Remuneration Committee report

Remuneration Committee 2021 meeting attendance

Karen Caddick (6/6)
Andrew Cripps (6/6)
Geoff Drabble (6/6)
Louise Fowler (6/6)
Debbie White (6/6)

Key activities in the year ahead

- **Implement the Directors' Remuneration Policy in respect of incentives for 2022 (both annual bonus and PSP).**
- **Engage with shareholders on the draft Directors' Remuneration Policy for presentation for approval at the 2022 AGM.**
- **Approve an updated Executive Committee Remuneration Policy (for members of the Executive Committee other than the Executive Directors).**
- **Monitor reward performance and ensure the incorporation of risk in the Company's incentive structure.**

Karen Caddick
Remuneration Committee Chair

Annual Remuneration Committee Chair's statement

I am pleased to present the Howden Joinery Group Plc Remuneration Committee report for 2021. 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 updated our Remuneration Committee report last 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. Directors' Remuneration Policy (to be proposed to shareholders at the 2022 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 2021
Part 3	Implementation of policy in 2022
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.

2021

2021 has been a busy year for the Remuneration Committee. It has had to navigate the legacy impact of COVID-19 on remuneration, both for Executive Directors and Senior Management. I reported in this report last year that the Committee had agreed not to exercise upward discretion to the incentive outturns for the 2020 annual bonus and 2018 PSP resulting in both awards lapsing in full. This was despite the significant contribution made by the Executive Directors to Howdens during what was an extremely challenging year, I am therefore pleased that remuneration outturns for 2021 have improved in line with exemplary performance of the business during the year.

The Remuneration Committee has continued to regularly monitor the employee remuneration experience across all roles, particularly depot roles and those in manufacturing and logistics, to ensure that there is alignment between the experience of the wider workforce and that of our senior management. There remains good alignment as a result of the unique incentive culture across all roles at Howdens.

During the second half of 2021, the Committee's attention turned to the Directors' Remuneration Policy, which will be put out for shareholder approval at the 2022 AGM. This is considered in more detail below and in a case study on page 122.

The Committee also worked with the Nominations Committee to agree a remuneration package for a new Chair of the Board which would attract a high calibre individual, whilst keeping within market norms. It also considered the impact on members of Senior Management of the closure of the Defined Benefit pension plan to future accrual.

I will be presenting a summary of the work of the Committee in 2021 at the AGM on 12 May 2022.

Policy

Our existing remuneration policy was approved by shareholders at the 2019 AGM and is due to expire at the 2022 AGM. The Remuneration Committee is satisfied that the Directors' Remuneration Policy operated as intended during the year and a copy of the current policy can be accessed in full at www.howdenjoinerygroupplc.com/governance/remuneration-policy

Over the course of the year the Committee has undertaken an in-depth review of our current arrangements and carefully considered what may be required under the policy over the next remuneration policy cycle. We need to ensure that our Executive Directors and Senior Management are rewarded and motivated in line with shareholder interests as we deliver the next stage of our growth plans.

Howdens' sustained profit growth has led to the creation of significant shareholder value through shareholder distributions and increases in share price. The resulting increase in market capitalisation means that we are anticipating inclusion in the FTSE 100 index over the coming policy cycle. The Committee is therefore mindful of the need to have a policy that allows us the flexibility over its lifetime to adapt our arrangements as we grow. Our remuneration philosophy is (and has always been) to pay above-market levels of reward for above-market levels of performance. We continue to believe this is the right approach.

As stated, we believe that the current policy is fit for purpose and has served Howdens and its shareholders well. We intend to maintain the overall structure of our remuneration arrangements and are not proposing any major changes to policy. Some minor changes are proposed to provide greater flexibility over the next three year policy cycle. These are set out on page 111.

As reported on page 90, the Remuneration Committee did not consult with the wider workforce on Executive Director pay arrangements in 2021. The Committee has safeguards in place (as considered in this report), which ensure good alignment on remuneration across the organisation as a whole. During 2021, the Board also approved an update to the Share Incentive Plan ('SIP') rules, which means that all eligible employees with shares in the SIP, which is the significant majority of UK employees, have a de facto say on Executive Director pay when such matters are considered at general meetings.

Given the consistency in approach on our Directors' Remuneration Policy, I hope that it will continue to attract the same levels of shareholder support we have seen in previous approval cycles.

2021 reward outcomes

Annual bonus

For the 2021 annual bonus, performance was based on the delivery of both profit and cash flow targets. For the full year we have reported an increase in sales of 35% (+32% versus 2019) and an increase in profit of 111% (+50% versus 2019), continuing the momentum seen in the second half of 2020.

This strong financial performance meant full year profit before tax ('PBT') and cash flow were above our maximum outperformance targets resulting in a bonus of 150% of salary for our Executive Directors.

Performance Share Plan (PSP)

Similarly, the 2019 PSP with performance measured to FY 2021 is based on three-year PBT growth per annum. Over the three year period of the 2019 PSP cycle, our PBT has increased by 17.2% per annum. In line with performance targets requiring 5% per annum PBT growth to achieve threshold vesting and 15% per annum PBT growth to achieve maximum vesting, the award will therefore vest in full.

Remuneration Committee report continued

Annual Remuneration Committee Chair's statement continued

2022 reward and incentives

Salary

Salary increases for the Executive Directors for 2022 will be in line with the wider workforce. These will be effective from 1 January 2022 following the alignment of the salary review date across the Howdens business.

Annual bonus

For the 2022 annual bonus, we replicated the methodology and PBT and cash flow measures used in the 2021 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 first 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 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 and inclusion of TSR in the 2022 PSP will mean that it is a measure in all in-flight PSP awards.

