of the UK Government's 'stay at home' measures on 23 March 2020, the decision was taken to close our UK operations, with the exception of essential activity at our distribution and manufacturing sites.

Essential activity at these sites was only carried out where two-metre social distancing could be maintained, and where operations involved the provision of products to NHS trusts and other 'at needs' organisations.

Following clarification from the Department for Business, Energy and Industrial Strategy that individuals without COVID-19 symptoms and individuals not capable of working from home should be at work if their employer complied with relevant health and safety guidance, the Board made the decision on 26 March to allow depot operations to restart voluntarily on a 'call and collect' basis and with social distancing measures in place.

In reaching its decision to restart depot operations, the Board had regard to a number of factors. The primary concern of the Board was the welfare of the workforce, their families, our customers and the communities within which the business operates. The Board was also mindful of the desirability to maintain the Company's reputation for doing the right thing and that whilst immediate crisis management was necessary, focus on the recovery and maintenance of stakeholder relationships in the long term was crucial.

Stakeholder returns

As reported elsewhere in this Annual Report, in November 2020 the Board announced that it would be repaying all financial support it had received in the first half of the year under the Government Coronavirus Job Retention Scheme and would pay all other deferred payments before the end of the year. This included the payment of business rates from which the Company was entitled to relief.

When coming to this decision, the Board was mindful of its obligations to all its stakeholders. As there was no obligation on the Company to repay the support it had legitimately received as a result of the COVID-19 crisis or to pay back deferred payments ahead of agreed schedules, it is arguable that these decisions were done to the detriment of shareholders who could, in principle, have received higher levels of returns had the Board not taken this decision.

However, the Board was also mindful of its statutory obligations to society as a whole and on that basis (and in the face of competing stakeholder demands) agreed to this course of action. The Board has been pleased with the feedback from shareholders that they support this decision and that other companies followed Howdens' lead in the repayment of business rates, which have contributed over £2bn to Treasury finances to date.

Investment in in-house manufacturing capabilities

During 2020, the Board approved an investment to increase in-house manufacturing capabilities. The rationale behind the investment was to build on the successful vertical integration strategy by increasing production of frontal and décor ends whilst continuing to benefit from external suppliers sourcing.

When considering the investment proposition, the Board considered the likely consequences of any decision making in the long-term. Specifically, the Board was mindful of the potentially negative impact on existing supplier relationships but that the benefits of the investment would also include:

- The creation of shareholder value through cost savings and improved stock turnover.
- Greater control of the supply chain, resilience and greater speed to market which would help protect customers from exposure to international supply chain interruptions.
- Employee benefits such as job creation.
- The associated environmental benefits, with an estimated 200 less tonnes of CO₂ due to fewer loads being transported internationally.

Taking all stakeholder interests into account, the Board approved the proposal as it would most likely promote the success of the Company for the benefit of its members as a whole.

Corporate governance report continued

Adapting for COVID-19

COVID-19 was very much an emerging risk when we signed off our 2019 Annual Report in February 2020. However, within a month, following Government guidance, the Board announced the closure of all depots, both in the UK and internationally, with the exception of operations involving the provision of products to NHS trusts and other 'at needs' organisations where two-metre social distancing could be maintained. It also announced the closure of its manufacturing operations, with the exception of essential activity where two-metre social distancing could be maintained.

Within a week, following updated Government guidance, the Board announced the phased re-opening of the depot network and supply operations where it was safe to do so to ensure we could provide support to our trade customers.

The Board's response

To address the pace of change, the Board met more often and management increased its reporting frequency. The Board met (albeit virtually) each month between February and July to consider management's response to the crisis.

At the meeting at the end of March 2020, the Board met and based its agenda on its three priorities:

1. Keeping employees and customers safe.
2. Prudent cash management and preservation, and viability.
3. (Only once the first two had been established) Consideration of strategic opportunities for the future.

The Board also considered the business continuity management and governance framework put in place by the Executive Committee, which evidenced that:

- A clear command structure had been established with experienced leadership and management was appropriately supported by subject matter experts.
- A risk-based approach had been adopted to ensure priorities were focussed on key risk aspects. This activity was supported by the Group Risk team.
- Business continuity management processes had been engaged, led by the Chief Governance Officer, to co-ordinate business activities.



- 'Mission critical' activities were mapped for specific areas to ensure focus was placed on the most important aspects of the business.
- Daily Executive Committee meetings took place to review the latest COVID-19 developments and to provide prompt decision making.
- Stakeholder responsibilities, as per Section 172 of the Companies Act 2006, were clearly defined and well understood.

In subsequent Board and Committee meetings there was continued focus on health and safety matters and standard operating procedures across all operations. These discussions included mental health awareness. There was consideration by the Remuneration Committee of the approach to pay and benefits whilst employees were furloughed. Management continued to update its cash flow scenario planning to provide analysis of the Company's financial position, which was presented to the Board.

The Board also received updates on the provision of products supplied to NHS Trusts and other 'at needs' organisations such as hospices. Further details of Howdens community support are set out on page 62 of the Sustainability report.

Shareholder returns

At the meeting in March, as part of the efforts to preserve cash, the Board agreed to withdraw their support for the resolution in the AGM notice to pay a final dividend, while they effectively suspended shareholder returns. The Board was careful to have regard to its responsibilities to its stakeholders under section 172 of the Companies Act 2006 when taking this decision, but were unanimous that it was in the interests of all stakeholders and the long-term interests of the Company to do so.

Stakeholder engagement

Board level stakeholder engagement took many forms throughout the year. As the Non-Executive Director responsible for employee engagement, Geoff Drabble's normal programme of events was curtailed. However, engagement sessions were possible at the Howden site during September when reported COVID-19 cases were low and Government measures allowed. Geoff was able to conduct a socially distanced Q&A session with employees and spoke with many to hear their experiences first-hand.

During the year, there were frequent interactions between the Board and the Pensions Trustees. The information protocol in place between the Company and Trustees safeguards adequate information flows, but the strength of relationship enabled the full and frank discussions that were needed to help protect the Company's cash position. The Trustees and Company agreed a three-month suspension of deficit recovery payments during the year (which the Company has subsequently caught up on) and the Trustees and the Company's banking partners agreed covenant waivers when it was apparent that a technical breach of the earnings covenant was likely.

The Chairman and Executive Directors spoke regularly with shareholders during the year, both during and outside of the normal engagement cycle. Many shareholders were vocal in their support for the repayment of Government support prior to the recommencement of shareholder returns.

Annual General Meeting (AGM)

In April 2020, the Board took the decision to change the venue and list of permitted attendees to the AGM. The meeting was held as a 'closed' meeting, with only the DCEO & CFO and Company Secretary, both shareholders in their own right, in attendance. The Board were

mindful that the AGM provides a forum for small shareholders to speak to the Board directly. As such, an online facility to submit questions was established prior to the AGM so that shareholders retained the ability to ask their questions. To keep an open dialogue with all shareholders, this facility was retained for the rest of the year.

Returns

As reported elsewhere in this Annual Report, the Board announced in November 2020 that it would repay all the financial support it had received in the first half of the year through the Government's Coronavirus Job Retention Scheme and would pay all other deferred payments before the end of the year. This included the payment of business rates from which the Company was entitled to relief. In addition, the Board has also announced that it will recommence shareholder returns by way of dividend. This includes a 'catch-up' special dividend in respect of the 2019 final dividend, which the Board withdrew its support for prior to the 2020 AGM.

In addition to ensuring that all employees were fairly remunerated during the year and that all suppliers and landlords were paid on time and in full, the Board were mindful of Howdens' founding principle of worthwhile for all concerned and were resolute that no single stakeholder group should bear the brunt of the impact of COVID-19 on Howdens.

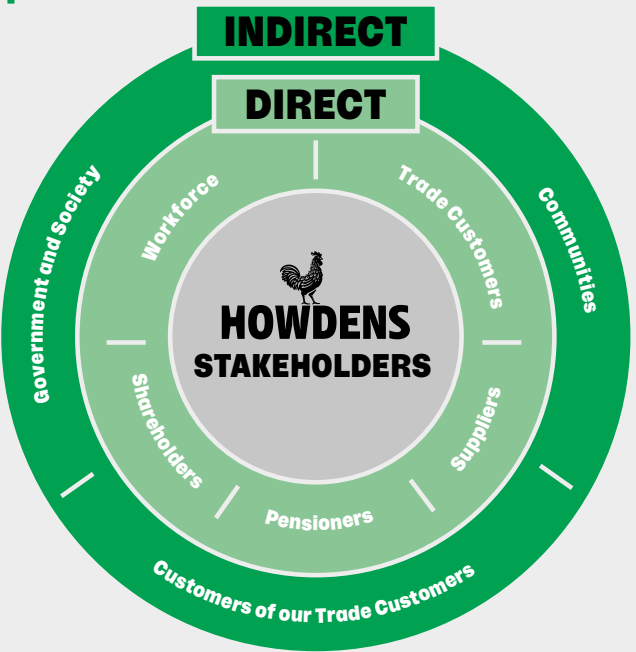
Ongoing


Whilst the Board agenda has returned to a more normal pattern at the beginning of 2021, the Board continues to receive regular updates from management on COVID-19 governance and the frequently changing external environment. The safety of our employees and customers remains the priority of the Board and the Company and we are pleased that, when tested, the Howdens culture and business model both proved resilient.


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>Workforce</p> <p>Engagement with our workforce includes the following:</p> <ul style="list-style-type: none">• Employee surveys• Senior leadership meetings• Town hall-style meetings• Regional Board meetings• Meetings with the Trade Union and works councils  | <p>Non-Executive Director responsible for workforce engagement</p> <p>In 2019, the Board appointed Geoff Drabble as the Non-Executive Director responsible for workforce engagement. 2020 has been a challenging year for face-to-face employee engagement but, during the year, Geoff held an interactive session with blue and white collar workers at the Howden factory.</p> <p>Geoff also received briefings from management in relation to:</p> <ol style="list-style-type: none">1. The consultation and employee involvement in establishing and maintaining COVID-secure working (return to work plans). This included the communication and engagement activities in this regard and Trade Union and works council involvement.2. Furlough payment and communication.3. How the business was supporting remote working.4. Mental health and wellbeing support.5. Protecting Clinically Extremely Vulnerable (CEV) employees. |

| Stakeholder and forms of engagement | Engagement detail and how it has influenced Board discussions and decision-making |
|---|--|
| <p>Workforce continued</p>  | <p>Engagement with Trade Union and works councils</p> <p>Howdens respects the collective bargaining of its employees and actively engages with the Trade Union and works councils on employee related matters. In 2020, there were a number of significant areas of engagement with these collective groups which included:</p> <ol style="list-style-type: none">1. COVID-19-related return to work engagement.2. Ballot for flexible working.3. Engagement on defined benefit scheme closure. <p>Employee surveys</p> <p>Building on the success of the all-employee survey in 2019, a number of employee surveys were used in 2020. Targeted surveys relating to 'return to work' and 'remote working' were used to capture employee sentiment. The results were then used to inform management and Board decision making when addressing each of these matters.</p> <p>Senior Leadership Meetings ('SLMs')</p> <p>The Senior Leadership Team (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.</p> <p>Members of the SLT are 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> <p>Whistleblowing helpline</p> <p>The Company uses a 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 communications about the helpline were refreshed during the year and that there be a continuous communication programme put in place.</p> |

Corporate governance report continued


Stakeholder engagement continued

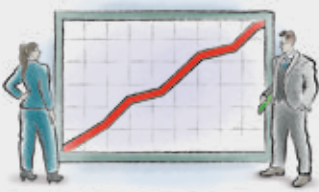
| Stakeholder and forms of engagement | Engagement detail and how it has influenced Board discussions and decision-making |
|---|---|
| <p>Trade customers</p> <p>Engagement with our trade customers includes the following:</p> <ul style="list-style-type: none">Local depotsBuilder forumsProduct research groupsCustomer surveys  | <p>Local depots</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>During 2020, the Regional Board meetings were mostly held virtually and were held more regularly as the business navigated its way through the pandemic. From these meetings, managers were able to feedback directly to the CEO, COO of Trade and other senior executives of the local experiences. It was through these sessions that managers discussed the urgent need for product to supply the NHS Nightingale Hospitals and to self-employed account holders, who were also said to be extremely grateful for the service provided during the strictest lockdown periods (even where these were required to be limited), as they were able to finish their jobs (especially in vacant properties) and receive much-needed cash.</p> <p>Builder forums</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. We therefore hold regular direct feedback sessions with our trade customers in the form of Builder Forums. These forums normally see a small group of customers coming together in an informal setting to talk about their experience of our product and also how it compares with others in the market. The agendas for the forums are driven by the customers themselves so we can be sure we are hearing everything that is on their mind.</p> <p>In Q1 2020, prior to the COVID-19 lockdown measures being put in place by the Government in March, 20 forums were held with our trade customers. In response to feedback from the forums, we made a number of product and process improvements, including additional investment in key manufacturing components to enhance our cabinet specifications, improving the way we manufactured our 22mm worktops, and improving our storage pallets for worktops and bulk storage.</p> <p>In 2021, the business will once again host Builder Forums, but these will take place virtually while Government COVID-19 measures are in place.</p> <p>Cabinet research groups</p> <p>Each year, we host a cabinet research group which is made up of a number of our account holders, from small builders to landlords to developers. In these sessions, our teams begin by asking our customers about their businesses and what they are experiencing in the market. The session then focuses on our cabinets and discussions are held as to how the cabinets are performing in the field. These sessions are key to ensuring that our cabinets are the best in the trade market. In 2020, the group was split into three sessions to ensure COVID-19 measures could be adhered to.</p> |

| Stakeholder and forms of engagement | Engagement detail and how it has influenced Board discussions and decision-making |
|--|---|
| <p>Suppliers</p> <p>Engagement with our suppliers includes the following:</p> <ul style="list-style-type: none">Supplier conferenceCategory team relationships  | <p>Supplier conferences</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 can communicate its priorities and any changes in the business to its suppliers, ensuring a consistent message is heard by all.</p> <p>During 2020, the business hosted two supplier engagement sessions. These were held virtually for the first time given COVID-19 restrictions.</p> <p>The first session, 'Leading the Way', received strong feedback on the key messages, which were to build back faster and fitter than the competition, investment in stock and new opportunities on promotional activity, and the introduction of new products.</p> <p>The second virtual supplier engagement session 'Leading the Way... into 2021' was held to maintain an ongoing conversation with our key partners to ensure the full range of opportunities could be taken advantage of into 2021. Each session was attended by over 100 senior executives from our key partners, who were given the opportunity to ask questions of our senior leadership.</p> <p>It was more important than ever throughout 2020 to engage with and support our supplier base, who experienced significant disruption to operations. Throughout the COVID-19 crisis all our orders placed prior to the crisis were honoured, and while many other companies cancelled orders, we placed additional orders to ensure we were able to keep supporting our customer, the builder. The Board and the Executive Committee understood the importance of ensuring our suppliers' order books were such that they could continue to operate and persevere beyond the pandemic and that ongoing engagement on forecasting was crucial for suppliers to be able to plan in our demand.</p> <p>In both supplier engagement sessions, our leadership was keen to thank our partners for their continued strong support and keenness to go above and beyond for the business during the pandemic. Without the enduring strong relationships with our supplier partners, the business would not have been in the position to maintain the in-stock promise to our customers.</p> <p>Category team relationships</p> <p>In 2019, a new commercial structure was established, 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> |

Corporate governance report continued

Stakeholder engagement continued

| Stakeholder and forms of engagement | Engagement detail and how it has influenced Board discussions and decision-making |
|--|---|
| <p>Pensioners</p> <p>Engagement with our pensioners includes the following:</p> <ul style="list-style-type: none">• Board engagement with the Trustee Board• Annual newsletter• Triennial valuations  | <p>At 26 December 2020, the Howden Joinery Defined Benefit Pension Plan (the 'Plan') had 10,600 members, of which 1,246 were active members, 5,354 were deferred members, and 4,000 were pensioners and dependants.</p> <p>Board engagement with the Trustee Board</p> <p>The Trustee Board, chaired by an independent trustee, is responsible for investment strategy and for the day-to-day running of 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.</p> <p>In 2020, the Company engaged with the Trustee Board on a number of matters outside of the normal engagement cycle of investment and funding strategy. In the first half of the year, the Company and Trustee Board entered into arrangements to defer deficit recovery payments in order to safeguard the Company's cash position at the outset of the COVID-19 crisis. Following this, the Company and Trustee Board entered tripartite arrangements in conjunction with the Company's banking partners to negate the effects of a technical breach of the earnings covenant.</p> <p>In the second half of the year, the Company and Trustee Board engaged closely on the Company's proposals to close the Plan to future accrual and the statutory consultation process which was undertaken. The Company and the Trustee Board will continue to work together closely on this matter to ensure a smooth transition of active employee members from the Plan to the Company's defined contribution pension scheme.</p> <p>Triennial valuations</p> <p>Ensuring that there is an appropriate balance between shareholder distributions and Plan deficit funding is a priority for the Board. The triennial actuarial review as at April 2020 is in progress and expected to complete in 2021.</p> |

| Stakeholder and forms of engagement | Engagement detail and how it has influenced Board discussions and decision-making |
|--|--|
| <p>Shareholders</p> <p>Engagement with our shareholders includes the following:</p> <ul style="list-style-type: none">• Annual General Meeting• Shareholder meetings and Roadshows• Shareholder consultations• Asset reunification  | <p>Annual General Meeting (AGM)</p> <p>In compliance with the Government's 'Stay at Home' measures (effective from 23 March 2020 and extended on 16 April 2020), whereby public gatherings of more than two people were prohibited, the 2020 AGM was held as a closed meeting with the minimum quorum required by the Articles of Association. The attendance of the DCEO & CFO and Company Secretary (the quorum) at the meeting were considered essential for work purposes and therefore permitted under the measures. However, the Company was keen that its shareholders should be provided with the opportunity to submit any questions they may have of their Board of Directors and therefore a question facility was set up on the Company's corporate website and this remained open throughout the year following the conclusion of the AGM.</p> <p>Voting for the AGM was by way of a poll, which ensured that the votes of shareholders who were unable to attend the AGM, but who had appointed proxies, were taken into account in the final voting results. We believe this method gives a more accurate reflection of the views of all of our shareholders and therefore routinely use this method for each general meeting of the Company.</p> <p>Shareholder meetings and results roadshows</p> <p>Due to COVID-19, face-to-face meetings with investors were unable to take place during 2020. However, following both the preliminary results and interim results announcements, the Executive Directors had calls with investors owning around one-third of the Company. On these calls, investors showed particular interest in the initiatives that the business was pursuing, the strength of the balance sheet, and the cash needed to sustain the business throughout the COVID-19 pandemic.</p> <p>The Non-Executive Directors, in particular the Chairman and Audit and Remuneration Committee Chairs, are available for meetings with shareholders throughout the year. The Chairman met with shareholders during the year to discuss a number of corporate governance related matters including Board succession, diversity and distribution of capital.</p> <p>Shareholder consultation</p> <p>In January 2021, the Company wrote to its largest 10 shareholders and shareholder advisory groups regarding proposed changes to CEO base pay. Further details of the consultation may be found on page 105 of the Remuneration Committee report.</p> <p>Asset reunification</p> <p>The Company, in conjunction with its Registrar, commenced a proactive asset reunification programme in April 2020. The programme targeted holders of certificated ordinary shares who had 12 consecutively uncashed dividends and sought to re-unite them with their shares and unclaimed dividend payments.</p> |

Corporate governance report continued

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. 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 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 be in line with that available to the wider workforce. Our Deputy Chief Executive and Chief Financial Officer (who retired from the Board on 26 December 2020) received pension contributions which were not in line with the wider workforce during the reporting period. However, in 2021, our new Chief Financial Officer (who was appointed to the Board on 27 December 2020) will receive a pension contribution rate which is in line with the wider workforce. Our incumbent Chief Executive’s pension contribution rate, while in line with Policy for existing Directors, is not yet in line with the wider workforce. This is because the reduction of fixed, contractual remuneration must be applied carefully and proportionally over time. Our Chief Executive is fully supportive of his rate tapering as set out on page 106 of the Remuneration Committee Report and the Board confirms that his contribution rate 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 2020, the Board led the Company’s response to the unprecedented challenges which arose as a result of the COVID-19 pandemic. The Company’s primary focus was on keeping our employees and customers safe from COVID-19 at all times. Once this had been established, action was taken to safeguard the Company’s cash position to ensure that it remained viable in the face of extremely challenging external conditions.

In the latter part of the year, as pressures eased on cash, depots and manufacturing operations reopened and trading returned to a more normalised cycle (albeit in a COVID-secure way), the Board was able to focus on longer-term strategic initiatives and stakeholder experience. In line with Howdens’ values-led approach, the Board decided to return Government support received during the year relating to the Coronavirus Job Retention Scheme and business rates relief. More information on our sustainable business model and strategy, and our contribution to wider society may be found in the Sustainability 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 is 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 the way our remuneration structure supports our strategic aims in the Remuneration Committee report on page 108.

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 4. 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 also an important part of the Board’s agenda and more information about the methods of engagement with the workforce may be found on pages 82 and 83.

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 pages 99 to 101.

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 30 to 32.

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 38. Our Audit Committee report provides a summary of our internal control framework on page 132.

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 82 to 87. How the Board members discharged their ‘section 172’ statutory directors duties is described on pages 78 and 79.

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 114.

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 2020 Board evaluation concluded that the Board worked well as a group and continued to adopt a collegiate approach. Further information about the outcomes and process of the 2020 Board evaluation may be found on pages 102 and 103 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.

Corporate governance reportcontinued

2018 UK Corporate Governance Code: application of Principles

Section 2: Division of responsibilities continued

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 72 and 73. 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) 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/tor-and-schedule-of-matters).

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 71. Similarly, the number of each Board Committee’s meetings and attendance may be found on the following pages: page 95 (Nominations Committee), page 105 (Remuneration Committee), and page 127 (Audit Committee).

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 within its agreed existing protocol whereby any significant appointments taken on whilst a Director of the Company must be approved by the Board before they are entered into. This is set out in the Schedule of Matters Reserved for the Board which may be found on the Company’s website (www.howdenjoinerygroupplc.com/governance/tor-and-schedule-of-matters).

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/tor-and-schedule-of-matters) the appointment and removal of the Company Secretary is a decision for the Board as a whole.

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. Further information about the appointments process is available on page 99 of the Nominations Committee report and the Board’s diversity policy is available on page 98.

The Nominations Committee regularly reviews the tenure of each Board member and the skills matrix (please see pages 99 and 96 respectively 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 (see the Nominations Committee timeline on pages 94 and 95).

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 96.

The tenure of each Director may be found on page 99 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 over one year to just over 7 years, and the average tenure is just over four 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 2020 Board evaluation process and outcomes may be found on pages 102 and 103 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 72 and 73 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 2021 AGM Notice. The Board recommends that shareholders vote in favour of the re-election or election of all the Directors.

Corporate governance report continued

2018 UK Corporate Governance Code: application of Principles

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 annual and interim financial statements of the Company through the Audit Committee. Further information about the work of the Audit Committee, including the subjects above, may be found in the Audit Committee report which begins on page 126.

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 67.

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 (the 'Principal risks and uncertainties' section begins on page 38) 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 in the 'Principal risks and uncertainties' section (which begins on page 38). The Board confirms that it has conducted a robust assessment of the principal and emerging risks.



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 104.

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). 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 clear and as predictable as possible. Further information may be found in the Remuneration Committee report on page 114.

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 107 of the Remuneration Committee report.

By order of the Board

Richard Pennycook
Chairman

24 February 2021

Nominations Committee report



Richard Pennycook Nominations Committee Chairman



Introduction from the Committee Chairman

Whilst the impact of COVID-19 on the Nominations Committee was less immediately felt, the Committee has nonetheless had a busy year. Focusing on its core responsibilities of succession (both at Board and senior management level), composition and evaluation, the Committee made recommendations to the Board on two external appointments, that of the Group HR Director and the Executive Director role of Chief Financial Officer. In addition, two internal promotions to the Executive Committee were approved demonstrating a healthy balance of internal and external candidates for succession into senior management roles.

During the year the Nominations Committee has also overseen the progress made by the Equality, Diversity and Inclusion (EDI) Group and undertaken a remote annual Board evaluation for the first time.

Succession

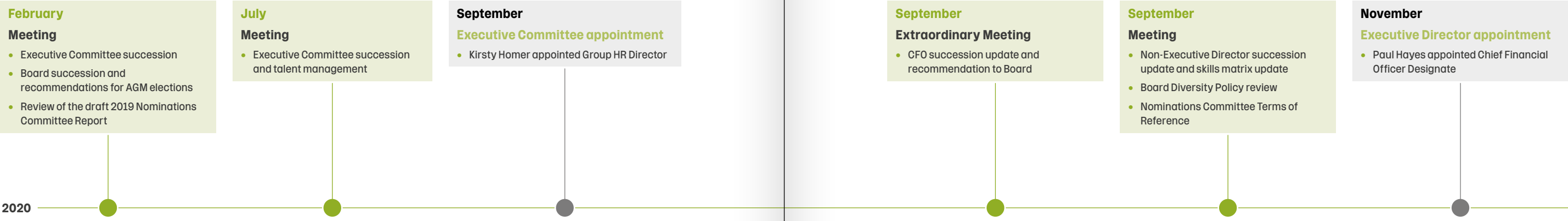
We were pleased to welcome Paul Hayes as Chief Financial Officer in December 2020. Paul brings a significant amount of listed company experience given his time in senior finance roles at a number of UK and US listed companies. His manufacturing experience will also be a benefit to Howdens' vertically integrated business. Paul's appointment followed a formal and rigorous procedure which is set out in more detail on page 99.

Mark Robson retired from the Board at the end of December 2020 having been appointed as Chief Financial Officer in April 2005. From April 2014, he was also Deputy Chief Executive. Mark played a pivotal role over many years in building Howdens into a strong and successful business. In recent years he helped ensure a smooth CEO transition following Matthew Ingle's retirement in 2018 and his careful management of the Company's finances was a key element of our ability to weather the storm of the COVID-19 pandemic. On behalf of the Board, I would like to thank Mark for his significant contribution to Howdens and to the Board.

As reported in last year's Nominations Committee Report, the Committee takes an active role in senior management succession and oversaw three appointments to the Executive Committee in addition to Paul's appointment as Chief Financial Officer. In July, Julian Lee and Richard Sutcliffe were promoted to the Executive Committee following a period of 'acting up' in role. Their respective roles as Operations Director and Supply Chain Director follow the restructuring of the business's commercial functions from a two division structure (Trade and Supply) to having a commercial team fully integrated with the key manufacturing and supply chain functions.

Having operated with an interim HR Director for a number of years, the business appointed Kirsty Homer as Group HR Director in September. Kirsty's appointment in the lead people role is an important step forward for the business and she brings with her extensive experience from roles at Mothercare Plc and the John Lewis Partnership.

2020 Nominations Committee activity

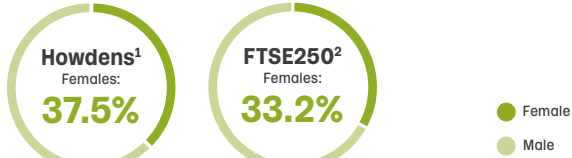


Nominations Committee meeting attendance

| | |
|-------------------------|----------------------------------|
| Richard Pennycook (4/4) | Geoff Drabble (4/4) |
| Karen Caddick (4/4) | Louise Fowler (2/3) ¹ |
| Andrew Cripps (4/4) | Debbie White (4/4) |

¹ Louise was appointed to the Nominations Committee after the February meeting following the completion of her induction programme. She was unable to attend the September meeting due to a pre-existing commitment entered into prior to joining the Company. Louise received all of the papers in advance of the meetings and was able to feedback her views to the Committee Chair.

Board gender split



¹ Figures correct as at 26 December 2020.
² Figures derived from 2021 Hampton-Alexander Review and correct as at 11 January 2021.

Composition

The importance of broadening diversity within leadership and senior management teams has continued to gather momentum. Whilst we remain pleased that half of the Non-Executive Directors on the Howdens Board are female, we are mindful that gender representation is not the only means by which a board achieves diversity. Similarly, we are aware of the need to improve gender, racial and other imbalances in our senior management team and throughout our organisation.

The work of the EDI Group, which is set out in more detail on page 97, has Debbie White as its Board sponsor and we are pleased with the progress made despite the difficulties of engaging with employees due to COVID-19. Awareness and engagement activities, which have been well received in 2020, will continue into 2021 as will the development of ways to raise confidence and capability on EDI topics in the business. Our ultimate goal is to identify a route map for the Howdens EDI journey as part of an integrated approach to ESG matters.

The Nominations Committee understands the importance of leading by example on EDI matters and in line with our Boardroom diversity policy will continue to seek diversity of mindset as well as of gender, race, and background when considering new appointments in the period to 2022.

Evaluation

Following the externally facilitated Board review in 2019, an internal Board evaluation process was undertaken in respect of the 2020 review. More information on the Board evaluation process and outcomes are set out on pages 102 and 103.

Richard Pennycook
Nominations Committee Chairman

Key activities in the year ahead

- All current Directors will stand for election (if appointed since the last AGM) or re-election at the AGM on 6 May 2021.
- Regular Group HR Director succession updates to be provided to the Committee.
- The Committee to undertake its review of skills, composition and size of the Board.
- Executive Committee succession planning and talent management updates to be provided to the Committee.
- Preparatory work to commence on Chairman succession.

Nominations Committee report continued

Composition

Skills and experience matrix

The Nominations Committee used a skills matrix when assessing its Non-Executive Director succession plans. The matrix highlights where the skills and experience of our Non-Executive Directors are particularly strong, where there are opportunities to further grow the Board’s collective knowledge, and to inform the Board’s future composition as Non-Executive Directors naturally rotate off the Board.

| Skills and Experience | Importance | Number of Non-Executive Directors | |
|---|------------|-----------------------------------|---------------------|
| | | Direct experience | Indirect experience |
| Industry/Sector | | | |
| Business-to-business | H | 6 | 0 |
| Manufacturing | H | 4 | 2 |
| Logistics, distribution and supply chain management | H | 4 | 2 |
| Consumer goods | H | 5 | 0 |
| Geographic exposure | | | |
| UK | H | 6 | 0 |
| France | M | 4 | 2 |
| Governance | | | |
| UK listed companies | H | 6 | 0 |
| Company chair experience | M | 4 | 1 |
| Remuneration committee chair experience | M | 3 | 0 |
| Audit committee chair experience | M | 3 | 0 |
| Policy development | M | 4 | 1 |
| Senior independent director experience | M | 2 | 0 |
| Technical | | | |
| Accounting and Finance | H | 4 | 2 |
| Audit | H | 4 | 1 |
| Executive management | H | 6 | 0 |
| Risk management | H | 5 | 1 |
| HR/Remuneration | M | 2 | 4 |
| Ecommerce | M | 2 | 4 |
| Marketing | M | 2 | 4 |
| IT/Cyber security | M | 1 | 3 |
| Legal | M | 2 | 2 |
| Howden Specific Considerations | | | |
| Vertical integration | H | 4 | 2 |
| Multisite depot operation | H | 4 | 2 |

Importance
M Medium H High

Diversity

Equality, Diversity and Inclusion (EDI) Group

We reported in the 2019 Nominations Committee report that the Howdens EDI Group had been established during as a sub-committee of the Executive Committee. The EDI Group was chaired by the Chief Governance Officer, Rob Fenwick, throughout 2020 and its members included employees from a range of roles, seniority, backgrounds, abilities, race and geographic location. Non-Executive Director Debbie White acted, and continues to act, as the Board’s sponsor to the Group to ensure there is Board-level commitment of the EDI Group’s objectives. The EDI Group also engaged Suzy Levy of The Red Plate to provide third party support.

Following the foundational activities undertaken in 2019, the EDI Group has focused its efforts in three main areas:

1. To raise awareness and engage senior management on EDI and its importance to the business moving forwards.
2. Developing pathways to raise confidence and capability on EDI topics in the business.
3. To identify a route map for the Howdens EDI journey as part of an integrated approach to ESG matters.

To that end, members of the Executive Committee received EDI training during 2020 and the EDI Group has identified a roadmap for future years, based on the Mercer model, underpinned by the principle of being 'authentically Howdens'. The EDI Group also delivered an interactive online training pilot to over 150 employees from across the business with a number of Non-Executive Directors also attending these sessions. EDI training sessions will continue to be held in 2021.

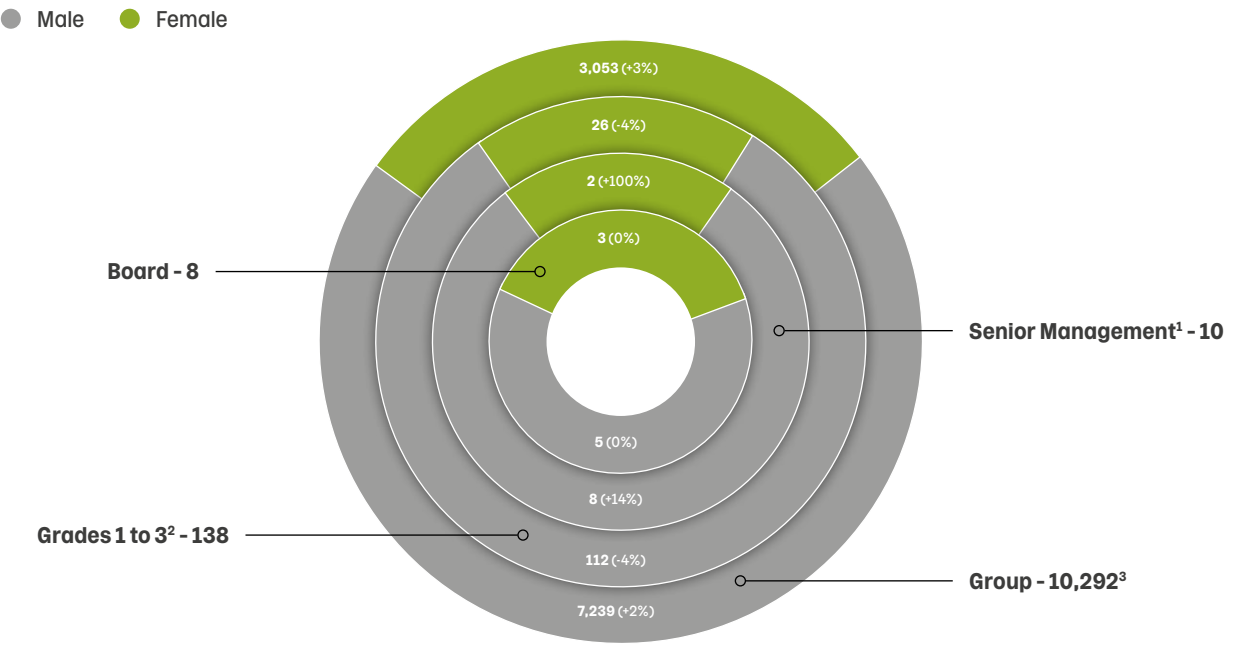
In 2021, the Board will continue to receive regular updates from the EDI Group and Debbie White will continue in her role as Board sponsor to the EDI Group in 2021.

Group gender diversity statistics

The Nominations Committee reviews the gender statistics shown in the chart below. Where other data is available, this is presented to the Committee in order to determine whether there are any implicit diversity issues.

Group gender diversity as at 26 December 2020

The percentages shown in brackets below indicate the change since 2019.



1 Members of the Executive Committee, excluding Executive Directors and including the Company Secretary.
2 Includes Grades 1-3 equivalents.
3 Calculated on an individual basis, not on an FTE basis. Includes UK, France, Belgium and Isle of Man.