For the 2022 PSP, 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. Profit represents a fundamental performance metric for the business, and is used throughout the organisation, from our depot teams to executives, to reward performance. It is therefore important to us that PBT continues to have a majority weighting within the PSP, whilst ensuring this is complemented by a relative measure with the TSR element.

Our recent practice has been to set PBT targets using a range of 5% to 15% CAGR above the prior year's reported performance. For 2022, we intend to amend this approach. A 15% annual growth rate is a very high target to achieve over three years and successive business cycles and is very unusual in the FTSE as a whole. We therefore propose to amend the upper target to 12%, which is still towards the upper end of other companies' practice. We believe this provides significant stretch for management with strong alignment to shareholder interests.

In addition, we have concluded that as a result of the increase in the size and complexity of Howdens in recent years, the current incentive opportunity for the CEO is no longer aligned to our remuneration philosophy (to pay above-market levels of reward for above-market levels of performance).

From 2022 we intend to grant PSP awards to the CEO at 270% of salary to recognise the increased size and scale of the business, and to provide an appropriate incentive for him to continue to lead the delivery of our ambitious plans. This is the maximum opportunity permitted under our current shareholder-approved remuneration policy. No changes are proposed to the CFO LTIP of 220% of salary.

To ensure that the remuneration philosophy is upheld, we will continue to ensure that performance targets are suitably stretching for the level of remuneration available within the context of our internal expectations and external forecasts. More detail on each of the PSP measures is set out on page 129.

Pensions

We reported in 2019 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 2021, Andrew Livingston's pension supplement, received in lieu of Company pension contributions, reduced by 4% to 14% of basic salary. In May 2022 Andrew's pension supplement will be aligned to the Company pension contributions of the wider workforce, which is currently 8% of basic salary and will increase to a maximum of 12% in April 2022. Paul Hayes' pension supplement received in lieu of Company pension contributions was aligned to that of the wider workforce upon appointment in line with policy. As such, his pension supplement received in lieu of pension increased to 8% in April 2021 and will increase to 12% in April 2022 (in line with the wider workforce).

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 and will ensure fairness in pensions across the Company.

As previously reported, the Committee reviewed the impact of closure on affected members of senior management prior to the Board's decision to close the plan to future accrual. It concluded that transition arrangements for affected employees were appropriate and had been applied consistently regardless of role. As such, there was not a significant risk to the business of the Board implementing its proposals set out in the consultation.

Senior management and the wider workforce

In addition to the Executive Directors, the Howdens Remuneration Committee also sets remuneration for senior management[1]. 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.

In 2019, the Committee adopted a dashboard in line with Provision 33 of the UK Corporate Governance Code, which shows some of the key internal and external measures that the Committee members are aware of when determining Executive Director and senior management remuneration (further detail on the dashboard may be found on page 123).

I hope the information presented within this report provides a clear explanation as to how we have operated our remuneration policy over 2021 and how we intend to implement it for 2022. 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 2022.

Karen Caddick

Remuneration Committee Chair

1 The Howdens Remuneration Committee classifies 'senior management' as members of the Executive Committee (excluding Executive Directors), the Company Secretary and the Head of Internal Audit and Risk.

How the Committee exercised discretion for the incentive period ending 25 December 2021

The Committee considered the financial performance for the incentive period ending 25 December 2021. PBT for the year was £390.3m and cash flow was £529.0m. Three-year PBT increased by 17.2% per annum. The Committee considered whether the incentive outturns projected for the 2021 annual bonus and 2019 PSP were proportionate to financial performance and whether there were any other external factors of which the Committee was aware that would make decreasing the payments under these awards appropriate.

In reaching its conclusion, the Committee considered the remuneration experience structures and policies for the workforce as a whole in 2021, 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. The Committee took all of these matters into consideration and agreed that the vesting in full of these awards without adjustment or withholding was the right overall outcome.

In addition, the Committee exercised discretion to align the treatment of vested share awards (which were subject to post-vesting holding period restrictions) granted before 2019 for good leavers with the position that now applies under the Plan rules. If the Committee did not exercise its discretion, these awards would have been pro-rated to employees' leave dates under the old Plan rules. The Committee was mindful that the pro-rating of awards for good leavers in post-vesting holding periods had been removed in the 2019 update to the LTIP rules as it was felt to be excessively punitive and as such the Committee would not be required to exercise similar discretion in the future as the rule only applied to awards made between 2016 and 2018. After careful consideration, the Committee agreed to exercise discretion and as such no pro-ration would be applied to the 2017 PSP awards.

Remuneration Committee report continued

Annual Remuneration Committee Chair's statement continued

2021 Remuneration Committee activity

H1

January

Committee meeting
- 2020 Annual Bonus outcomes
- 2021 Annual Bonus operation
- 2021 LTIP measures
- Pension changes impact analysis

February

Committee meeting
- Shareholder feedback on CEO pay
- 2021 incentive considerations (including workforce reward, shareholder alignment, CEO pay ratio and gender pay gap)
- Governance update
- Draft 2020 Directors' remuneration report
- 2021 share awards planning
- Chair fee

April

Share award grant
- SIP Free Share grant to all UK employees approved
- PSP granted to Executive Directors and Senior Management

Committee meeting
- Shareholder feedback on remuneration
- Pensions update
- Salaries review
- LTIP leaver treatment

May

AGM
- Remuneration report approved by shareholders

H2

July

Committee meeting
- Workforce earnings analysis
- 2021 AGM season and market update
- Update on outstanding awards
- Directors' Remuneration Policy planning

August
- Remuneration Policy Working Group begins meeting

September

Committee meeting
- Update on Directors' Remuneration Policy review

October
- Remuneration Policy Working Group disbands

November

Committee meeting
- Update on Directors' Remuneration Policy review
- Update on outstanding awards
- Risk and rewards consideration
- 2022 Remuneration Committee calendar
- Review of Committee's terms of reference

December

Shareholder communication
- Remuneration Committee Chair communication with shareholders on proposed new Directors' Remuneration Policy

Directors' Remuneration Policy

Fixed Variable

Howdens' Directors' Remuneration Policy, as set out in our 2018 Annual Report and Accounts, was approved by shareholders at our 2019 AGM. Our current Policy expires at the 2022 AGM and therefore, following careful review, we present a revised policy below with the intention that it will apply for three years from the date of the 2022 AGM. The policy has supported the success of our business and continues to be aligned both with our long-term strategy and wider market norms. The changes detailed in the summary below demonstrate that the policy remains broadly unchanged from the version approved by shareholders in 2019, albeit there are some minor revisions. A case study on the Directors' Remuneration Policy review and approval process is set out on page 122.

Summary of changes to the Remuneration Policy

Remuneration Element	Method
Annual bonus	The current remuneration policy in respect of the bonus opportunity is that 150% of salary is the normal opportunity level, with an opportunity of 200% of salary available in 'exceptional circumstances only'. It is proposed that the 'exceptional circumstances' wording be removed from the policy, such that during the life of the policy the usual bonus award level could be increased by up to 50% of salary to 200% of salary if it is felt to be appropriate to reflect the performance and market positioning of Howdens. We would consult with shareholders if we were to consider raising the level of bonus opportunity. For FY 2022, the current annual bonus level of 150% of salary will be maintained, with the position reviewed each year thereafter.
Annual bonus deferral	Annual bonus deferral changes from 30% of any bonus earned deferred for a period of two years to *at least* 30% of any bonus earned deferred for a period of two years.
Performance Share Plan (PSP)	The minimum percentage of the PSP based on financial metrics will reduce from 100% to 75%. This will give the Committee greater flexibility when determining performance measures and will allow for the introduction of non-financial measures, such as ESG-related measures, up to 25% of the maximum opportunity.

Underlying principles

When determining the Directors' Remuneration Policy, the Committee was mindful of its obligations under Provision 40 of the UK 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	
Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Company invited its principal shareholders and shareholder representative groups to consult on the updated Directors' Remuneration Policy and received supportive feedback. The draft policy was updated following feedback from shareholders, details of which can be found on page 122. All UK employees are awarded Free Shares in the Company through the Share Incentive Plan ('SIP'). UK employees are also able to participate in a partnership and matching shares programme (known as the 'Buy As You Earn' scheme or 'BAYE') which also operates through the SIP. Further information on workforce engagement can be found on pages 84 and 85.
Simplicity	
Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The Remuneration Policy has received positive feedback from stakeholders in relation to its simplicity. 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.
Risk	
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.	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.

Remuneration Committee report continued

Directors' Remuneration Policy continued

Predictability	
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 range of possible rewards for the Executive Directors is considered on page 116 and were communicated when the Directors' 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. 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.
Proportionality	
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.	In 2020, the profitability of the business was significantly impacted by the COVID-19 lockdown measures put in place by Government in the first half and as such both the 2020 annual bonus and 2018 PSP lapsed in full. While 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. In 2021 the business's strong trading performance was reflected in high levels of variable reward. The Committee remains confident that the awards used to ensure continued delivery of strategy and long-term performance are working as intended.
Alignment to culture	
Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The Committee remains confident that the incentive schemes operated under the Remuneration Policy are aligned with purpose, values and strategy. 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.

Future policy table – Executive Directors

The table below sets out the key components of Executive Directors' pay packages, including why they are used and how they are operated in practice.

Remuneration is benchmarked against rewards available for equivalent roles in a suitable comparator group. In addition to benchmarking, the Committee considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market conditions, and to governance requirements.

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Base salary			
Recognises the market value of the Executive Director's role, skill, responsibilities, performance and experience.	Salaries are reviewed annually, and are effective from 1 January each year. Salaries will not be changed outside of the annual review, except for in 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 with consideration of each Executive Director's performance in role and responsibilities, and within a range defined by a market benchmark derived from companies of a comparable size operating in a similar sector. 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. Reviews will also take into account the performance of the individuals, any changes in their responsibilities, pay increases for the wider workforce and internal relativities. 2021 and 2022 salary levels are detailed on page 128.	None.
Benefits			
Provides a competitive level of benefits.	Howdens pays the cost of providing the benefits on a monthly basis or as required for one-off events.	Benefits are based upon market rates and include receipt of a car allowance, health insurance and death-in-service insurance payable by the Company.	None.