Nominations Committee report continued

Composition continued

Boardroom Diversity Policy

The Board recognises the importance of ensuring that there is diversity of perspective, background and approach in its management team and on its Board. Since the business was established in 1995, it has sought to enable individuals to progress within the organisation regardless of age, gender, background or formal qualifications.

We believe that it is in the interests of the business and of its shareholders for us to build a stable, cohesive and representative Board and we are mindful of the outputs and recommendations from both the Hampton-Alexander Review and the Parker Review when making appointments to the Board. However, whilst the setting of targets on particular aspects of diversity may be relevant in many cases, we feel that this could be given inappropriate focus within the context of a smaller board, resulting in the possible overlooking of certain well-qualified candidates.

The Nominations Committee will continue to seek diversity of mindset as well as of gender, race, and background when considering new appointments in the period to 2022, and it will continue to review this policy on an annual basis to ensure it remains appropriate. More widely, we are committed to developing a long-term pipeline of executive talent that reflects the diversity of Howdens' business and its stakeholders. As at 26 December 2020, 37.5% of Board members were women. Both of the Executive Directors were male.

Group Diversity Policy

The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race.

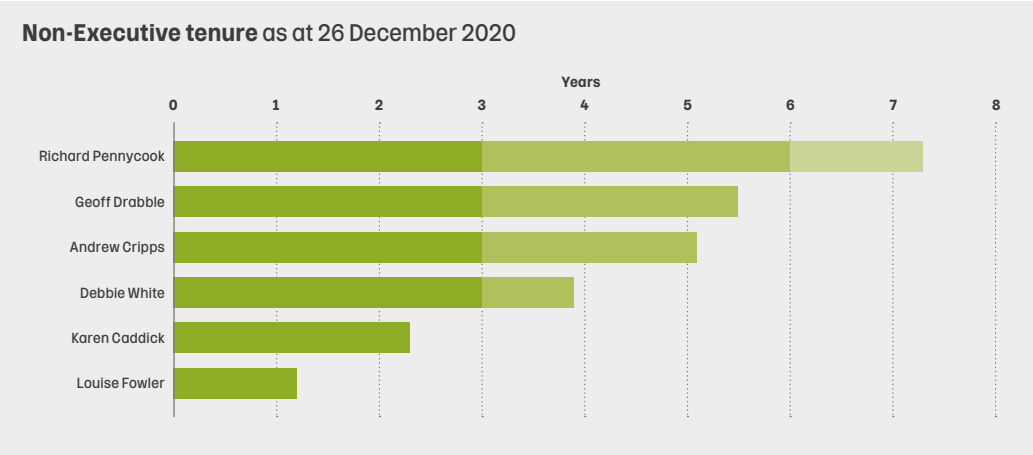
The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people. The Group welcomes, and considers fully, applications by disabled persons, having regard to their particular aptitudes and abilities. It is also the Group's policy to retain employees who may become disabled while in service and to provide appropriate training.



Succession

An integral part of the work of the Nominations Committee is to establish and maintain a stable leadership framework and to proactively manage changes and their impacts on the future leadership needs of the Company, both in terms of Executive and Non-Executive leadership. Ensuring the correct leaders are in place enables the organisation to compete effectively in the marketplace and therefore to meet its various obligations to its stakeholders.

As detailed in the rest of the report, the Nominations Committee has managed succession programmes for both the Board and senior management, which have ensured that the necessary skills, expertise and experience are present in the leadership of the organisation.



Board succession

The Nominations Committee regularly reviews the skills and expertise that are present on the Board and compares these to the expertise that it believes are required given the strategy, business priorities and culture of the organisation.

Since Howdens began trading in 1995, its core strategy has remained largely unchanged. The market, the size, and the stage of maturity of our organisation however have changed, and so our Board has needed to evolve through sensible and well-managed succession planning that does not compromise the stability of the Board.

There were no Non-Executive Director retirements or appointments in 2020. We continue to manage a phased succession programme for Non-Executive Directors and are pleased with the balance of length of tenure, as well as of diversity, background and perspective of our current Non-Executive Directors.

Appointment

In October 2020, following consideration of a number of suitable candidates, the Nominations Committee recommended to the Board that it appoint Paul Hayes as Chief Financial Officer. In reaching this recommendation, the Committee had undertaken a thorough recruitment process.

The Committee engaged the external search consultancy, Odgers Berndtson¹, to undertake the process of recruiting a new CFO following Mark Robson's indication that he would considering retiring from the Board should an appropriate candidate be identified.

Given Mark Robson's experience and length of tenure, the Nominations Committee worked closely with Odgers Berndtson to develop the right specification for the role. Odgers Berndtson were made aware of Howdens' Boardroom Diversity Policy and the Nominations Committee specifically tasked them with producing a diverse shortlist of candidates for the position. The Nominations Committee reviewed the current Executive Director structure at the outset of the process and concluded that it would revert to a standard structure with CEO and CFO on the Board following Mark's retirement from the Board.

Following the approval of the specification and interview and selection process, the Nominations Committee requested that the Remuneration Committee determine an indicative reward package in line with the Remuneration Policy for Executive Directors. With the assistance of Odgers Berndtson, a long list of candidates was drawn up for consideration by the Nominations Committee. Both internal and external candidates were invited to participate in the process.

¹ The Committee confirms that Odgers Berndtson has no other connection with the Company or its Directors other than in relation to the recruitment of members of the Board.

Nominations Committee report continued

Succession continued

The Nominations Committee considered formal appraisals of all candidates selected from the longlist. A significant number of the candidates met with the Chairman and some of the Non-Executive Directors. Following the conclusion of these meetings, the Nominations Committee met to agree a shortlist of candidates.

Two candidates were considered for further consideration. Both candidates met with the Non-Executive Directors, the Chairman and members of the Executive Committee. References were taken for each candidate and psychometric profiles were undertaken for the selected candidates.

Following a further Nominations Committee meeting, it was agreed to seek to engage with a particular individual and agree contract terms. The Remuneration Committee worked with Mark Robson to agree an exit arrangement which was fair and in line with the Remuneration Policy. The Remuneration Committee also agreed an onboarding package with the new CFO. More information and detail about both Mark Robson and Paul Hayes' remuneration arrangements can be found in the Remuneration Committee report, which starts on page 104. After contractual arrangements had been

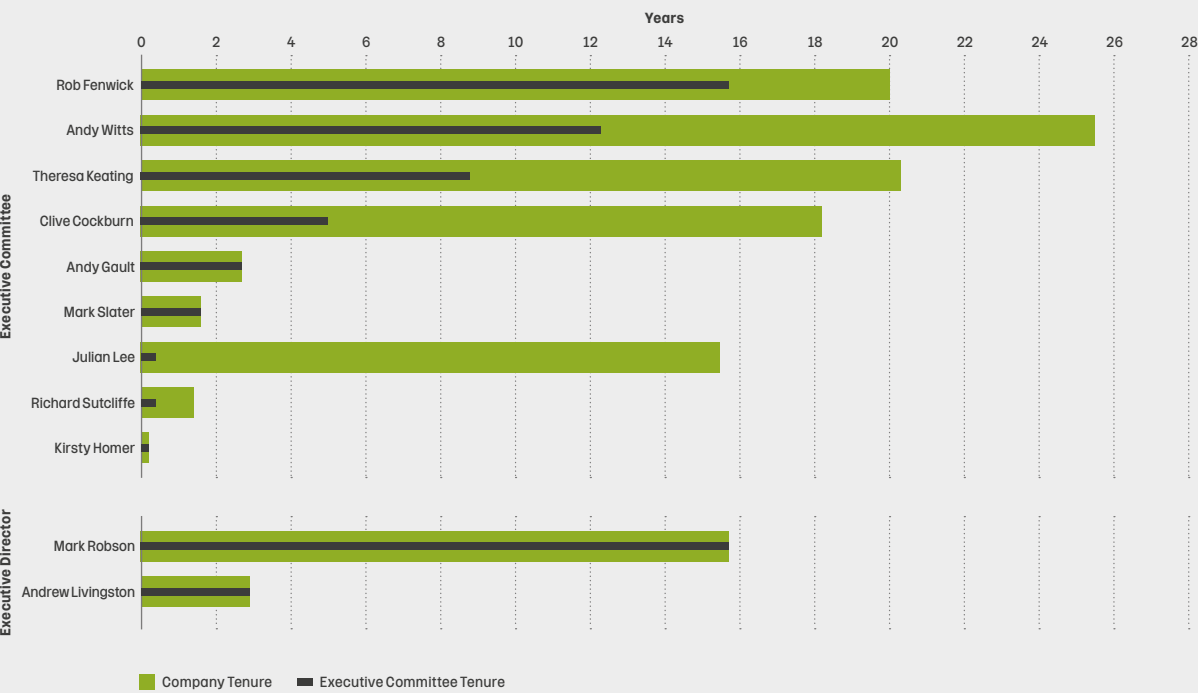
agreed with both parties in principle, the Board met on 15 October 2020 to consider the recommendations of both the Nominations Committee and the Remuneration Committee. They unanimously approved the proposals and internal and external announcements were made on 16 October.

Having successfully secured a suitable candidate for the role and discharged its announcement obligations, the Nominations Committee tasked the Interim Group HR Director with formulating transitional arrangements for the outgoing and incoming CFOs, which included a detailed induction plan for the new CFO Designate. Paul Hayes joined Howdens on 2 November 2020 as CFO Designate and assumed the role of CFO on 27 December.

Induction

Following Paul's appointment as CFO Designate in November 2020, he commenced a tailored induction programme. This included gaining a broad commercial and operational understanding of the business and visiting a number of depots, our manufacturing sites in Howden and Runcorn, and other locations. This has been achieved in a COVID-safe way and provided him with a good understanding of the business.

Company and Executive Committee tenure as at 26 December 2020



Paul also had induction sessions with the category and supply chain teams and attended our second virtual supplier engagement session 'Leading the Way... into 2021' (see page 85). He has joined a number of virtual meetings of each of the trade regions where he was able to hear first-hand from depot managers.

Paul has spent significant time with the supply, commercial and trade finance teams as well as the Group finance function and internal audit team. This has been supported by a good transition with Mark Robson and one-to-one meetings with all our Board members, the external auditor and members of the Executive team.

Senior management succession

The Committee received regular updates regarding senior management¹ succession planning (see Nominations Committee activity on pages 94 and 95). These updates included the following:

Group Human Resources ('HR') Director appointment

In April 2020, Gareth Hopkins, our Interim Group HR Director, retired from the Executive Committee and the business. An interim HR Director was appointed to support management in the search for a permanent successor and in the day-to-day running of the business.

Following regular briefings to the Nominations Committee and meetings with the Chairman and Remuneration Committee Chair, the Committee approved the appointment of Kirsty Homer as Group HR Director in September. Kirsty brings a wealth of experience from her time in senior HR roles at the John Lewis Partnership and more recently as Global People and Governance Director at Mothercare Plc. Further information about Kirsty is available in her biography on page 76.

Operations Director and Supply Chain Director appointments

Following an orderly succession process, Julian Lee and Richard Sutcliffe were appointed as Operations Director and Supply Chain Director respectively. They share the responsibilities previously held by Rob Fenwick in his role as Chief Operating Officer of the Supply Division along with Mark Slater, Commercial Director. During the first half of 2020, Julian and Richard had standing invitations to Executive Committee meetings and were both instrumental in the business' response to the COVID-19 crisis.

Chief Governance Officer retirement

Please see case study to the right for details of Rob Fenwick's retirement.

¹ The definition of 'senior management' for this purpose is defined in footnote 4 of the 2018 UK Corporate Governance Code as 'the executive committee or the first layer of management below board level, including the company secretary'.

Case study Chief Governance Officer

As reported in the 2019 Nominations Committee report, Rob Fenwick, Chief Governance Officer (and formerly Chief Operating Officer of the Supply Division) will retire from the Executive Committee at the end of February 2021. During 2020, Rob helped the business to develop its broader purpose, in particular by developing the Group's Sustainability agenda and Chairing the EDI Sub-Committee. He was also on hand to provide support to Julian Lee and Richard Sutcliffe in their new roles as Operations Director and Supply Chain Director.

In addition, Rob chaired the emergency Executive Committee meetings held in response to the COVID-19 crisis to ensure the Executive Directors were able to focus on strategic matters and high-level management of the Group's response. More details of the governance structure of the Group's response to COVID-19 can be found on pages 80 and 81. He was also tasked with the successful delivery of changes to the Group's pension benefit structure (more details of which can be found on page 36). Having an Executive Committee member of Rob's experience to oversee both the operational crisis response to COVID-19 and the significant change-management pensions project has been invaluable.

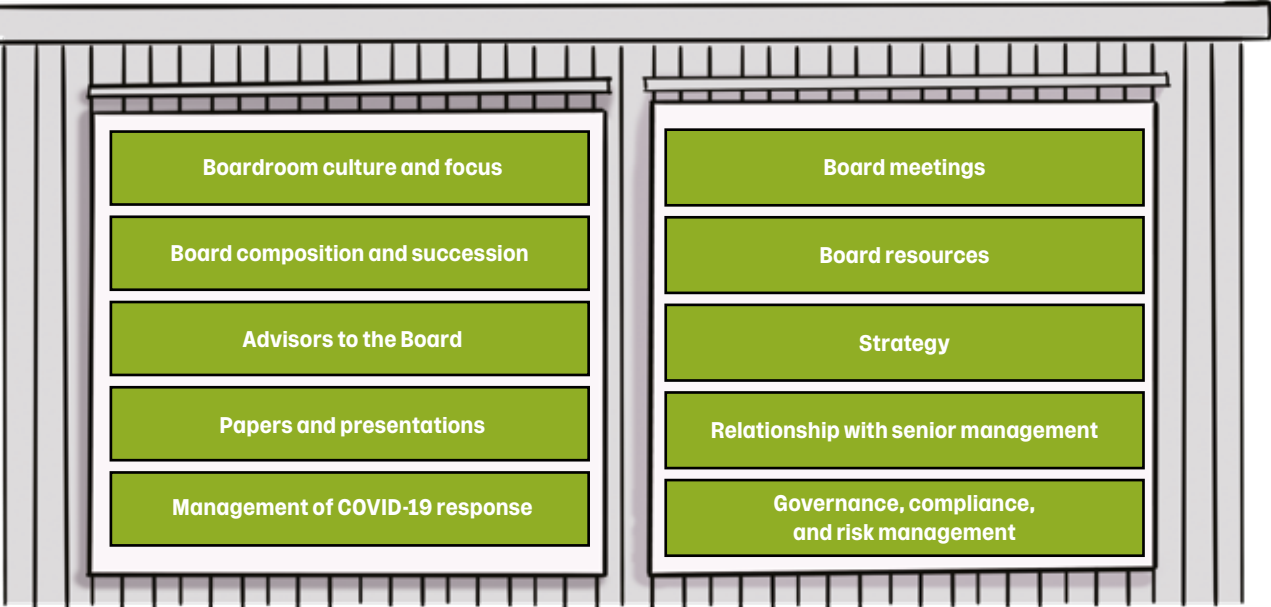
Howdens has been fortunate to have a settled and long-serving senior management team and careful management of the succession process for their roles is fundamental to the future long-term success of the Company. The retirement from the Executive Committee of both Mark Robson and Rob Fenwick marks a significant change for the senior management of the business going into 2021, but the Nominations Committee is confident that this change has been managed appropriately. During the year, the CEO presented his ongoing Executive Committee succession plans to the Nominations Committee. The Nominations Committee was satisfied that there was sufficient experience and continuity at Executive Committee level to ensure that the cultural aspects of the business, which have made it so successful, were not diluted. The Committee was also satisfied that the Executive Committee was engaged with the positive elements which can come about following senior management change. Members of the Nominations Committee were able to express their views and provide advice on the plans throughout 2020 and will continue to do so in 2021.

Nominations Committee report continued

Evaluation

In line with the Board’s policy to undertake an external board effectiveness review every three years and following the evaluation conducted by Independent Board Evaluation (IBE) in 2019, the 2020 review was undertaken by the Senior Independent Director with support from the Company Secretary and focused on the following areas:

Evaluation areas of focus



Methodology

The evaluation was structured as an internal evaluation of the Board and was undertaken by the Senior Independent Director, with support from the Company Secretary. The review comprised interviews with all members of the Board with the report and recommendations agreed by the Senior Independent Director and the Chairman.

Since the 2019 externally facilitated evaluation, Mark Robson has retired as DCEO & CFO and Paul Hayes has been appointed CFO. There were no other changes to the Board since the previous review.

The process is outlined below:

- The evaluation methodology and agenda were agreed between the Chairman, Senior Independent Director, and Company Secretary.
- Interviews with Board members and the Company Secretary.
- The conclusions of the evaluation, including the observations and recommendations were presented to the Chairman.
- The main observations and recommendations from the evaluation were presented to the Nominations Committee and the Board.

Conclusions and recommendations

Non-Executive and Executive Directors were unanimous in their appraisal that the Board had continued to operate effectively during 2020.

The Board worked well as a group, continued to adopt a collegiate approach with well-structured meetings. It was concluded that there was a good balance of skills and experience on the Board and the Executive Directors expressed their view that they felt well-supported by the Non-Executive Directors.

It was noted that the extraordinary circumstances created by the COVID-19 pandemic during the year had tested the Board and necessarily had focused its attention on more operational matters.

Contributors commented that management’s handling of the COVID crisis had been outstanding, especially in relation to employee safety and keeping the business trading. It was further noted that any issues raised during the process were improvements to an organisation that was already performing well and would seek to further strengthen it.

Highlighted strengths

- The collegiate approach of the Board, particularly in the context of the COVID crisis.
- The support the Non-Executive Directors had provided to the Executive Directors.
- Management of the succession processes for a number of long-serving Executives in the business.

Recommended areas for development and actions going forward

- Return to a focus on long-term, strategic matters in Board meetings in 2021.
- Undertaking a review of financial and non-financial reporting and communication outside of Board and Board Committee meetings.
- Continuation of the focus on Non-Executive Director succession planning, paying particular regard to the recommendations of the Parker and Hampton-Alexander reviews.
- More frequent ESG reporting to the Board.

Influence on Board composition

Members of the Board discussed the recommendations of the Parker and Hampton-Alexander Reviews as part of the 2020 Board evaluation. In 2021, the Nominations Committee will continue its focus on succession planning and to ensure that when it looks to recommend a new appointment in future, that the process has been inclusive of not only a broad range of mindsets, but also a variety of backgrounds, including race and ethnicity.

Nominations Committee evaluation

The feedback gathered indicated that the Nominations Committee had engaged well over the year and had actively participated in discussions regarding senior management succession.

It was also noted that the composition of the Board was well settled, but in 2021 the Committee would enhance its focus on Non-Executive Director succession planning and the requirements of the Parker and Hampton-Alexander reviews.

Richard Pennycook
Nomination Committee Chairman

24 February 2021

Remuneration Committee report



Karen Caddick Remuneration Committee Chair



Annual Remuneration Committee Chair's statement

I am pleased to present the Howden Joinery Group Remuneration Committee report for 2020. The report has been prepared in compliance with the requirements of the Large and Medium-sized Companies and Groups Regulations 2013 and incorporates changes made under the updated EU Shareholder Rights Directive (SRD II).

Using this report

We have updated our Remuneration Committee report this year to make accessing it as straightforward as possible. The content of the report is governed by various legislation and listed company disclosure requirements and, on occasion, this results in duplication of information. We have tried to reduce this wherever possible and present the information in an accessible and, hopefully, intuitive way.

The report is split into three sections:

- 1. This Committee Chair's statement
- 2. A summary of the Directors' remuneration policy (last approved by shareholders at the 2019 AGM)
- 3. The Directors' remuneration report

We have divided the Directors' remuneration report into four parts:

- Part 1 Company performance and stakeholder experience
- Part 2 Application of policy in 2020
- Part 3 Implementation of policy in 2021
- Part 4 Additional disclosures

We believe that this format clearly differentiates each of the relevant sections of the Remuneration Committee report, directs users to the sections relevant to their use, and is also fully compliant with all applicable rules.

2020

2020 has been an extraordinary year for the Remuneration Committee. The impact of COVID-19 on remuneration, both for Executive Directors and that of the wider Howdens workforce, has been significant. We have included a case study on page 115 to detail the response of the Committee to the COVID-19 crisis, but it is worth noting here that since the beginning of the crisis, the Remuneration Committee has regularly monitored the employee remuneration experience across all roles to ensure that there is alignment between the experience of the wider workforce and that of our senior management.

I would also like to take this opportunity to thank shareholders who supported the Committee when we agreed to defer the 2020 Long Term Incentive Plan (LTIP) grant and amend the weighting of the measures for this award to provide a greater weighting on relative, rather than absolute measures.

During the year the Committee was also involved in the recruitment process of the new Chief Financial Officer. It was important that the Committee build a remuneration package which would attract a high calibre individual to replace Mark Robson, and we are pleased that we were able to do so within our shareholder approved remuneration policy. More detail on Paul Hayes' remuneration for 2021 and Mark Robson's exit arrangements, which were also within policy, are detailed later in the report.

I will be presenting a summary of the work of the Committee in 2020 at the Annual General Meeting (AGM) on 6 May 2021.

Policy

Our existing remuneration policy was approved by shareholders at the 2019 AGM and is due to expire at the 2022 AGM. A short-form version can be found on pages 108 and 109. The Remuneration Committee are satisfied that the Directors' remuneration policy operated as intended during the year despite the many challenges of the COVID-19 crisis. The policy in full can be accessed at www.howdenjoinerygroupplc.com/governance/remuneration-policy

I am pleased to report that the 2019 Directors' Remuneration Report received a high level of support at our AGM held on 7 May 2020. A breakdown of voting for both the remuneration policy and remuneration reports for the previous three AGMs can be found on page 125.

Remuneration Committee meeting attendance

| | |
|---------------------|----------------------------------|
| Karen Caddick (7/7) | Louise Fowler (5/7) ¹ |
| Andrew Cripps (7/7) | Debbie White (7/7) |
| Geoff Drabble (7/7) | |

¹ Louise was unable to attend either of the Committee meetings in September due to pre-existing commitments entered into prior to joining the Company. She received all of the meeting papers in advance of the meetings and was able to feedback her views to the Committee Chair.

2020 reward outcomes

Annual bonus

For the 2020 annual bonus, performance was based on the delivery of both profit and cash flow targets. For the full year we have reported a decrease in sales of 2% and in profit of 29%. The decrease in sales and profit were exclusively attributable to the unprecedented disruption to the business in H1. Sales in H2 increased by 16% against 2019 with profit before tax (PBT) increasing by 9%. Our performance reflected the measures we put in place to enable our employees and our customers to work safely together and was achieved whilst repaying all of the financial support received under Government's Coronavirus Job Retention Scheme, all the business rates deferred by local councils, and the deferred pension deficit payments.

Despite our strong relative financial performance, full year PBT and cash flow were below on-target vesting resulting in 0% of salary for our Executive Directors.

Performance Share Plan (PSP)

Similarly, the 2018 PSP with performance measured to FY 2020 is based on three-year PBT growth per annum. Over the three-year period of the 2018 PSP cycle, our PBT has declined by 7.2% per annum. In line with performance targets requiring 5% per annum PBT growth to achieve threshold vesting, the award will therefore lapse in full.

2021 reward and incentives

Salary

In January 2021 we wrote to our top 10 shareholders to inform them that we would be increasing the CEO's salary above the increase proposed for the wider workforce. In this communication, the Committee noted that Andrew Livingston had been in role as CEO for a number of years and, whilst he had received inflationary increases over this period in line with the wider workforce, the Committee determined that a review of his remuneration was appropriate, taking account of:

- 1. Andrew's growing experience in the role and the desire to fairly reflect the substantial growth in the business delivered by Andrew since his appointment;
- 2. His salary positioning at the lower end of the market upon appointment; and

Remuneration Committee report contents

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- 3. An increase in his responsibilities as a result of the departure of Mark Robson as Deputy CEO and the Company's reversion to a traditional model with a CEO and CFO, with some accountability therefore moving back to the CEO.

In light of these factors, the Committee determined that it was appropriate to increase the annual salary for the CEO from £581,000 to £650,000 (an increase of 12%) with effect from 1 January 2021.

When considering Andrew's pay we also considered carefully whether it was appropriate to make such an increase at the current time. Taking into account the significant improvement in trading performance in H2, the support we have been able to offer employees, the payments we have been able to restart to shareholders, Government and the pension scheme, and the importance of the coming years to Howdens' future success, we ultimately decided that bringing Andrew's pay in line with the market now was the right decision for the business. More detailed information on the increase in CEO salary can be found on page 120.

There will be no increase in CFO, Paul Hayes' salary in 2021 having joined the business late in 2020 and as such the next salary review for both CEO and CFO will be in 2022, with any increases effective in July that year.

Annual bonus

For the 2021 annual bonus, we replicated the methodology and PBT and cash flow measures used in the 2020 annual bonus, subject to an aggregate maximum of 150% of basic salary. This maintains the focus on profit in incentives and alignment with the depots, whilst maintaining a healthy stretch between target and maximum bonus levels to ensure strong shareholder alignment.

PSP

We reported in the 2019 Remuneration Committee report that we had introduced a shareholder returns measure in 2020 in respect of the PSP to complement the pre-existing profit PBT measure. The Committee concluded that Relative Total Shareholder Returns (TSR) would provide greater alignment with shareholder interests and provide balance to the existing PBT measure. The TSR measure was also felt to be the most relevant comparator externally and would safeguard against complexity. The introduction of this measure has been well received by both shareholders and senior management.

Remuneration Committee report continued

Annual Remuneration Committee Chair's statement continued

For the 2021 PSP, we will maintain the opportunity of 220% for Executive Directors and we will retain both the PBT and TSR measures. Given market practice, and the current use of profit in our incentives, the Committee has agreed a weighting of 67% for PBT growth and 33% for the TSR measure. This was the weighting originally agreed for the 2020 PSP award and the Committee are minded that this provides an appropriate balance between earnings and shareholder returns for the performance period, particularly given the ongoing uncertainty around COVID-19 restrictions in the short and medium term. The target range of 5% to 15% PBT growth per annum has been retained and no changes will be made to the TSR measure. More detail on each of the PSP measures is set out on page 121.

Pensions

We reported last year that the Committee had agreed a plan with the Executive Directors to ensure that their pensions would be aligned with the wider workforce by the Company's next policy cycle (May 2022).

Our Executive Directors are now on that agreed flightpath and, in January 2020, Andrew Livingston's pension supplement, received in lieu of Company pension contributions, reduced from 20% of basic salary to 18% of basic salary. In January 2021, it reduced by a further 4% to 14% of basic salary and in May 2022 Andrew's pension supplement will be aligned to the Company pension contributions of the wider workforce, which is currently 5% of basic salary¹.

Similarly, Mark Robson's pension supplement, received in lieu of pension contributions, reduced from 30% of basic salary to 24% from January 2020. Whilst Mark stepped down from the Board at the end of the 2020 financial year, the Committee can confirm that his supplement reduced further to 18% of basic salary from January 2021. Paul Hayes' pension supplement received in lieu of Company pension contributions was aligned with the wider workforce upon appointment, in line with policy.

In November 2020, the Company entered into a consultation process with affected employees and collective bargaining groups regarding the potential closure of the defined benefit Howden Joinery Pension Plan (the 'Plan') to future accrual. The outcome of the consultation was that the Plan would be closed to future accrual from 31 March 2021. The key driver for the Board in tabling these proposals was the realignment of pension spending across its workforce to provide all employees with the same flexible and competitive pension arrangement. This will result in an improved defined contribution pension benefit, which is currently received by c.85% of all employees, and ensure fairness in pensions across the Company. More detail on the changes to our pension benefits can be found in the Financial Review on page 36.

Senior management and the wider workforce

In addition to the Executive Directors, the Howdens Remuneration Committee also sets remuneration for senior management². The Committee agreed during the year that from 2021, and in line with best practice, the definition of senior management would include the Head of Internal Audit and Risk.

The Committee also received updates on the ongoing employee benefits review and all-employee remuneration related policies in order to provide the context for, and to ensure alignment with, the policy on Executive Director remuneration. We have once again chosen to disclose the 'Provision 33 dashboard' template, which was adopted by the Committee in 2019 and shows some of the key internal and external measures that the Committee members are aware of when determining Executive Director and senior management remuneration. This dashboard can be found on page 125 of this report.

I hope the information presented within this report provides a clear explanation as to how we have operated our remuneration policy over 2020 and how we intend to implement it for 2021. We continue to be committed to an open and transparent dialogue with our stakeholders, and the Committee would welcome any feedback or comments you have on this report, our Policy or how we implement it for 2021.

Karen Caddick
Remuneration Committee Chair

1 From 1 April 2021, Company contributions will increase to 6% of basic salary.
2 The Howdens Remuneration Committee classifies 'senior management' as members of the Executive Committee (excluding Executive Directors) and the Company Secretary. From 2021, this classification will also include the Head of Internal Audit and Risk.

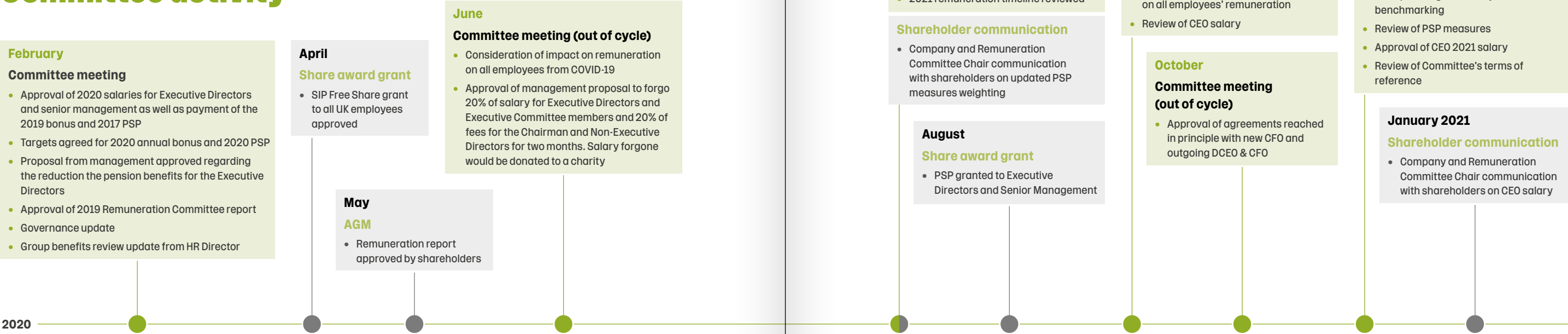
How the Committee exercised discretion for the incentive period ending 26 December 2020

The Committee considered the financial performance for the incentive period ending 26 December 2020. PBT for the year was £185.3m and cash flow was £291.7m. The three-year PBT declined by 7.2% per annum.

The Committee considered whether the incentive outturns projected for the 2020 annual bonus and 2018 PSP were proportionate to financial performance and whether there were any other external factors of which the Committee was aware which would make increasing or decreasing the payments under these awards appropriate. In reaching its conclusion, the Committee considered the remuneration structures and policies for the workforce as a whole, the relative ratios of Executive and employee reward, continued alignment to shareholder value, as well as the predictability and proportionality of the incentives, and their ongoing alignment to culture.

Despite the significant contribution made by the Executive Directors to Howdens during what was an extremely challenging year, the Committee took all of these matters into consideration and agreed that the lapsing in full of these awards without adjustment was the right overall outcome.

2020 Remuneration Committee activity



Remuneration Committee report

continued

Directors' remuneration policy summary

Fixed Variable

At the Annual General Meeting of shareholders on 2 May 2019, the Directors' remuneration policy (the 'Remuneration Policy'), as set out in the 2018 Annual Report and Accounts, was approved by shareholders. Set out below is a summary of that policy, how that policy links to strategy and consideration of some of the factors the Committee addressed when formulating the policy. How the Policy has been applied during 2020 and will be applied during 2021 can be found on subsequent pages in the report.

The Remuneration Policy can be viewed in full online at www.howdenjoinerygroupplc.com/governance/remuneration-policy.

Executive Directors

Fixed pay

| Base salary | Link to strategy |
|--|--|
| Salaries are reviewed annually and set within a range defined by a market benchmark. This is derived from companies of a comparable size or operating in a similar sector. Our policy is to pay at median. | Salaries reflect the market value of the Executive's role in addition to their skill, responsibilities, performance and experience. |
| Benefits | Link to strategy |
| The Company pays the cost of providing benefits on a monthly basis or as required for one-off events. | Our policy provides a competitive level of benefits. |
| Pension | Link to strategy |
| Executive Directors appointed after May 2019 are invited to join the Company defined contribution pension scheme or receive a salary supplement in lieu of pension in line with the maximum level of benefit they would have received if they had enrolled in the scheme. Company contributions for Executive Directors are aligned with those for the wider workforce ¹ . | The Committee remains committed to providing competitive long-term savings opportunities provided they are aligned with the opportunities afforded to the wider workforce. |
| The pension benefits of directors appointed before May 2019 are governed by earlier Remuneration Policies and their contracts of employment. However, the CEO, who was appointed to the Board in April 2018, has voluntarily agreed to reduce his current benefits to be in line with the wider workforce by May 2022, that being the next scheduled renewal by shareholders of this Policy. More detail on the tapering of their benefits is set out on page 106. | |

Variable pay

| Annual bonus | Link to strategy |
|---|--|
| The annual bonus has a maximum opportunity of 150% of base salary. Performance is assessed annually against stretching PBT and cash flow targets. | PBT and cash flow targets reflect our key internal performance indicators and the role of sustainable profit growth in our entrepreneurial culture. The annual bonus incentivises performance over the financial year. |
| 30% of any bonus earned is deferred into shares. Shares are paid out on the second anniversary of the deferral date. | Deferral links bonus pay out to share price performance over the medium term. |
| Malus and/or clawback provisions operate on the bonus for a period of up to two years after the performance period. | Performance period: 1 year Additional deferral period: 2 years Time from end of performance period to receipt: <ul style="list-style-type: none">70% of bonus has no deferral period.30% of bonus paid after 2 year deferral period. |

1 At 26 December 2020, Company contributions to the wider workforce were 5% of basic salary. From 1 April 2021, Company contributions will increase to 6% of basic salary.

| Performance Share Plan | Link to strategy |
|---|---|
| The vesting of awards is based on performance over a three-year performance period. The maximum opportunity allowed under the award is 270% of salary. Malus provisions apply for the duration of the vesting period. Vested awards are subject to a two-year holding period following vesting, during which no performance measures apply. | <div><div>Focuses management on longer-term financial growth than addressed by the annual bonus. Long-term financial growth is fundamental to the generation of shareholder value.</div><div>As with the annual bonus, deferral links bonus pay out to share price performance but the post-vesting holding period does this over the longer period.</div></div> <div>Performance period: 3 years Additional deferral period: 2 years Time from grant to receipt: 100% of vested award after 5 years</div> |

Executive Director shareholdings

Significant shareholdings on the part of our Executive Directors are key to ensuring effective alignment with shareholders. Under the Remuneration Policy, the Executive Directors are expected to have a personal shareholding equal to twice their annual base salary. Shares deferred under the deferred bonus plan and unvested conditional share awards are not counted towards this requirement. Executive Directors are also eligible to receive shares awarded under the Share Incentive Plan (SIP), the Company's all-employee share scheme. Any shares held in trust under the SIP that were awarded to an Executive Director less than three years beforehand are not counted towards the shareholding requirement.

In 2019 a post-cessation shareholding requirement was introduced in the Remuneration Policy. This requires Executive Directors to hold 100% of their shareholding requirement (or full actual holding if lower) for a period of two years post cessation of employment. See page 123 for a table of total shares in the Company held by the Directors, together with unvested performance shares and those held subject to deferral conditions.

Non-Executive Directors

Non-Executive Directors only receive fees for their services and are not eligible to participate in any performance-related arrangements. There are no shareholding requirements for Non-Executive Directors prescribed by the Remuneration Policy.