Fixed Variable

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Annual Bonus			
Incentivises annual performance over the financial year. Deferral links bonus payout to share price performance over the medium term.	Performance is assessed annually against targets made up of at least 75% financial metrics. At least 30% of any bonus earned is deferred into shares. Shares are paid out on the second anniversary of deferral date. The Committee has the discretion to adjust the bonus outcome in light of overall underlying performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration. Payment is subject to continued employment. Malus provisions apply for the duration of the performance period and to shares held under deferral. Clawback provisions apply to cash amounts paid for two years following payment. Therefore clawback and/or malus will operate on the award for a total period of up to two years after the performance period. Clawback may be applied in the following scenarios: • material misstatement of accounts; • erroneous assessment of a performance target; • where the number of plan shares under an award was incorrectly determined; or • gross misconduct by a Director.	The threshold for the annual bonus will be dependent on the individual measures used each year. For 2022, the annual bonus will be based on PBT and cash flow, with threshold payout being 20% of salary. The maximum opportunity under the annual bonus is 200% of salary. For FY 2022, the annual bonus level of 150% of salary will be maintained, with the position reviewed each year thereafter. The opportunity could be increased in future years if the Remuneration Committee felt it was appropriate to reflect the performance and market positioning of the Company. The Remuneration Committee would consult with shareholders if it were to consider raising the level of bonus opportunity beyond the current level.	For 2022 the annual bonus will be based on PBT and cash flow measures. The Committee retains the flexibility to use alternative measures during the life of this policy, subject to at least 75% of the bonus being based on financial metrics.
Performance Share Plan (PSP)			
Focuses management on longer-term financial growth than addressed by the annual bonus. Long-term financial growth is key to the generation of shareholder value.	Executives have the opportunity to participate in the PSP on an annual basis. The PSP operates over a three-year vesting cycle. Under the PSP, awards will generally be granted towards the beginning of the performance period and vest based on performance over the following three-year performance period. Malus provisions apply for the duration of the vesting period. The Committee has the discretion to adjust the PSP outcome in light of overall underlying performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration. Vested awards are subject to a two-year holding period following vesting, during which no performance measures apply. Clawback provisions apply for the duration of the holding period, through which vested awards maybe reclaimed in the event of: • material misstatement of accounts; • erroneous assessment of a performance target; • where the number of plan shares under an award was incorrectly determined; or • gross misconduct by a Director. No dividends accrue on unvested shares.	The threshold for the PSP will be 15% of maximum. This may be amended by the Committee dependent on the maximum opportunity in a given year. The maximum opportunity under the PSP is 270% of salary.	For 2022, the PSP will be based in full on PBT growth and relative TSR. The Committee retains the flexibility to use alternative measures during the life of this policy, subject to at least 75% of the PSP being based on financial metrics.
Shareholding requirement strengthens alignment of interests between participants and shareholders.	Executive Directors are expected to retain vested shares from deferred bonus and long-term incentive awards (net of income tax and national insurance contributions) until they reach the minimum requirements. Unvested deferred bonus and long-term incentive shares are not taken into account. PSP shares within a holding period are counted towards the requirement.	Executive Directors will be required to retain 100% of their shareholding requirement (i.e. 200% of base salary or full actual holding if lower) for two years post-cessation from the Board of Howden Joinery Group Plc.	

HOWDENS

Remuneration Committee report continued

Directors' Remuneration Policy continued

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Pension			
Provides competitive long-term savings opportunities.	Executive Directors will be entitled to participate in the Howdens Retirement Savings Plan with contribution rates in line with the wider workforce. The level of salary supplement is aligned to the maximum pension benefit available to the Executive Director.		None.
All-employee share incentive plan			
To encourage employee share ownership.	Executive Directors are able to participate in the tax-advantaged Share Incentive Plan available to all eligible UK employees.	The maximum participation levels will be set based on the applicable limits set by HMRC.	None.

Performance measures and targets

As part of the Committee's review of our remuneration arrangements, we have considered the appropriateness of the performance measures that we have historically used, as well as the potential merits of incorporating measures, which deliver increased focus on other elements of our financial performance. Following careful review, the Committee believes that the current measures continue to be appropriate for our business, and therefore for the 2022 awards PBT and cash flow will continue to be the measures used for the annual bonus and PBT and relative TSR will be used for the PSP.

We want to continue to ensure that the Committee is positioned to maintain alignment between incentives and the challenges facing the business, as such, during the life of this policy it may become appropriate to amend the performance measures used for our incentives. It is for this reason that we safeguard the flexibility in our policy to change performance measures, subject to at least 75% of the bonus and 75% of the PSP being based on financial metrics.

Annual bonus

The table below sets out additional information on performance conditions relating to the 2022 annual bonus:

Measure	Definition	How targets are set
PBT	Pre-exceptional profit before tax from continuing operations.	Set by the Remuneration Committee with reference to Howdens' Budget and analysts' consensus forecasts.
Cash flow	Net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items.	Cash flow targets generated by Howdens' financial model, based on modelled scenarios under which threshold, target and outperformance levels of PBT are achieved.

Commercial sensitivity precludes the advance publication of bonus targets but targets will be disclosed retrospectively in the Annual Report on Remuneration. For 2021 targets please see the annual bonus targets and outcomes tables on page 127.

Performance Share Plan

The PSP will be based on nominal PBT performance and relative TSR for the 2022 award. Targets are considered by the Remuneration Committee to provide a range that represents long-term success for Howdens, and are kept under review in light of analysts' consensus forecasts and inflation forecasts. In the event that inflation significantly increases, the Committee will reconsider the operation of this measure to ensure that the use of nominal targets is appropriate. The intended targets for 2022 PSP grants are detailed on page 129.

Fixed Variable

Remuneration policy for other employees

The remuneration policy described above applies specifically to Executive Directors of the Group. However, the Remuneration Committee believes it is appropriate that all reward received by senior management is directly linked to the performance of the Company and aligned with shareholder value. Accordingly, Executive Committee members participate in the same incentive schemes as the Executive Directors at a reduced level to ensure alignment between the leadership team and with our shareholders. Below this level, the promotion of share ownership is cascaded through all tiers of management. Individuals within the upper tiers of the organisation participate in a similar bonus plan that is linked to PBT and cash flow. These individuals also participate in a PSP, which vests dependent on the same performance measures as the PSP awarded to Executive Directors. Share grants are made at a reduced level to a wider population within Howdens that do not use performance conditions. These awards are made in order to encourage share ownership throughout the Company.