Fees are reviewed every year and are set within a range defined by a market benchmark of comparable size companies and with reference to any pay increase awarded to the wider workforce. All fees for 2021 and the prior year are set out of page 120. Non-Executive Directors are also entitled to receive expenses in respect of reasonable travel and accommodation costs.

Remuneration Committee report continued

Directors' remuneration policy summary continued

Underlying principles

When determining the Remuneration Policy, the Committee were mindful of their obligations under Provision 4.0 of the Corporate Governance Code to ensure that the Policy and other remuneration practices were clear, simple, predictable, proportionate, safeguarded the reputation of the Company and were aligned to Company culture and strategy. Set out below are examples of how the Committee addressed these factors:

| Clarity | Simplicity | Risk |
|--|---|--|
| Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. | Remuneration structures should avoid complexity and their rationale and operation should be easy to understand. | Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated. |
| <p>The Company invited its principal shareholders and shareholder representative groups to consult on the updated Remuneration Policy and received good feedback. The level of pension benefit for new Executive Directors was reduced and the minimum percentage of variable pay linked to financial measures was increased following input from these meetings.</p> <p>All UK employees are awarded Free Shares in the Company through the Share Incentive Plan. More information on how the Company engages with its workforce can be found on pages 82 and 83.</p> | <p>The Remuneration Policy has received positive feedback from stakeholders in relation to its simplicity.</p> <p>When the Remuneration Policy was updated in 2019 the profit share element of the annual bonus was replaced due to the complexity of the calculation and lack of understanding of its operation.</p> <p>The Committee's approach to performance measures had always been that they must be understandable for participants in the schemes in order to ensure they are effective.</p> | <p>The Remuneration Committee have a track record of setting maximum levels of award for the PSP below the maximum allowed under the policy. This ensures that such awards do not become excessive due to share price volatility.</p> <p>Whilst the Committee has consciously not set an absolute annual quantum on Executive remuneration, this is something that the Committee will keep under review. The total pay of the Executive Directors is considered by the Committee as well as pay ratios with the wider workforce and shareholder returns.</p> |
| Predictability | Proportionality | Alignment to culture |
| The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy. | The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance. | Incentive schemes should drive behaviours consistent with company purpose, values and strategy. |
| <p>The range of possible rewards for the Executive Directors is considered on page 119 and were communicated when the Remuneration Policy was approved by shareholders. The range in relation to the PSP reflects the reduced maximum award for 2021 rather than maximum allowed under the policy.</p> <p>The Committee has a wide range of discretion in relation to variable pay awards, new joiners, and leavers, which were identified and explained when the Remuneration Policy was approved.</p> | <p>In 2020 the profitability of the business was significantly impacted by the COVID-19 lockdown measures put in place by Government in H1 and as such both the 2020 annual bonus and 2018 PSP lapsed in full. Whilst the Committee was pleased with the performance of the Executive Directors throughout the year, particularly given the extraordinary trading environment, it concluded that this was appropriate given the broader stakeholder experience throughout the year.</p> <p>The Committee remains confident that the awards used to ensure continued delivery of strategy and long-term performance are working as intended.</p> | <p>The Committee remain confident that the incentive schemes operated under the Remuneration Policy are aligned with purpose, values and strategy.</p> <p>Howdens' staff are paid on the performance of their local depot or on the profitability of the Group as a whole. This has created an autonomous, entrepreneurial, profit-focused culture and is reflected in the heavy weighting given to profit measures in our incentive schemes for Executive Directors and senior management.</p> |

Directors' remuneration report

Part 1: Company performance and stakeholder experience

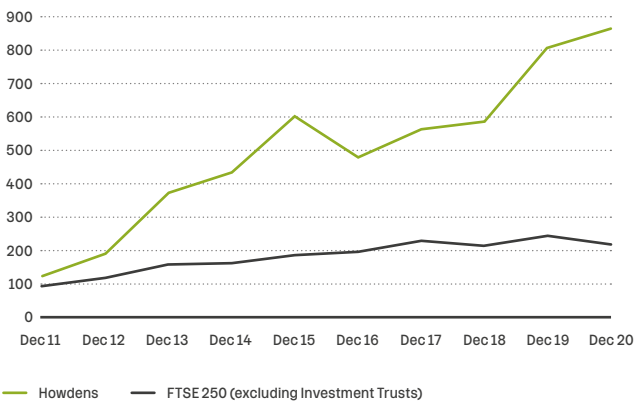
In this opening section of the Directors' remuneration report, we detail some of the considerations of which the Committee has regard when implementing the Remuneration Policy. Contained in this section are specific disclosures on Group performance, as well as comparative disclosures on the relative importance of spend on pay, historic CEO single figure, CEO ratio and all-Director remuneration relative to average employees.

Group performance

Total shareholder return (TSR)

The graph below illustrates the Company's TSR performance relative to the constituents of the FTSE 250 (excluding investment trusts) of which the Company is a constituent. It shows that over the past 10 years Howdens has generated significantly higher returns than the FTSE 250 (excluding Investment Trusts).

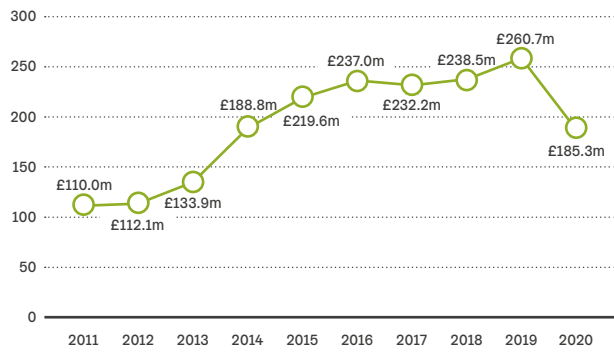
Howdens historic TSR



Profit before tax (PBT)

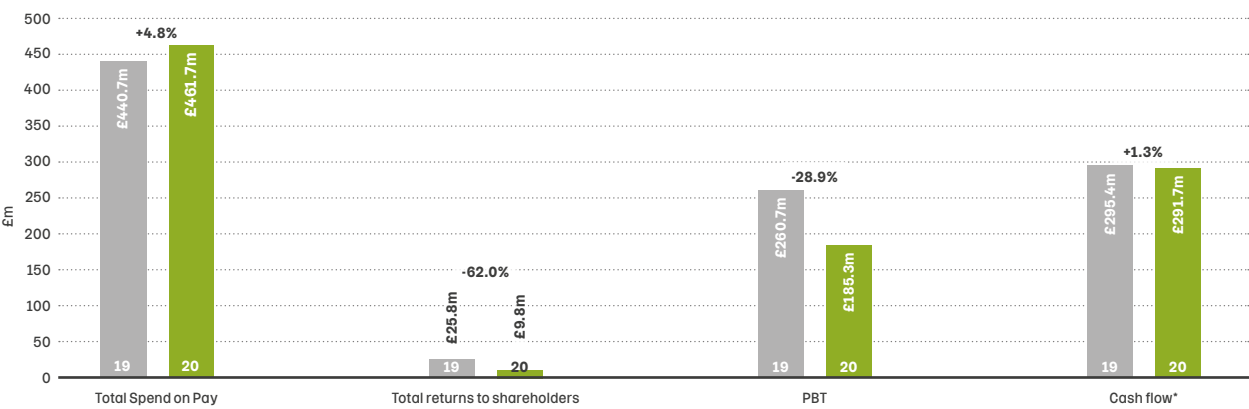
The graph below illustrates the Company's historic PBT performance.

Howdens historic PBT (£m)



Relative importance of spend on pay

The graph below sets out the change in the Group's total remuneration spend from 2019 to 2020 compared to the total returns to shareholders of the Group and the two incentive performance measures PBT and cash flow.



* Net cash flow from operating activities is the definition used for the annual bonus scheme (see page 121).

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

Director pay

Our corporate performance and remuneration

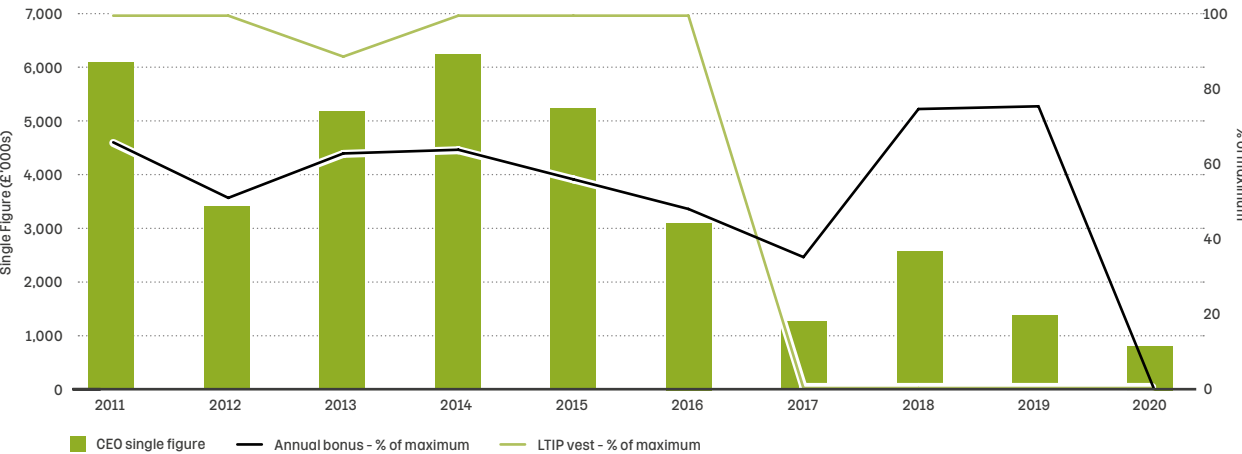
Historic single figure

The table and graph below show the historic CEO single figure and incentive payout levels. They show that, until 2020, the annual bonus performed strongly and that long-term incentives have reflected the challenging market conditions following the 2016 referendum on membership of the European Union.

The maximum bonus opportunity reduced from 200% of basic salary to 150% following the approval of the Directors' Remuneration Policy by shareholders in May 2016.

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| CEO single figure (£'000) | 6,083 | 3,401 | 5,168 | 6,221 | 5,225 | 3,098 | 1,268 | 2,569 | 1,391 | 816 |
| Annual bonus (% of maximum) | 66% | 51% | 63% | 64% | 56% | 48% | 35% | 75% | 76% | 0% |
| LTIP vest (% of maximum) | 100% | 100% | 89% | 100% | 100% | 100% | 0% | 0% | 0%* | 0% |

* Andrew Livingston was appointed as CEO in April 2018 and therefore he was not granted an award under the LTIP in 2017.



CEO pay ratio table

| Year | Method | 25th percentile pay ratio | 50th percentile pay ratio | 75th percentile pay ratio |
|------|--------|---------------------------|---------------------------|---------------------------|
| 2020 | A | 31:1 | 25:1 | 21:1 |
| 2019 | A | 71:1 | 58:1 | 48:1 |
| 2018 | A | 122:1 | 100:1 | 81:1 |

During 2020, Howdens has calculated the CEO pay ratio in line with the updates to the Directors' Remuneration Reporting Regulations. The data used to calculate the CEO pay ratio was accurate as at 31 December 2020.

In accordance with section 17 of The Companies (Miscellaneous Reporting) Regulations 2018, method A was used in the calculation of the pay ratios; ranking the pay and benefits of all our UK employees for the relevant financial year to identify the 25th, 50th, and 75th percentile-ranked employees and using the pay and benefits figures for these three UK employees to determine the pay ratios at each quartile. Method A has been used as it has been identified by the Department for Business, Energy and Industrial Strategy in its guidance as the most statistically accurate method for identifying the pay ratios.

In 2020, all levels of the wider workforce continued to receive bonus payments. No bonus payment was made to the CEO in respect of the 2020 compensation year and this is reflected in the CEO single figure.

The total pay, benefits and salary of each colleague who is the best equivalent of the 25th, 50th, and 75th ranked employee is as follows:

| | 25th percentile | 50th percentile | 75th percentile |
|-----------------------------------|-----------------|-----------------|-----------------|
| Total pay and benefits (FTE) | £26,731 | £32,195 | £39,408 |
| Salary (including overtime) (FTE) | £20,300 | £24,807 | £29,892 |

The pay and benefits of our colleagues was calculated in line with the Single Total Figure of Remuneration methodology. In our calculations we used actual pay from 1 January 2020 to 31 December 2020. Joiners, leavers and part-time employees' earnings have been annualised on a full time equivalent (FTE) basis (excluding any payments of a one-off nature).

Where bonus payments are made on a weekly, monthly or quarterly basis, we included payments made in the 2020 compensation year. However, for annual bonus payments, we estimated the bonus due to employees for the 2020 compensation year (payment is due in March 2021).

P11D values have been based on the 2019/20 reportable values; however, they have been annualised accordingly.

Howdens' vertically integrated business means that our workforce is made up of a wide range of roles from kitchen designers to skilled engineers, from warehouse staff to senior management. We work on the premise that Howdens must be worthwhile for all concerned and our reward structures across the business are designed to reflect the levels of personal autonomy and outperformance we expect from every individual. Pay structures vary between roles in order to deliver an appropriate balance between fixed and variable pay but our emphasis on profit in our reward structures, from the depots to the Executive Directors, helps to provide some alignment of reward across the business.

It is a feature of our pay structure that senior management receive a larger proportion of their total pay via incentives and the outcome of incentives is likely to be the main cause of variability in the ratio in future years.

The Remuneration Committee are regularly updated on the benefits review across the business and are mindful that consistency of approach and fairness are two important drivers for change.

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

All-Director remuneration relative to average employees (SRD II disclosure)

The updated EU Shareholder Rights Directive (SRD II) requires listed companies to disclose the annual change in each director's pay in comparison to the average change in employee pay. This comparison is made on salary, bonus and taxable benefits and as such does not include some of the elements disclosed under the Single Figure Table such as pension contribution or long-term incentives. While the SRD II requires a listed entity to provide employee pay information for that entity only (i.e. not on a group-wide basis), a 'Group' comparator has also been included in the table below as this provides a more representative comparison.

The table below discloses this information solely in respect of the change from financial year 2019 to financial year 2020 but in future years it will provide a comparative view against previous years and will ultimately provide a five-year view of the change in individual director's pay relative to the change in average employee pay.

| | % Change 2019 to 2020 | | |
|---|--------------------------|----------|-------|
| | Basic Salary | Benefits | Bonus |
| Average Howden Joinery Group Plc employee remuneration ¹ | - | - | - |
| Average Howdens Group employee remuneration | 4% | 9% | 12% |

1 In the financial year ended 26 December 2020, Howden Joinery Group Plc did not employ any individuals.

| Directors | Position | %Change 2019 to 2020 | | |
|--------------------------------|---|-------------------------|----------|--------|
| | | Basic Salary / Fee | Benefits | Bonus |
| Andrew Livingston ¹ | CEO | 3% | 84% | (100)% |
| Mark Robson | DCEO & CFO | 3% | (51)% | (100)% |
| Richard Pennycook | Chairman | 3% | (100)% | - |
| Karen Caddick ² | Non-Executive Director and Remuneration Committee Chair | 18% | (89)% | - |
| Andrew Cripps | Non-Executive Director and Audit Committee Chair | 5% | 0% | - |
| Geoff Drabble ² | Non-Executive Director and Senior Independent Director | 22% | 0% | - |
| Louise Fowler ² | Non-Executive Director | 515% | 100% | - |
| Debbie White | Non-Executive Director | 3% | 390% | - |

1 Andrew Livingston received a relocation allowance in 2020 as permitted under the Director's Remuneration Policy. More information on Executive Director benefits is set out on page 117.

2 Louise Fowler was appointed to the Board in November 2019 and did not receive a full year of fees in respect of that year. In September 2019, Karen Caddick was appointed Remuneration Committee Chair and Geoff Drabble was appointed Senior Independent Director. Geoff also assumed additional responsibilities as the Non-Executive Director responsible for employee engagement at the beginning of 2019. The increases shown in their Non-Executive Director fees are predominantly due to these changes.

Wider workforce considerations

The Remuneration Committee received updates from the Interim Group HR Director in respect of the ongoing all-employee benefits review. This review incorporates all aspects of employee reward at Howdens. In light of the impact of COVID-19 on the business, from Q2 2020 the Committee also received regular updates from management on the number of employees furloughed under the Government's Coronavirus Job Retention Scheme (CJRS) and information pertaining to the average salary of an employee in 2020 versus the respective periods in 2019 for depot, blue collar manufacturing, and logistics roles.

In Q4 2020, the Company repaid to the Government the £22m it received in the first half of 2020 under the CJRS. No claims were made under this Scheme in the second half of the year.

When determining the base salary, benefits and variable pay awards for the Executive Directors and senior management, the Committee had regard to the information contained in the dashboard set out on page 125.

Case study

The Remuneration Committee's response to COVID-19

It will be apparent to anyone reading this report how the COVID-19 crisis has impacted every aspect of Howdens. Our safety first approach and how we have managed our responsibilities to our collective stakeholders is well documented in other sections of this Annual Report. In this case study, we look specifically at the actions of the Remuneration Committee in response to the crisis as it unfolded and its unique position in ensuring the ongoing alignment between Executive reward and that of the workforce as a whole.

Approach

In determining how to implement the Directors' Remuneration Policy in such an uncertain external environment, the Remuneration Committee was mindful of the impact of the crisis on the Company's stakeholder base. In particular, the Committee had regard to the large number of employees furloughed in H1 and the suspension of shareholder returns and pension deficit recovery payments. In order to adequately inform its decision making process, the Committee received detailed updates from management throughout the year on the impact of furlough on employees' total remuneration compared to prior year. Detailed analysis based on job role was presented to the Committee at each of the meetings. In addition, updates on the external environment and shareholder sentiment were regularly provided by the Committee's advisors.

By the end of year, the Remuneration Committee was pleased that the strong trading performance in H2 had resulted in incentives meaning that the majority of roles (including all depot and blue collar manufacturing roles) were in line or ahead of 2019 total reward levels. This was in addition to the Company announcing that it would repay all Government support it had received, including business rates relief, and catching up all deferred payments before the end of the year. More recently, the Board has announced that it will make a 'catch-up' special dividend payment in respect of the suspended final dividend from 2019.