Non-Executive Directors' Remuneration Policy

The Group's policy on Non-Executive Director (NED) and Chairman fees and benefits is set out below.

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Fees			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.	The fees for the Non-Executive Directors are determined by the Chairman and Chief Executive and approved by the Board. The fee for the Chairman is determined by the Remuneration Committee while the Chairman is absent. No other services are provided to the Group by Non-Executive Directors.	Fees for Non-Executive Directors are set out in the statement of implementation of policy on page 128. The fees reflect the time commitment and responsibilities of the roles. Accordingly, committee chairmanship, Senior Independent Director (SID) and the Non-Executive Director responsible for employee engagement fees are paid in addition to the NEDs' basic fee. Committee chairmanship fees apply only to the Audit and Remuneration Committees. The Chairman receives no fees in addition to the Chairman's fee. Fees may be reviewed every year, and are set within a range defined by a market benchmark of comparably sized companies and having regard to the base salary increase payable to the wider workforce. Benchmarking is typically undertaken every three years.	NEDs are not eligible to participate in any performance related arrangements.
Benefits			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.	Non-Executive Directors are entitled to receive expenses in respect of reasonable travel and accommodation costs.		None.

Remuneration Committee report continued

Directors' Remuneration Policy continued

Statement of consideration of employment conditions elsewhere in the Group

The Committee has carefully reviewed the requirements of the revised 2018 UK Corporate Governance Code (the 'Code'). Embedding the new Principles of the Code, including increasing awareness of the pay arrangements across the wider Group will be a significant focus for the Committee during 2022 as the Board continues to seek to adopt leading standards of governance.

When making decisions on Executive reward, the Remuneration Committee will continue to consider the wider economic environment and conditions within the Company and will review and enhance its processes in this regard. In particular, the Committee considers pay conditions for the wider workforce when reviewing base salaries for Executive Directors in addition to a range of applicable pay ratios. For 2022, salary increases for the wider workforce are around 3% of salary.

Additionally, some of the Company's workforce are unionised or belong to a works council. Howdens maintains open lines of communication with these bodies and the Committee is always made aware of any relevant information in relation to remuneration policy.

Statement of consideration of shareholder views

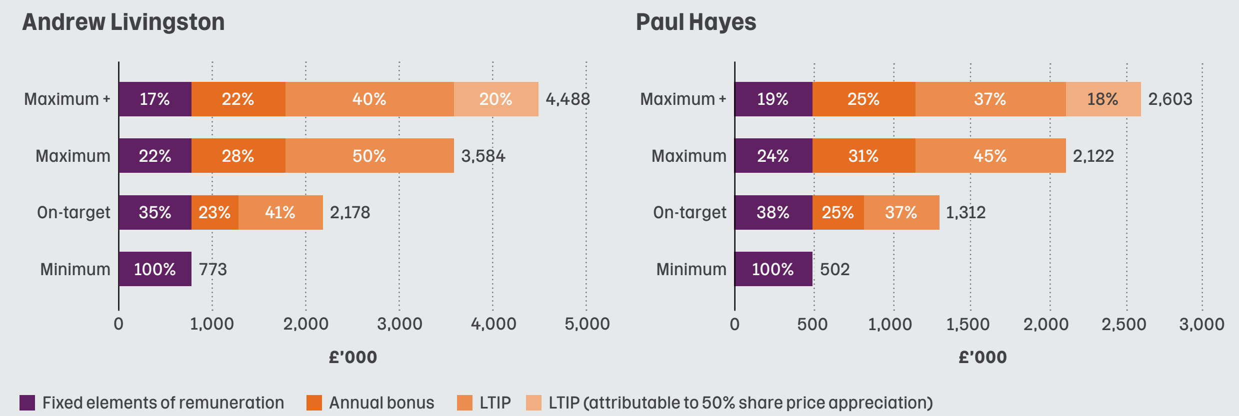
The Committee remains committed to maintaining an ongoing and transparent dialogue with its shareholders. This Directors' Remuneration Policy was shared with our major shareholders and shareholder representation bodies in advance of the publication of this report. Feedback received was carefully considered by the Committee and incorporated where appropriate into the proposed policy.

2022 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 beneath the charts.

Value of package



Fixed elements of remuneration consist of the annual salary that the Executive Director will receive for 2022, alongside their 2022 pension entitlement, and actual benefits received in 2020/21 (as a proxy for 2022).

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 270% of salary for Andrew Livingston and 220% of salary for Paul Hayes. The overall policy maximum is 270% of salary. Target opportunity is calculated as 50% of maximum (135% of salary for Andrew Livingston and 110% of salary for Paul Hayes).

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 PSP.

Fixed Variable

Approach to recruitment remuneration

The treatment and design of the various elements of remuneration paid to new recruits is set out in the table below. The Committee's policy is to pay no more than is necessary to attract appropriate candidates to the role. However, in unusual circumstances, an arrangement may be established specifically to facilitate recruitment of a particular individual. Any such arrangement would be made only where critical to the recruitment of an exceptional candidate, and within the context of minimising the cost to the Company.

Component	Policy
General	The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. Any new Executive Director's ongoing package would be consistent with our remuneration policy as set out in this report.
Pension	The Executive Director will be able to participate in the defined contribution scheme or to receive a supplement payment in line with the wider workforce.
Annual bonus	The Executive Director will be eligible to participate in the annual bonus scheme as set out in the remuneration policy table. The maximum potential opportunity under this scheme is 200% of salary.
Long-term incentives	The Executive Director will be eligible to participate in the PSP set out in the remuneration policy table Accordingly, the Executive Director may be offered a maximum opportunity under the PSP of the 270% of salary in performance shares.
Replacement awards	The Committee may grant the Executive Director awards to replace awards from a previous employment that are forfeited. Should replacement awards be made, any awards granted would be no more generous overall in terms of quantum or vesting period than the awards due to be forfeited. In determining the quantum and structure of these commitments, the Committee will take into account the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone.