Whilst the Board has sought as far as possible to ensure that no individual group of stakeholders is significantly disadvantaged by the impact of COVID-19, the Remuneration Committee concluded that it was not appropriate to amend performance targets or exercise discretion in relation to the annual bonus for Executive Directors. The Remuneration Committee (and the Board as a whole) were pleased with the performance of the Executive Directors in incredibly difficult circumstances but were also mindful that profit targets in respect of the annual bonus and the 2018 LTIP had not been met.

2020 LTIP

The Remuneration Committee set LTIP targets as normal in February 2020 and communicated these publicly in the 2019 Remuneration Committee Report. However, by mid-March it was apparent that with the temporary cessation of operations and the closure of depots that these targets were no longer achievable. On that basis, the Remuneration Committee took the decision to postpone the grant of the 2020 LTIP, normally made at the end of March, until there was greater clarity on the impact COVID-19 restrictions would have on Howdens' business in the short-term.

By July, it was clear that H1 trading had been significantly impacted but depot and manufacturing operations were fully functional with COVID-safe standard operating procedures in place. It was at this point the Remuneration Committee reviewed the position on the 2020 LTIP grant. It had always been the Committee's intention to include a relative TSR performance measure alongside the PBT growth measure which had used for a number of years. The incorporation of the TSR measure reflected the Committee's desire to explicitly incorporate a measure which directly reflected the experience of shareholders. The weighting of measures for the award (as reported) would have been 67% vesting based on PBT growth with a performance target range of 5%pa to 15%pa growth and 33% based on relative TSR measured against a broad group of FTSE listed companies of similar market capitalisation, with a performance target range of median to upper quartile.

At the July Remuneration Committee meeting the Committee considered its approach to the 2020 LTIP award, in particular the appropriateness of the measures and respective weightings in the given circumstances. The Committee agreed that it was appropriate to maintain the proposed award level, performance measures and targets. However, given the considerable uncertainty over the future course and timing of the economic recovery, and ultimately the performance of the business in absolute terms over the performance period, the Committee's view was that relative TSR provided a more robust measure of management's performance over the period, as well as increasing the alignment between executives and shareholders. It was therefore decided that the weightings of the two performance measures would be reversed for 2020 only, with PBT growth carrying a 33% weighting and relative TSR carrying a 67% weighting. This decision was communicated to large shareholders prior to the granting of the award and the feedback received on the chosen approach was very supportive.

Salary sacrifice

In response to the significant impact of the COVID-19 crisis on Howdens employees and the broader community, the Remuneration Committee approved a management proposal to temporarily reduce the basic pay of Executive Committee members by 20% for a period of two months via individual charitable donations. This was aligned to the period that the majority of Howdens employees were furloughed (by the end of May, 90% were back at work). Following the decision, the Non-Executive Directors collectively agreed to waive 20% of their fees for the same period.

Donations were made through payroll giving and individuals were able to nominate a charity of their choice or donate to NHS Charities Together. In total, charitable donations made by members of Board and the Executive Committee totalled £104,473.

Remuneration Committee report continued

Directors' remuneration report

Part 2: Application of policy in 2020

In this section of the Directors' remuneration report we set out how the Committee has executed policy for 2020. Disclosures in this section are retrospective and where applicable are shown against prior year comparator.

Single figure of remuneration (audited)

| £000s | Fixed | | | | Variable | | | | Total Remuneration | | | |
|---------------------------------|-------------|-------|----------|------|----------|------|-------|-------|--------------------|------|-------|-------|
| | Salary/Fees | | Benefits | | Pension | | Bonus | | LTIP | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Executive Directors: | | | | | | | | | | | | |
| Andrew Livingston | 578 | 564 | 132 | 72 | 106 | 113 | 0 | 643 | 0 | - | 816 | 1,391 |
| Mark Robson | 452 | 441 | 31 | 62 | 113 | 134 | 0 | 502 | 0 | 183 | 596 | 1,322 |
| Total | 1,030 | 1,005 | 163 | 134 | 219 | 247 | 0 | 1,145 | 0 | 183 | 1,412 | 2,713 |
| Non-Executive Directors: | | | | | | | | | | | | |
| Richard Pennycook | 256 | 250 | - | 10 | - | - | - | - | - | - | 256 | 260 |
| Mark Allen | - | 50 | - | - | - | - | - | - | - | - | - | 50 |
| Karen Caddick | 68 | 58 | - | 3 | - | - | - | - | - | - | 68 | 61 |
| Andrew Cripps | 68 | 65 | - | - | - | - | - | - | - | - | 68 | 65 |
| Geoff Drabble | 71 | 58 | - | - | - | - | - | - | - | - | 71 | 58 |
| Louise Fowler | 56 | 9 | 1 | - | - | - | - | - | - | - | 57 | 9 |
| Tiffany Hall | - | 53 | - | - | - | - | - | - | - | - | - | 53 |
| Debbie White | 56 | 55 | 2 | - | - | - | - | - | - | - | 58 | 55 |
| Total | 575 | 598 | 3 | 13 | - | - | - | - | - | - | 578 | 611 |

Total Executive Director fixed vs variable Pay

| £000s | Total (Fixed) | | Total (Variable) | |
|---------------------------------|---------------|-------|------------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Executive Directors: | | | | |
| Andrew Livingston | 816 | 748 | 0 | 643 |
| Mark Robson | 596 | 637 | 0 | 685 |
| Total | 1,412 | 1,385 | 0 | 1,328 |
| Non-Executive Directors: | | | | |
| Richard Pennycook | 256 | 260 | - | - |
| Mark Allen | - | 50 | - | - |
| Karen Caddick | 68 | 61 | - | - |
| Andrew Cripps | 68 | 65 | - | - |
| Geoff Drabble | 71 | 58 | - | - |
| Louise Fowler | 57 | 9 | - | - |
| Tiffany Hall | - | 53 | - | - |
| Debbie White | 58 | 55 | - | - |
| Total | 578 | 611 | - | - |

Notes to the single figure table

Non-Executive Directors

Louise Fowler was appointed to the Board and both Tiffany Hall and Mark Allen retired from the Board during 2019. In September 2019, following Tiffany Hall's retirement, Karen Caddick was appointed Remuneration Committee Chair and Geoff Drabble was appointed Senior Independent Director.

In 2020 all Non-Executive Directors donated 20% of their fees to charity for two months in recognition of the challenges facing public services and charities as a result of COVID-19. Non-Executive Directors were able to nominate a charity of their choice or donate to NHS Charities Together. The donations were made through payroll giving and therefore the disclosures in the single figure table above are inclusive of these donations.

Fixed Variable

Executive Directors

Salary

Salaries will not be changed outside of the annual review, unless there are exceptional circumstances, such as a mid-year change in role. Increases will normally be only for inflation and/or in line with the wider employee population. Salaries are set within a range defined by market benchmark derived from companies in a similar sector (policy is to pay median). Salaries for 2021 can be found on page 120. The peer group used is reviewed whenever benchmarking is performed, and the Committee applies judgement in identifying appropriate peer group constituent companies. The individual's level of total remuneration against the market is considered at the same time.

In 2020 both Executive Directors donated 20% of their base salary to charity for two months in recognition of the challenges facing public services and charities as a result of COVID-19. Executive Directors were able to nominate a charity of their choice or donate to NHS Charities Together. The donations were made through payroll giving and therefore the disclosures in the Single Figure Table are inclusive of these donations.

Benefits

Benefits are based upon market rates and include receipt of a car allowance, non-exclusive use of a driver, health insurance and death-in-service insurance payable by the Company. Following Andrew Livingston's appointment as CEO, the Remuneration Committee agreed that the Company would pay reasonable hotel costs in order to provide flexibility whilst he undertook the logistical demands of the role. In 2020 Andrew relocated and received a relocation allowance in line with the shareholder approved approach to recruitment remuneration of £94,340. Following receipt of the relocation allowance, no further payments were made in respect of hotel costs and no future payments will be made in respect of accommodation costs.

Pension

Both Executive Directors received a cash benefit in lieu of pension during the year. More information about future Executive Director pension benefits can be found on page 106.

LTIP

Mark Robson's LTIP figure was reported as £210,000 in the 2019 Remuneration Committee report. This was calculated using the average three-month share price to 28 December 2019. The figure contained in the single figure table has been calculated using the share price on 27 March 2020, that being the opening share price on the vesting date of the 2017 LTIP award.

Annual bonus (audited)

Targets for 2020

Our annual bonus for 2020 was based on PBT and cash flow measures subject to an aggregate maximum of 150% of salary. The PBT and cash flow measures were weighted as follows:

| | PBT component | | Cash flow component | |
|----------------|---------------|--------------------|---------------------|--------------------|
| Threshold | £250.7m | (17% of salary) | £299.0m | (3% of salary) |
| Target | £268.3m | (63.75% of salary) | £325.0m | (11.25% of salary) |
| Outperformance | £281.7m | (127.5% of salary) | £342.0m | (22.5% of salary) |

Outcomes for the year

The PBT figure for the year in relation to the annual bonus is £185.3m. The cash flow figure for the year in relation to the bonus was £291.7m. As both measures were below the threshold performance target, this award lapsed in full.

Remuneration Committee Report continued

Directors' remuneration report

Part 2: Application of policy in 2020 continued

Performance Share Plan (PSP) (audited)

Targets for 2020

The PSP awards granted from 2017 to 2020 have been measured against PBT growth over a three-year period. The PBT growth for the 2018 award was based on growth from FY 2017 to FY 2020. Any PSP award that vests is subject to a two-year holding period for serving Executive Directors.

Outcomes for the year

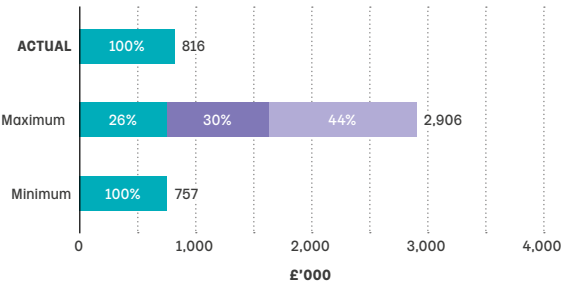
The 2018 PSP had a threshold requirement of 5% p.a. and a maximum requirement of 15% p.a. 2020 PBT was £185.3m, and therefore decline on FY 2017 was 7.2% p.a. The award will therefore lapse in full.

2020 remuneration scenarios

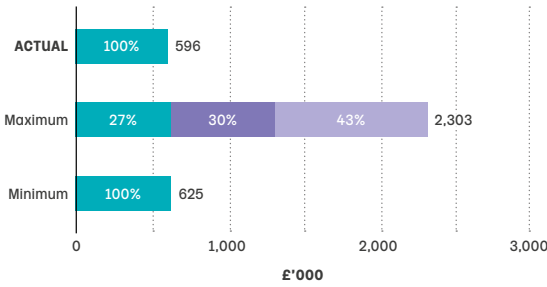
Below we have shown the projected maximum and minimum remuneration scenarios, as reported in the 2019 Remuneration Committee report, along with the actual outcome for 2020. Mark Robson's actual 2020 package value fell below the minimum scenario value reported in the 2019 Directors' Remuneration report as his 2018/19 benefits figure was used as a proxy for the calculation of the minimum scenario. In 2020, Mark's benefits reduced by 51% year-on-year and therefore the actual outcome is shown as having fallen beneath the minimum.

Value of package

Andrew Livingston



Mark Robson



Fixed elements of remuneration consist of the annual salary that the Executive Director will received for 2020, alongside their 2020 pension entitlement. Annual bonus was based on a maximum opportunity of 150% of salary and an on-target opportunity of 75% of salary. LTIP was based on a maximum opportunity of 220% of salary in line with the 2020 grant (noting that the overall policy maximum is 270% of salary). Target opportunity was calculated as 50% of maximum (110% of salary).

Directors' remuneration report

Fixed Variable

Part 3: Implementation of policy in 2021

In this section of the Directors' remuneration report we set out how the Committee has implemented policy for 2021. Disclosures in this section are forward looking. The outcome of any variable award for Executive Directors will be reported in the Remuneration Committee report for the financial year 2021.

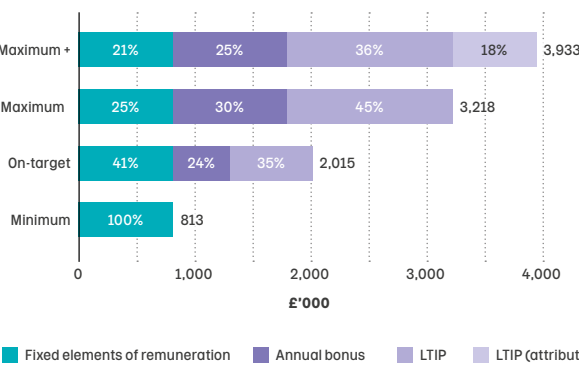
2021 remuneration scenarios

The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance-related components, with a significant proportion of the package weighted towards long-term variable pay. The Committee remains satisfied that the composition and structure of the remuneration packages is appropriate, clearly supports the Company's strategic ambitions and does not incentivise inappropriate risk-taking. The Committee reviews this on an annual basis.

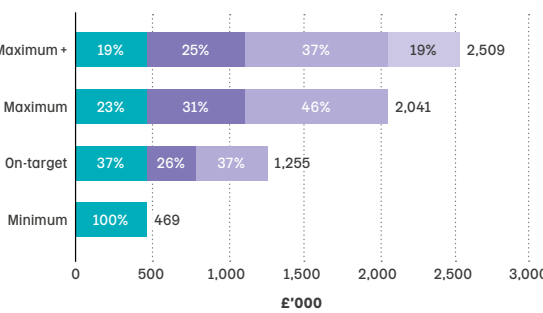
The composition and value of the Executive Directors' remuneration packages in a range of performance scenarios are set out in the charts below. These show that the proportion of the package delivered through long-term performance is in line with our Remuneration Policy and changes significantly across the performance scenarios. As a result, the package promotes the achievement of superior long-term performance and aligns the interests of the Executive Directors with those of other shareholders. A brief description of each remuneration scenario is set out below the charts.

Value of package

Andrew Livingston



Paul Hayes



Fixed elements of remuneration consist of the annual salary that the Executive Director will receive for 2021, alongside their 2021 pension entitlement, and actual benefits received in 2019/20 (as a proxy for 2021). Annual bonus is based on a maximum opportunity of 150% of salary and an on-target opportunity of 75% of salary. LTIP is based on a maximum opportunity of 220% of salary in line with the 2021 grant (noting that the overall policy maximum is 270% of salary). Target opportunity is calculated as 50% of maximum (110% of salary). The 'maximum +' includes share price appreciation of 50%. This column is calculated on the same basis as the maximum column however includes an uplift of 50% total over three years for the performance share plan.

Remuneration Committee report

continued

Directors' remuneration report

Part 3: Implementation of policy in 2021 continued

Non-Executive Director fees

| | | Basic NED Fee ¹ | Chair Fee | SID Fee | Committee Chair Fee |
|------|----------------|-------------------------------|--------------|------------|------------------------|
| 2021 | Fee | £58,500 | £265,000 | £15,500 | £12,900 |
| | Effective date | 1 July 2021 | | | |
| 2020 | Fee | £56,650 | £257,500 | £15,000 | £12,500 |
| | Effective date | 1 March 2020 | | | |

- 1 The Chair of the Board of Directors does not receive the basic Non-Executive Director fee or an additional fee for chairing the Nominations Committee.
- 2 In recognition of the additional time requirement necessary to undertake the role of Non-Executive Director responsible for workforce engagement, the SID Fee was increased by £5,000.

Executive Director base salaries

Base salary increases from 2021 are set out in the table below.

| Executive Directors | 2021 | | 2020 | |
|---------------------|----------------|----------------|----------------|----------------|
| | Salary (£'000) | Effective date | Salary (£'000) | Effective date |
| Andrew Livingston | 650 | 1 January 2021 | 581 | 1 March 2020 |
| Paul Hayes | 425 | - | - | - |
| Mark Robson | - | - | 454 | 1 March 2020 |

The Committee has determined that it is appropriate to increase the salary for the CEO to £650,000 effective from 1 January 2021. Andrew joined Howdens in January 2018, becoming CEO on 2 April 2018 with a base salary of £550,000. Upon appointment, his salary was set at the lower end of the market against the group to reflect his experience at the time of appointment. Over the three years since his appointment, Andrew has firmly established himself in the CEO role. The Committee's view is that just as his lack of experience on appointment was taken into account when his salary was first set, his experience in the role should now be reflected in his pay.

The Remuneration Committee benchmarked the CEO's salary against refreshed size and sector peer groups. The proposed salary of £650,000 will position Andrew's salary just below median against the sector peer group, and at around 95% of the median for a size group of the companies 50 above and 50 below Howdens in the FTSE rankings. As stated in the Directors' remuneration policy summary on page 108, policy is to pay at median.

Since Andrew's appointment in 2018, he has led the business in producing strong performance for shareholders, with Howdens having a TSR of +49% over the period, resulting in the Company moving to a position just below the FTSE 100 in the FTSE rankings. The UK depot network has grown to 748 depots and we have delivered on core initiatives such as depot and product range improvements. In addition, we continue to significantly improve our customers' digital experience of Howdens and have seen progress in Howdens' overseas business in France and Belgium.

The strong business that Andrew has helped create has shown its resilience through the recent crisis, with all of our depots and manufacturing and supply operations now re-opened and performing strongly and safely. The growth seen in H2, particularly during peak autumn trading, was further evidence of his clear and successful leadership during the crisis. The business has stayed true to its original ethos of 'worthwhile for all concerned' during the crisis and the stakeholder experience of Howdens, be it from direct or indirect stakeholders, remains strong. In November 2020, the Board stated that it intended to repay all of the Government's CJRS payments, business rates deferred by local councils and deferred pension deficit payments before the end of the year. It also signaled that the Board would consider recommencing payments of dividends with the announcement of Howdens 2020 full year results in February 2021. Since this announcement, the Board has repaid all Government support and deferred payments. It has confirmed the payment of a final dividend in respect of 2020 and a 'catch-up' special dividend relating to the suspended 2019 final dividend.