Service contracts and letters of appointment

All Executive Directors' employment contracts are not fixed term, but 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 Director 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 from the Company.

In their service contracts, Executive Directors have the following remuneration-related contractual provisions:

- Receipt of a salary, which is subject to annual review
- Receipt of a car allowance
- Health insurance and death-in-service insurance payable by the Group
- Eligibility to participate in any bonus scheme or arrangement which the Company may operate from time to time, subject to the plan's rules
- Participation in the Company's pension plan

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. Copies of the Directors' service contracts and letters of appointment are available at the Company's registered office during usual business hours.

Remuneration Committee report continued

Directors' Remuneration Policy continued

Policy on payment for loss of office

The treatment of the various elements of remuneration payable to Executive Directors in a loss of office scenario is set out in the table below. In exceptional circumstances an arrangement may be established specifically to facilitate the exit of a particular individual; however, any such arrangement would be made within the context of minimising the cost to the Company. The Committee will only take such a course of action where it considers it to be in the best interests of shareholders. Full disclosure of any payments will be made in accordance with the new Remuneration Reporting regulations.

Component	Policy
General	When determining any loss of office payment for a departing individual, the Committee will always seek to minimise cost to the Company whilst seeking to reflect the circumstances in place at the time. As an overriding principle there should be no element of reward for failure.
Base salary and benefits	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 Director would have received if still in employment with the Company.
Annual bonus	Where an Executive Director's employment is terminated after the end of a performance year but before the payment is made, the Executive Director may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. Where an Executive Director's employment is terminated during a performance year, a pro-rata annual incentive award for the period worked in that performance year may be payable subject to an assessment based on performance achieved over the period.
Long-term incentives and deferred annual bonus	The treatment of outstanding deferred annual bonus is governed by written agreements with individuals and the treatment of long-term incentive awards by the rules of the relevant plan. Individuals are defined as either a good or bad leaver for the purposes of outstanding incentive awards. Good leavers are those leaving under pre-specified circumstances (such as retirement, ill-health or disability) or those deemed by the Committee at its absolute discretion as a good leaver given the circumstances surrounding the loss of office. All other leavers are bad leavers. If an individual is a good leaver or dies then they will either continue to hold the award which will vest on the normal vesting date based on Howdens' performance (where applicable), or the Committee may exercise discretion to accelerate vesting of the award, pro-rated to the extent to which the performance targets have been met (allowing for the curtailed performance period). In both scenarios, the amount vesting is pro-rated for the proportion of the period elapsed when the individual leaves. If an individual is a bad leaver then all awards to which they are conditionally entitled will lapse in full.
Post-cessation on shareholding requirement	Upon departure individuals will be required to retain 100% of their shareholding requirement (or full actual holding if lower) for a period of two years post-cessation from the Board of Howden Joinery Group Plc.

Directors' remuneration report

Part 1: Company performance and stakeholder experience

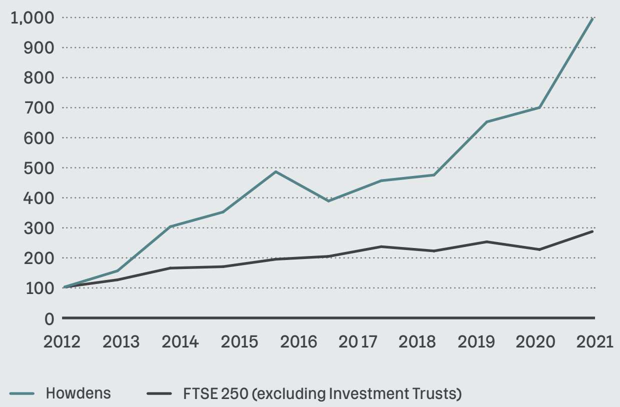
In this opening section of the Directors' remuneration report, we detail some of the considerations of which the Committee has regard when implementing the Remuneration Policy. Contained in this section are specific disclosures on Group performance, as well as comparative disclosures on the relative 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).

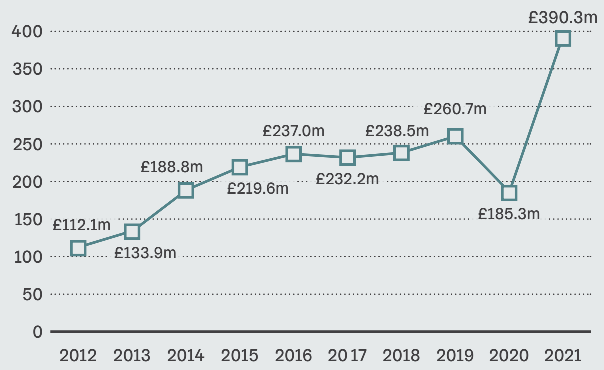
Howdens historic TSR



Profit before tax (PBT)