As we continue to navigate this challenging period, the Committee considers it important that Andrew is remunerated fairly for the contribution he makes towards the business, relative to his peers.

Fixed Variable

Paul Hayes' base salary is £425,000 compared to Mark Robson's salary of £454,000. We have appointed Paul Hayes to the role of Chief Financial Officer only, and therefore the CEO role will have primary responsibility for the day-to-day running of the Group and the satisfactory execution of the policies and strategy agreed by the Board.

The increase to Andrew's base salary will apply from 1 January 2021. Thereafter, we will revert to the usual cycle of annual salary reviews that applies at Howdens each year in July, with the first review for Andrew in July 2022.

Annual bonus measures

The table below sets out Annual Bonus measures for 2021. Targets for these measures are considered commercially sensitive by the Board and so are not disclosed here. Performance targets, together with achievement against them, will be set out in full in the 2021 Remuneration Committee Report.

| Bonus measure | Definition | Performance level | Pay out level |
|---------------|--|-------------------|------------------|
| PBT | Pre-exceptional profit before tax from continuing operations | Threshold | 17% of salary |
| | | Target | 63.75% of salary |
| | | Maximum | 127.5% of salary |
| Cash Flow | Net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items | Threshold | 3% of salary |
| | | Target | 11.25% of salary |
| | | Maximum | 22.5% of salary |

Performance Share Plan (PSP) measures

Set out below are the performance measures and relative weightings for each of the measures. For 2021 the maximum opportunity under the PSP remains 220% in line with the approach taken in 2020. The performance period is three years, measured over the relevant financial years, starting with the financial year of grant. See page 124 for scheme interests awarded in 2020.

| PSP measure | PBT growth |
|--------------------------------|---|
| Measure weighting | 67% |
| PBT component vesting schedule | PBT growth performance condition |
| | 15% p.a. |
| | 100% of maximum |
| | Straight-line vesting between these points |
| | 5% p.a. |
| PSP measure | Relative TSR |
| | Measure weighting |
| | 33% |
| | Comparator group and averaging period for TSR performance |
| | • Companies ranked up to 50 above and 50 below Howdens by market capitalisation in the FTSE All Share index at or shortly before the start of the performance period (excluding Investment Trusts). |
| Performance assessment | • One month TSR average for the month preceding the first day of the performance period and one month TSR average for the final month of the performance period. |
| | Performance against comparator group |
| | Equal to or above upper quartile |
| | 100% of maximum |
| | Straight-line vesting between these points |
| Performance assessment | Equal to median |
| | 15% of maximum |
| | Below median |
| | 0 |

Under the terms of the Remuneration Policy approved by shareholders at the 2019 AGM, the 2021 PSP awards will be subject to a two-year post-vesting holding period.

Remuneration Committee report continued

Directors' remuneration report

Part 4: Additional disclosures

In this section of the Remuneration Report more detail is provided in respect of a number of key disclosures. These disclosures include Executive Director pension entitlements, shareholdings, external appointments and contractual arrangements. More detail is also provided on the operation of the Remuneration Committee and AGMs voting performance.

Service contracts/Notice period

All Executive Directors' employment contracts have twelve months' notice of termination on both sides. In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be paid monthly for a maximum of twelve months. Such payments will be equivalent to the monthly salary that the Executive would have received if still in employment with the Company. Executive Directors will be expected to mitigate their loss within a twelve-month period of their departure of the Company.

Non-Executive Director appointments are for an initial period of three years. They are subject to re-appointment annually in accordance with the UK Corporate Governance Code. Non-Executive Directors are not entitled to any form of compensation in the event of early termination for whatever reason.

Loss of office payments or payments to past directors

Mark Robson stood down as a Director of the Company on 26 December 2020. He will continue to receive his base salary and benefits pursuant to his service contract until 31 May 2021, during which period he will remain at the Company's disposal. The value of Mark's base salary for the period to 31 May 2021 will be £189,048, the value of the payments received in lieu of pension will be £34,029 and his other benefits for the period will be £8,058¹. Following the termination of his employment on 31 May 2021, Mark will receive a payment of £171,043 in lieu of basic salary in respect of his unserved notice period (paid in equal monthly instalments). He will also receive payment for any accrued but unused holiday up to a maximum of £1,745. Mark will not receive an annual bonus in respect of the period following 26 December 2020. In accordance with the Company's approved loss of office policy, unvested awards under the 2019 and 2020 Performance Share Plan will be pro-rated for the proportion of the performance period in which Mark was employed and will vest on their normal vesting dates of 2 May 2022 and 7 August 2023 respectively, subject to satisfaction of performance conditions. Provided that Mark provides evidence to the Company to demonstrate that he continues to satisfy the post-employment shareholding rule set out in section 6 of the Shareholding Policy for so long as that requirement is in force, these awards will not be subject to a post-vest holding period. Mark's share awards held in the Share Incentive Plan will be released to him following his termination date. Mark's deferred bonus shares awarded pursuant to his 2019 bonus entitlements will vest on the normal vesting date subject to the rules of the Deferred Bonus Plan. All payments to Mark will be subject to deductions for tax and national insurance contributions. Other than the amounts disclosed above, Mark will not be eligible for any other payments for loss of office.

External appointments

It is recognised that Executive Directors may be invited to become non-executive directors of other companies and that exposure to such duties can broaden their experience and skills, which will benefit the Company. Howdens allows Executive Directors and other appropriate senior employees to accept a maximum of one external non-executive appointment outside the Company, subject to permission from the Committee, provided this is not with a competing company nor likely to lead to conflicts of interest. Andrew Livingston is currently Non-Executive Director of LondonMetric Property Plc, a FTSE250 REIT. Andrew received £51,775 in fees in respect of his role as Non-Executive Director. Andrew held this position upon appointment. Paul Hayes does not have any external appointments. Executive Directors may retain the fees paid to them in respect of their non-executive duties.

Total pension entitlements (audited)

Executive Directors who joined the business before 2012 were eligible to participate in the Howden Joinery Group Pension Plan (the 'Plan'). The Plan closed to new joiners in 2012 and new Executive Directors are invited to participate in the Howden Joinery Auto-Enrolment Pension Scheme or receive an amount in lieu of membership of the Scheme. More information on pension entitlements for Executive Directors can be found in the Remuneration Policy at www.howdenjoinerygroupplc.com/governance/remuneration-policy

The table on the next page sets out the accrued pension for the Executive Directors who served during the year, with pension values calculated using the HMRC method. No additional benefits become receivable if Executive Directors retire early. Mark Robson chose to opt-out of the memberships of the plan and therefore received a salary supplement of 24% of base salary in lieu of pension in 2020.

¹ The benefits figure includes payment of a car allowance and health insurance. The value of the health insurance was calculated using the value of the 2020 benefit as proxy.

 Fixed  Variable

| | Executive Directors | |
|---|---------------------|-------------|
| | Andrew Livingston | Mark Robson |
| Accrued pension at 26 Dec 2020 (£'000) | - | 48 |
| Normal retirement date | - | 15/01/2019 |
| Pension value in the year from defined benefit component (£'000) | - | - |
| Pension value in the year from defined contribution component (£'000) | - | - |
| Pension value in the year from cash allowance (£'000) | 106 | 113 |
| Total | 106 | 113 |

Director shareholdings (audited)

In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain a personal shareholding in the Company of at least 200% of salary.

The table below sets out the total shares held together with unvested performance shares and those held subject to deferral conditions. No options were exercised by the Executive Directors during the year.

| | Current Executive Directors | |
|--|-----------------------------|------------|
| | Andrew Livingston | Paul Hayes |
| Shareholding requirement % | 200% | 200% |
| Shareholding requirement (number of shares) ¹ | 179,024 | 131,031 |
| Owned outright (including connected persons) | 138,442 | 0 |
| Share awards subject only to continued employment ² | 246 | 0 |
| Share awards subject to performance conditions and continued employment ³ | 761,967 | 0 |
| Options subject to performance conditions | - | - |
| Vested but unexercised options | - | - |
| Current shareholding (% of salary) ¹ | 155% | 0% |
| Guideline met | N | N |

¹ Based on a share price of £6.487, being the three-month average price to 26 December 2020, and basic salary as at 26 December 2020. This is calculated by using only those shares owned outright by the Executive Directors and their connected persons at 26 December 2020 and the Executive Director's salary at that date.

² Share Incentive Plan.

³ Performance Share Awards under the Long Term Incentive Plan.

Non-Executive Director shareholdings (audited)

There is no shareholding requirement for Non-Executive Directors.

| | Non-Executive Director: | | | | | |
|---------------|-------------------------|---------------|---------------|---------------|-------------------|--------------|
| | Karen Caddick | Andrew Cripps | Geoff Drabble | Louise Fowler | Richard Pennycook | Debbie White |
| Shareholding: | 6,000 | 3,000 | 3,000 | 470 | 54,663 | 4,562 |

No changes to the Executive and Non-Executive Directors' total shareholdings (including any holdings of their connected persons) have occurred between the end of the period and 24 February 2021.

Remuneration Committee report continued

Directors' remuneration report

Part 4: Additional disclosures continued

Scheme interests awarded during the financial year (audited)

During 2020 the Executive Directors were invited to participate in the Performance Share Plan (PSP) and Share Incentive Plan (SIP), as follows:

| Nature of award: | | Award of conditional shares under the PSP | |
|----------------------------------|--|--|--|
| Number of shares under award | CEO | Deputy CEO & CFO ² | |
| | 250,431 | 195,689 | |
| | £1,278,200 | £998,797 | |
| Face value of award ¹ | | | |
| Performance condition | Proportion of PSP award subject to the performance condition | | |
| TSR performance condition: | 67% | | |
| PBT performance condition: | 33% | | |
| TSR component vesting schedule | Position at which Howdens ranks compared to comparators | Proportion of TSR portion of Award that may vest | |
| | At or above upper quartile | 100% | |
| | Straight line vesting between these two points | | |
| | At median | 15% | |
| | Below median | 0% | |
| PBT component vesting schedule | Annualised PBT growth over Performance Period | Proportion of PBT portion of Award that may vest | |
| | 15% p.a. | 100% | |
| | Straight line vesting between these two points | | |
| | 5% p.a. | 15% | |
| | Less than 5% p.a. | 0% | |
| Performance period | Performance measured from FY2020 to FY2022 | | |
| Grant date | 7 August 2020 | | |
| Vesting date | 7 August 2023 | | |
| Additional holding period | 2 years | | |

1 Based on a share price of £5.104, being the closing price on 6 August 2020.

2 Mark Robson's share awards under the 2019 and 2020 PSP will be pro-rated in line with the Good Leaver provisions in the Howdens Long Term Incentive Plan rules to reflect his termination date from the Company. There is no accelerated vesting of these awards and they will vest in proportion to the performance achieved by the Company in respect of each performance period. Shares awards will only be released to Mark Robson once he has demonstrated that he has maintained the post-vesting shareholding requirement as set out in the Executive Director Remuneration Policy.

| Nature of award: | | Free Shares under the SIP | |
|----------------------------------|--------------|---------------------------|------------------|
| | | CEO | Deputy CEO & CFO |
| Number of shares under award | | 46 | 46 |
| Face value of award ¹ | | £247 | £247 |
| Performance conditions | None | | |
| Grant date | 7 April 2020 | | |
| Vesting date | 7 April 2023 | | |

1 Based on a share price of £5.360, being the closing price on 6 April 2020.

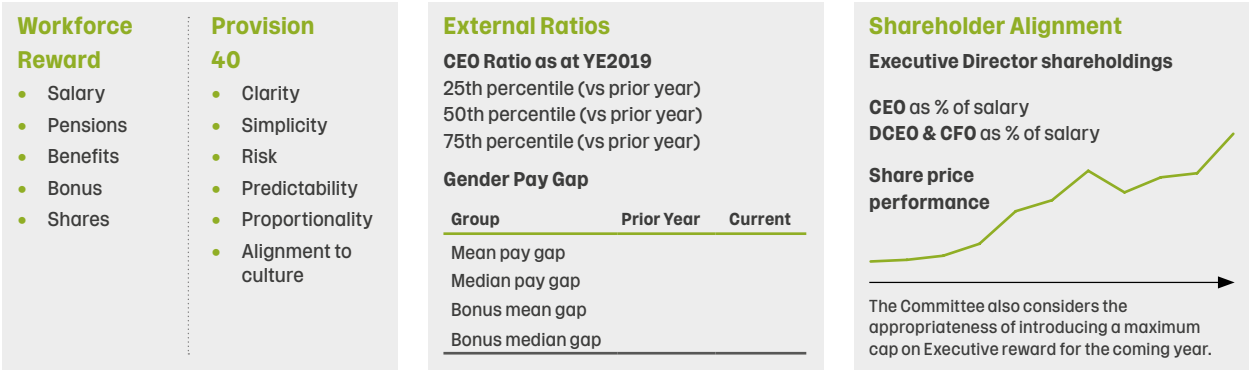
Consideration by the Directors of matters relating to Directors' remuneration

The Committee met seven times during 2020 and discussed a number of items for which it is responsible. Under its terms of reference, which are reviewed on an annual basis, the Committee is responsible for determining the broad policy and specific remuneration packages for Executive Directors and senior management (that being the members of the Executive Committee, the Company Secretary and the Head of Internal Audit and Risk), including pension rights and, where applicable, any compensation payments. The Committee is also regularly updated on pay and conditions applying to other employees in the Company.

 Fixed  Variable

Provision 33 dashboard template

This dashboard shows some of the key internal and external measures and information presented to the Committee when they determine Executive Director and senior management remuneration. These measures are considered in addition to wider workforce-related policies and the alignment of incentives with the culture of the organisation. The dashboard is populated with up-to-date information prior to each meeting where it is to be considered.



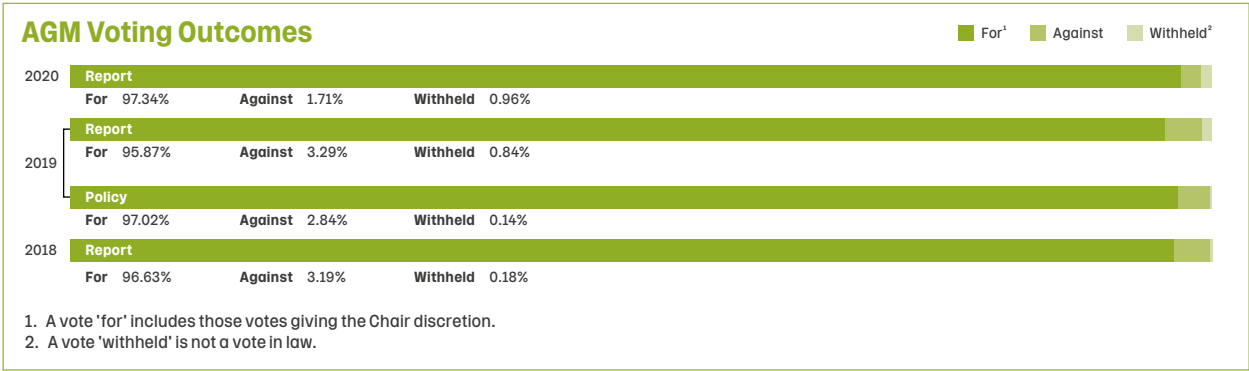
Advisors to the Committee

The Committee regularly consults with the CEO and the Group HR Director on matters concerning remuneration, although they are never present when their own reward is under discussion. The Company Chair attends the Remuneration Committee by invitation except when his own remuneration is determined. The Company Secretary acts as secretary to the Committee but is never present when his own reward is determined.

The Committee also has access to detailed external information and research on market data and trends from independent consultants. PricewaterhouseCoopers LLP (PwC) is the Committee's retained independent advisor and provided advice to the Committee during the year. PwC has been independent advisor to the Committee since 2007 and was appointed by the Committee as the result of a tender process. During the year, the Committee reviewed the ongoing independence of PwC as adviser to the Committee and agreed to retain them. It was satisfied that PwC was providing robust and professional advice. Work undertaken by PwC for the Committee included updating the Committee on trends in compensation and governance matters and advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior members of staff. A representative from PwC attends each meeting of the Remuneration Committee. Fees paid to PwC in relation to remuneration services provided to the Committee in 2020 totalled £119,200 with fee levels based on the quantity and complexity of work undertaken. PwC also provided consultancy advice and support to the internal audit function to the Company during 2020. PwC is a member of the Remuneration Consultants' Group which operates a code of conduct in relation to executive remuneration consulting.

Voting at the 2020 AGM

The results of the advisory vote on the Directors' remuneration report at the 2020 AGM may be found in the chart below, along with the results of the 2019 and 2018 AGMs.



By order of the Board

Karen Caddick
Remuneration Committee Chair

Audit Committee report



Andrew Cripps Audit Committee Chair



Introduction from the Committee Chair

I am pleased to present this Report covering the work of the Audit Committee in 2020.

The Audit Committee has focused its attention on maintenance of business controls in the face of changing ways of working this year as well as ensuring effective external and internal audit verification whilst working remotely. We also looked more deeply into liquidity and sustainability management in considering the immediate and longer-term viability of the business.

We continued examining key control risks with particular attention on four areas:

- Enhanced governance arrangements consequent upon COVID-19 restrictions.
- Compliance with COVID-19 enhanced procedures at depots.
- Financial controls over supply operations, including those following establishment of separate commercial teams.
- Information and cyber security risks including those arising from increased remote working.

In each case the Committee noted the speed of response to changing conditions as well as adoption of recommendations from the internal audit team. The business adapted well to this combination of evolving governance processes reinforced by independent review from internal audit.

Howdens continues to evolve a more unified organisational structure which both preserves local autonomy of depots while broadening collaboration and expertise across supply and business support. This, coupled with increased public interest in internal control systems following the Kingman and Brydon Reviews, precipitated a project to review the network of internal controls in order to reappraise and document key controls consistent with responsibilities of the revised organisational structure. This project is sponsored by the CEO and CFO with scrutiny from the Committee. We have provided a case study on the key controls project on page 133.

We commenced the process of selecting a new external auditor in 2020. Whilst the Committee remains comfortable with the independent challenge currently provided by Deloitte, best practice requires a new auditor, and the fresh perspectives this will bring, from 2022.

2020 Audit Committee activity



Audit Committee meeting attendance

| | |
|---------------------|----------------------------------|
| Andrew Cripps (5/5) | Louise Fowler (4/5) ¹ |
| Karen Caddick (5/5) | Debbie White (5/5) |
| Geoff Drabble (5/5) | |

¹ Louise was unable to attend the Committee meeting in September due to pre-existing commitments entered into prior to joining the Company. She received all of the meeting papers in advance of the meeting and was able to feedback her views to the Committee Chair.

A key element of this selection, which is the responsibility of the Audit Committee, is to identify within the most appropriate audit firm an engagement partner and senior team best equipped to understand and constructively challenge the business. We decided it would not be efficient to continue this in 2020 whilst the Company was adapting to new ways of working for COVID-19 and therefore plan to recommence the process following announcement of the annual results.

I look forward to reporting directly to shareholders at our AGM and responding to questions.

Andrew Cripps
Audit Committee Chair

Key activities in the year ahead

- Review of the Annual Report and Accounts and preliminary results announcement.
- Deloitte's reappointment as auditor to be recommended to shareholders at the AGM.
- Update to be given by the Audit Committee Chair to shareholders at the AGM.
- The tender of external audit services.
- Review of the 2021 interim results.
- Consideration of internal audit's annual plan, independence, resources and findings.
- Review of key controls.
- Approval of the 2022 Audit Committee calendar.

Audit Committee report continued

Financial reporting

Results review

The Audit Committee reviewed the Group's 2020 Annual Report and Accounts and the half-yearly financial report published in July 2020.

As part of these reviews, the Committee received papers from management on changes in accounting policy, areas of significant judgement, the Group's key risks, going concern considerations and longer-term viability. The Committee also discussed reports from Deloitte on their audit of the Annual Report and Accounts and review of the half-yearly financial report.

The Committee considered whether the Annual Report and Accounts were fair, balanced and understandable and contained the information necessary for shareholders to assess the Company's position, performance, business model, and strategy.

Financial controls

The Committee received a report from the Head of Internal Audit and Risk on the results of key control questionnaires prepared by Group and Divisional management. The effectiveness of the Group's internal financial controls (with specific reference to controls in place on a divisional basis) and the disclosures made in the Annual Report and Accounts on this matter were reviewed by the Audit Committee.

Areas of significant financial judgement

The Committee exercises its judgement in deciding the areas of accounting that are significant to the Group's accounts. The external auditor reports detailed results of their procedures in relation to these significant areas to the Committee.

The matters shown below have been discussed with the Chief Financial Officer, Group Finance Director and the external auditor, and the Committee is satisfied that each of the matters have been fully and adequately addressed by the Executive Committee, appropriately tested and reviewed by the external auditor, and the disclosures made in the 2020 Annual Report and Accounts are appropriate.

Areas of significant financial judgement

Inventory obsolescence provisioning

Validity of the actuarial assumptions

Area of significant financial judgement in 2020 and 2019

Inventory obsolescence provisioning

The Group's in-stock model (further information about which may be found on page 18) and the scale of our product range necessitates tight management of inventory to ensure local availability of stock while at the same time minimising obsolescence and wastage. This was particularly true during 2020 where the dual supply chain risks of COVID-19 and Brexit resulted in the Group holding additional safety stock to safeguard the in-stock model at a time of transferring to a new national distribution centre.

The external auditor provided reports to the Committee which considered the appropriateness of provisions held against the carrying value of inventory, while also having regard to the age of discontinued lines and volumes of continuing lines relative to the expected usage and the levels of historical write-offs.

The Committee reviewed the processes used to value each category of inventory, including the assumptions behind obsolescence provisions, and were satisfied with the judgements made.

Validity of the actuarial assumptions

The Committee carefully reviewed the report of the Company's actuaries and concluded that:

- the actuarial assumptions applied to pension fund liabilities, and in particular the discount, inflation and mortality assumptions, were appropriate;
- the valuation of pension fund assets was consistent; and
- they concurred with the views of the external auditors.

IFRS 16, Leasing

This accounting standard, which took effect from the beginning of 2020, requires recognition in the balance sheet of 'right of use assets' of some £550 million and a corresponding lease liability, with relatively minor impact on profit before tax (note 28 on page 174). The Committee monitored implementation over the last year. Deloitte concur with the Committee's view that this change does not represent a matter of significant judgement nor estimation as the majority of the company's leases are straightforward property leases on similar terms and conditions.

Distributable reserves

As reported in the 2019 Audit Committee report, the Committee requested that management analyse the revenue and other reserves of the parent company to ascertain the full extent to which these may be distributable. This information is included on page 188.

Governance

Governance updates

Updates on the latest governance practices for Audit Committees and changes in reporting requirements were provided by the external auditor. In addition to other resources, members of the Audit Committee are members of the Deloitte Academy, which provides updates on financial and reporting matters.

Committee effectiveness

An effectiveness review was carried out on the Committee and its members. The review concluded that the current mix of financial, commercial and relevant sector experience of the Audit Committee, and that of its advisors, was such that the Committee could effectively exercise its responsibilities to the Group in relation to risk and controls.

Policies and conflicts

The Committee reviewed its policies in relation to allocation of non-audit work (further detail on this policy may be found on page 131) and employment of ex-audit firm personnel. It also reviewed the Directors' conflicts of interest register. Further information about conflicts of interest may be found on page 133.

Competition and Markets Authority (CMA) Order compliance

The Audit Committee confirms that the Company has complied with the provisions of the Order throughout its financial year ended 26 December 2020 and up to the date of this report.

Committee membership

The Committee is composed entirely of independent Non-Executive Directors. Independence is critical for fair assessment of the management team and the external and internal audit functions.

Committee Chair

Andrew Cripps was appointed Audit Committee Chair in May 2016. He is responsible for determining the Committee's agenda and for maintaining the key relationships between the Group's senior management, Head of Internal Audit and Risk, the Company Secretary and senior representatives of the external auditor.

Andrew is also responsible for ensuring that key audit issues are reported to the Board in an effective and timely manner and that they are reported to shareholders in the Annual Report.

From 2021, he will also present a summary of the work of the Audit Committee to shareholders at the Annual General Meeting.

Recent and relevant financial experience

Andrew Cripps qualified as a Chartered Accountant with KPMG and has held executive director roles in the UK and Europe with Rothmans International, where he was Corporate Finance Director. More recently, Andrew has been Audit Committee Chair of a number of FTSE250 and other public companies.

Competence relevant to the sector

The unique business model of Howdens means it does not naturally fit into one sector and therefore when the Committee undertook an assessment of its skills and experience it assessed them against a number of sectors relevant to the Company. These included building and construction, multi-site wholesale, manufacturing and logistics, and service to customers.

The Committee concluded that competence relevant to these sectors was well represented within the current membership and that the thorough inductions provided to the Committee members and the opportunities for them to meet with senior management and Executives further enhanced their working knowledge of the way the Company operates and the sectors it spans.

Audit Committee report continued

External auditor

| | |
|---|---|
| External auditor | Deloitte LLP (Deloitte) |
| External auditor tenure | 19 years |
| Lead audit partner | Claire Faulkner |
| Lead audit partner tenure | 4 years (of a 5 year cycle) |
| Latest that a new external auditor will be engaged* | 2022 |
| Total fees paid to auditor in the year | £0.7m (Non-audit fees accounted for £0.1m of the total fee) |

* The information above is correct as at 26 December 2020.

External audit tender

As previously reported, the Audit Committee will engage a new external auditor no later than 2022 (following the conclusion of the current five-year lead audit partner cycle). As such, the Committee will undertake an external audit tender during 2021 in order to appoint a new external auditor in 2022.

In coming to this decision, the Audit Committee considered the continuing robust performance of the incumbent auditor, the transitional arrangements published by the Department of Business, Energy & Industrial Strategy in 2015, which provide that the Company cannot renew Deloitte’s appointment as external auditor beyond June 2023, given it has been the external auditor for over eleven years but less than twenty years.

The Committee also considered the UK Corporate Governance Code and the FRC’s Guidance on Audit Committees, which provides that the external audit should be re-tendered at least every ten years and that this process should fit in with the lead audit partner five year rotation.

Deloitte has expressed their willingness to continue in office as auditor for the financial year 2021 and the Committee has unanimously recommended to the Board that a proposal to reappoint them as the auditor and to authorise the Directors to fix their remuneration is put to the shareholders at the Annual General Meeting on 6 May 2021 (details of the AGM may be found on page 194).

External auditor independence

Auditor independence is an essential part of the audit framework and the assurance it provides. The Committee therefore undertook a comprehensive review of auditor independence during 2020, which included:

- A review of the independence of the external auditor and the arrangements which they have in place to restrict, identify, report and manage conflicts of interest.

- A review of the changes in key external audit staff for the current year and the arrangements for the day-to-day management of the audit relationship.
- Consideration of the overall extent of non-audit services provided by the external auditor, in addition to case-by-case approval of the provision of non-audit services as appropriate.
- Deliberation of the likelihood of a withdrawal of the auditor from the market and note taken of the fact that there are no contractual obligations to restrict the choice of external auditor.

At the year end, the external auditor formally confirmed that they had complied with the requirements of the FRC Ethical Standard as well as internal requirements and their independence and objectivity had been maintained. The Audit Committee also has a policy in relation to the employment of former members of the external audit team.

External auditor effectiveness

To assess the effectiveness of the external auditor, the Committee reviewed:

- The proposed plan of work presented by the external auditor, including audit risks, materiality, terms of engagement and fees prior to commencement of the 2020 audit.
- The external auditor’s fulfilment of the agreed audit plan and any variations from the plan.
- Evaluation from key management personnel and members of the Committee of the external auditor’s exercise of professional scepticism and challenge.
- Robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements.
- Internal control and risk content of the external auditor’s report.
- Independence of thought and potential for conflict.

External auditor fees

All relevant fees proposed by the external auditor must be reported to and approved by the Audit Committee.

The only non-audit services provided by Deloitte in the year was their review of the half-yearly financial report. No advisory work has been requested from the auditor during the previous three years.

Details of the fees paid during the year to Deloitte may be found in the table above and in note 5 to the consolidated financial statements (page 14-9).

Policy for Non-Audit Services Provided by the External Auditor

The main aims of this policy are to:

- Ensure the independence of the auditor in performing the statutory audit; and
- Avoid any conflict of interest by clearly detailing the types of work that the auditor can and cannot undertake.

The Audit Committee has reviewed and updated the policy for non-audit services to ensure that it is in line with the FRC’s Revised Ethical Standards 2019 (which took effect from 15 March 2020) and the FRC’s Audit Quality Practice Aid 2019.

The policy, in line with regulation, substantially limits the non-audit services which can be provided by the external auditor. The policy provides:

- A 70% cap of the value of the audit fee for all non-audit services calculated on a rolling three-year basis.
- Categories of service that are prohibited from being carried out by the auditor.

The policy specifies a de minimis limit as well as the type of non-audit work that the auditor may be engaged in without the matter first being referred to the Audit Committee, which considers each referral on a case-by-case basis.

The policy ensures that the auditor does not audit its own work or make management decisions for the Company or any of its subsidiaries. The policy also clarifies responsibilities for the agreement of fees payable for non-audit work.

The only non-audit services provided by Deloitte in the year was their review of the half-yearly financial report. No advisory work has been requested from the auditor during the previous three years.

Performance expectations for the external auditor

Specific auditor responsibilities

- Discuss the audit plan, materiality, and areas of focus in advance.
- Report issues at all levels within the Company in a timely fashion.
- Ensure clarity of roles and responsibilities between local Deloitte and Howdens’ Finance teams.
- Respond to any issues raised by management on a timely basis.
- Meet agreed deadlines.
- Provide continuity and succession planning of key staff members of Deloitte.
- Provide sufficient time for management to consider draft auditor’s reports and respond to requests and queries.
- Ensure consistent communication between local and central audit teams.

Wider responsibilities

- Provide timely up-to-date knowledge of technical and governance issues.
- Serve as an industry resource, communicating best practice trends in reporting.
- Adhere to all independence policies.
- Deliver a focused and consistent audit approach for the Group that reflects local risks and materiality.
- Liaise with the Howdens Internal Audit and Risk team to avoid duplication of work.
- Provide consistency in advice at all levels.
- Ultimately, provide a high-quality service to the Board, be scrupulous in their scrutiny of the Group and act with utmost integrity.

Independence

The Committee reviews the independence of the external auditor bi-annually. This includes consideration of the potential for conflicts of interest as well as the auditor’s internal procedures to ensure independence of its staff.

Audit Committee report continued

Controls and internal audit

Internal control framework

The Group has an established framework of internal controls, which includes the following key elements:

- The Board approves the Group's strategy and annual budgets; the Executive Committee are accountable for performance within these.
- The Group and its subsidiaries operate control procedures designed to ensure complete and accurate accounting of financial transactions and to limit exposure to loss of assets or fraud.
- The Audit Committee meets regularly and its responsibilities are set out in the Audit Committee Terms of Reference (which may be found on the Company's website at www.howdenjoinerygroupplc.com/governance/corporate-governance-report/terms-of-reference-of-the-audit-committee). It receives reports from the Internal Audit function on the results of work carried out under an annually agreed audit programme. Operational and compliance controls are considered when the Committee reviews the annual Internal Audit programme. The Audit Committee has full and unfettered access to the internal and external auditors.
- Operating entities provide certified statements of compliance with specified key financial controls. These controls are then cyclically tested by Internal Audit to ensure they remain effective, and are being consistently applied.
- The Audit Committee annually assesses the effectiveness of the assurance provided by the internal and external auditors. Every five years an external assessment is also undertaken with regard to the assurance provided by the Internal Audit department. An external assessment was undertaken by Grant Thornton in 2017.

A case study on the review of key controls may be found on page 133.

Internal audit

The internal audit team has increased its capabilities during the year, both through implementation of a new audit management tool and enhanced technical expertise. It has communicated an updated Internal Audit Charter to management and thereby refreshed understanding of responsibilities for internal controls and their verification, based on the three lines of defence model.

The Committee reviewed:

- Internal Audit's programme of work and resources and approved its annual plan.
- The level and nature of assurance activity performed by Internal Audit.
- Results of audits and other significant findings including the adequacy and timeliness of management's response.
- Staffing, reporting and effectiveness of divisional audit.

The Committee considered that the Internal Audit function remained effective and provided a comprehensive level of assurance through its programme of work.

Fraud risk

The Committee considered the controls in place to mitigate fraud risk and received a report from Internal Audit which confirmed the effectiveness of those controls.

Divisional controls

Senior management from the business were invited to discuss the controls in their business areas. The Director of Finance for the Supply Chain and Head of Compliance of the Trade division gave presentations on the key risks and control environments in their areas. An update on cyber and information security was also presented by the Chief Information Officer and Head of Information Systems Security.

COVID-19 crisis governance

In April, in addition to the updates received by the Board, the Chief Governance Officer presented the governance and control arrangements put in place to respond to the COVID-19 crisis to the Committee. This included presentation of the governance principles adopted by the Executive Committee, in particular its 'people first' approach. The Committee noted how the Internal Audit team had worked alongside management to provide assurance to the Committee over key controls, both pre-existing and those which had been introduced as a result of the crisis. In particular, the underlying Health & Safety framework had been utilised to introduce new controls and ways of working to incorporate social distancing measures. Control, safety and risk implications of increased remote working as well as internal audit's confirmation of the effectiveness of these controls continued to be reviewed at each subsequent meeting.

More information on the Board's governance response to the COVID-19 crisis can be found on pages 80 and 81.

Independent assurance

The Committee assessed the coverage of independent assurance by reviewing the annual internal audit plan against the Group's key controls.

Whistleblowing

Complaints on accounting, risk issues, internal controls, auditing issues and related matters are reported to the Audit Committee as appropriate. Oversight of the Company's whistleblowing policy is a matter considered by the Board. The Board receives biannual updates on whistleblowing statistics and trends (see pages 74 and 75).

Conflicts of interest

The Companies Act 2006 places a duty upon Directors to ensure that they do not, without the Company's prior consent, place themselves in a position where there is a conflict, or possible conflict, between the duties they owe the Company and either their personal interests or other duties they owe to a third party.

If any Director becomes aware that they, or any party connected to them, have an interest in an existing or proposed transaction with the Company, they must notify the Board as soon as practicable. The Board has the authority to authorise a conflict if it is determined that to do so would be in the best interests of the Company. The Audit Committee reviews the output of this process annually to ensure it is appropriately monitored.

By order of the Board

Andrew Cripps
Audit Committee Chair

24 February 2021

Case study Key controls

During 2020 we have worked to clarify our key controls across the business to focus and further strengthen our overall control framework. Sponsored by the CEO and CFO, and reporting regularly to the Audit Committee, this project is improving our capability to identify operational, IT and financial controls which mitigate our key and principal risks. Phase 1 of this project was delivered in 2020, with further phases starting in H1 2021.

Our project streams will reinforce key responsibilities across the business and their verification, assist new systems design, and enable us to address regulatory consequences of the Brydon and Kingman reviews when these are known. The immediate results include:

- A sustainable approach for cataloguing, monitoring and ownership of key controls.
- Embedding of operational ownership to measure effectiveness.
- An even stronger attestation process.

We see this exercise as both a necessity and an opportunity to further strengthen our control framework whilst protecting the essential Howdens locally empowered culture.

Working alongside the project, the Internal Audit team has embedded a new industry standard software solution that integrates enterprise risk assessments with independent control and audit activity. This solution has enabled further development of risk-based assurance and reporting capabilities, giving the Audit Committee, Board and Executive Committee a clearer view of control effectiveness.