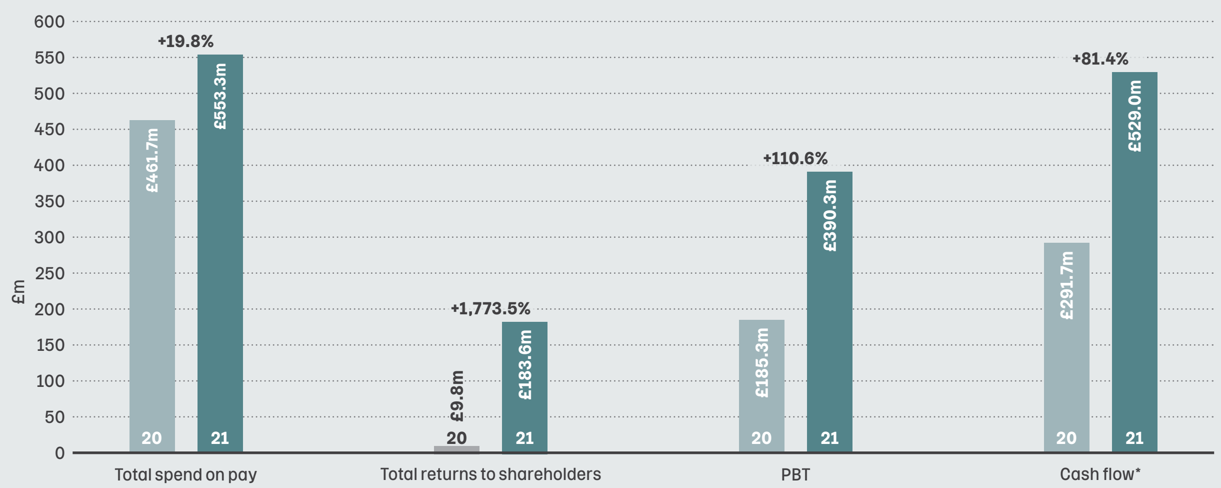
The graph below illustrates the Company's historic PBT performance.

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 2020 to 2021 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 114).

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

Director pay

Our corporate performance and remuneration

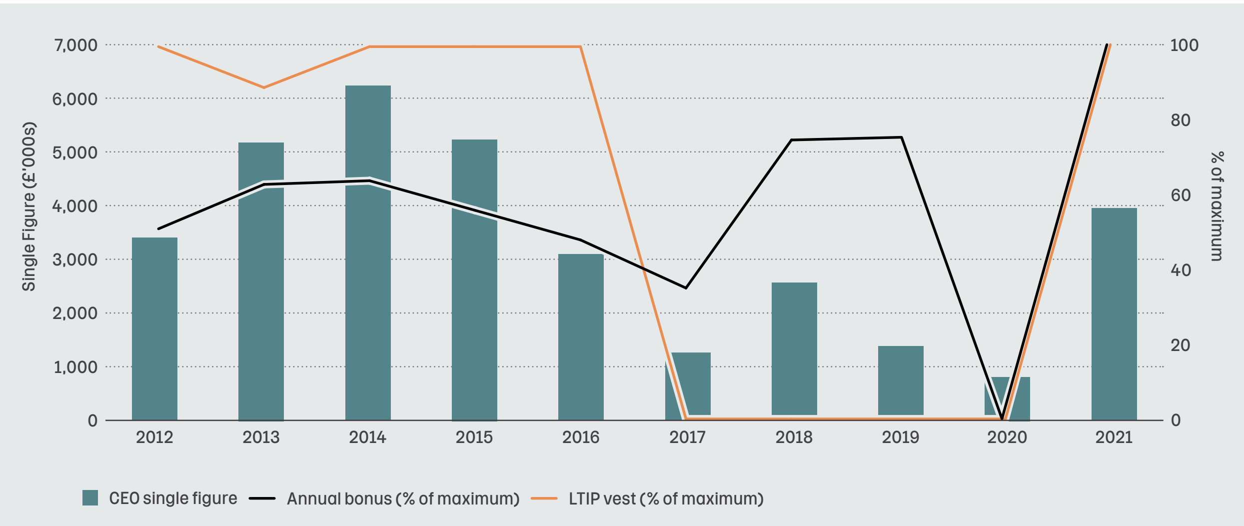
Historic single figure

The table and graph below show the historic CEO single figure and incentive payout levels. They show that, with the exception of 2020, the annual bonus has performed strongly and that long-term incentives have reflected the challenging market conditions following the 2016 referendum on membership of the European Union, although the long-term incentive plan vested in full for 2021.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO single figure (£'000)	3,401	5,168	6,221	5,225	3,098	1,268	2,569	1,391	816	3,951
Annual bonus (% of maximum)	51%	63%	64%	56%	48%	35%	75%	76%	0%	100%
LTIP vest (% of maximum)	100%	89%	100%	100%	100%	0%	0%	0%*	0%	100%

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



Fixed Variable

CEO pay ratio table

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2021	A	135:1	113:1	93:1
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 2021, 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 2021. 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.

It should be noted that the CEO did not receive any remuneration relating to a long-term incentive or share awards in 2020 or 2019. He also did not receive any annual bonus in 2020 during which time all other employees received variable performance bonus pay. The combination of these factors resulted in a lower than anticipated CEO pay ratio in 2020 and 2019.

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)	£29,278	£34,867	£42,405
Salary (including overtime) (FTE)	£20,872	£25,160	£30,713

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 2021 to 31 December 2021. Joiners, leavers and part time employees' earnings have been annualised on an 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 2021 compensation year; however, for annual bonus payments, we estimated the bonus due to employees for the 2021 compensation year (payment is due in March 2022). P11D values are based on the 2020/21 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. Our pay structures vary between roles to deliver an appropriate balance between fixed and variable pay. 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 often 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 provided across the business and are mindful that consistency of approach and fairness are two key principles important drivers for change.

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

Case study
Directors' Remuneration Policy Review

The Directors' Remuneration Policy was last approved by shareholders at the 2019 AGM. As such, an updated policy must be approved by shareholders no later than the AGM in 2022.

The context for the 2022 Directors Remuneration Policy review is important when considering the new policy proposals set out on pages 111 to 118. Between 2016 and 2018, profit growth was largely flat and the Company's share price reflected that fact. Since the appointment of Andrew Livingston as CEO, there has been an increase in share price (at the time of writing) of 88% and a TSR of 102%. This has resulted in a significant increase in market capitalisation and could place Howdens within the FTSE 100 over the coming policy cycle. The Committee is therefore mindful of the need to have a policy that allows us the flexibility over its lifetime to adapt our arrangements as we grow.

That said, the Committee believes that the existing policy is largely fit for purpose and we have maintained the overall structure of our remuneration arrangements, subject to a couple of minor changes. A summary of proposed change to the Directors' Remuneration Policy can be found on page 111. The full policy can be found on pages 111 to 118.

Policy review process

The Remuneration Committee has discussed the policy review since Spring 2021 but it was agreed at the July Committee meeting that a working group comprising the Remuneration Committee Chair, Chairman, CEO, CFO, Group HR Director, Company Secretary and the advisors to the Remuneration Committee would undertake a comprehensive review of the existing policy and make recommendations to the Remuneration Committee at an additional meeting in September.

The working group met a number of times over the summer and presented its conclusions to the Remuneration Committee in September. It was agreed that the current policy, and in particular the bonus and long-term incentive constructs, remain appropriate for the three-year policy cycle. Minor amendments were proposed and the Committee agreed to revisit these at the Committee meeting in November.

Whilst the working group included the Executive Directors and the Chairman of the Board, the approval of the draft policy was the responsibility of the Remuneration Committee, which is comprised exclusively of independent Non-Executive Directors. No changes to the policies applicable to Non-Executive Directors were proposed from the current shareholder-approved version of the Policy.

Following the approval of the proposals by the Committee, a letter was sent from the Remuneration Committee Chair to the Company's top 20 shareholders and shareholder advisory groups inviting their input on the proposals.

As part of the review, the working group and the Remuneration Committee considered whether it was appropriate to introduce measures for Executive Directors' variable pay based on ESG metrics. The Committee concluded that the existing policy provided enough flexibility to introduce such measures in the annual bonus in the future if it was deemed appropriate (provided they did not exceed the percentage of non-financial measures afforded by the policy). It was concluded that the Group's ESG metrics were not yet robust enough and there was not yet a discernible enough link between ESG strategy and performance and therefore a meaningful link between pay and performance could not be established. The Committee agreed to keep this under annual review.

The Remuneration Committee Chair engaged with a number of shareholders ahead of the Committee meetings in January and February 2022. Following feedback from shareholders, the Committee agreed to update the draft policy to reduce the minimum percentage of financial measures for the PSP from 100% to 75% to allow for non-financial measures, particularly those measures linked to ESG targets, to be used for the long-term incentive in the future.

In addition, while not related to the updated policy, the Committee have agreed not to proceed with a proposal to change the base point for the 2022 PSP following shareholder feedback. The proposal was to use a blended performance figure for the PBT measure to negate the volatility in markets (and consequently, Howdens' results) in recent years. 2021 PBT outturn will now be used as the base point for the 2022 PBT performance measure for the PSP.

The updated policy will be subject to a binding shareholder vote at the AGM on 12 May 2022.

Fixed Variable

All-Director remuneration relative to average employees (audited)

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 from financial year 2019 onwards 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 in Basic Salary		% change in Benefits		% change in Bonus	
	2020 to 2021	2019 to 2020	2020 to 2021	2019 to 2020	2020 to 2021	2019 to 2020
Average Howden Joinery Group Plc employee remuneration[1]	-	-	-	-	-	-
Average Howdens Group employee remuneration	1%	4%	(15)%	9%	38%	12%

1 In the financial year ended 25 December 2021, Howden Joinery Group Plc did not employ any individuals.

	% change in Basic Salary / Fees		% change in Benefits		% change in Bonus	
	2020 to 2021	2019 to 2020	2020 to 2021	2019 to 2020	2020 to 2021	2019 to 2020
Executive Directors						
Andrew Livingston[1]	12%	3%	(85)%	84%	100%	(100)%
Paul Hayes[2]	-	-	-	-	-	-
Former Executive Director						
Mark Robson[3]	-	3%	-	(51)%	-	(100)%
Non-Executive Directors						
Richard Pennycook	2%	3%	0%	(100)%	-	-
Karen Caddick[4]	3%	18%	0%	(89)%	-	-
Andrew Cripps	3%	5%	0%	0%	-	-
Geoff Drabble[4]	3%	22%	0%	0%	-	-
Louise Fowler[5]	4%	515%	0%	100%	-	-
Debbie White	4%	3%	(50)%	390%	-	-

1 In 2021, following shareholder consultation, Andrew Livingston's salary was increased by 12%. The rationale for this increase may be found on page 105 of the 2020 Annual Report and Accounts. In 2020, Andrew received a relocation allowance as permitted under the Director's Remuneration Policy.

2 Paul Hayes was appointed to the Board on 27 December 2020 and therefore did not receive a salary, benefits or bonus as a Director in respect of the 2020 financial year. Comparative figures cannot therefore be calculated for the periods reported above.

3 Mark Robson retired from the Board on 26 December 2020 and therefore did not receive a salary, benefits or bonus as a Director in respect of the 2020 financial year. Comparative figures cannot therefore be calculated for the periods reported above.

4 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 for 2019 to 2020 are predominantly due to these changes.

5 Louise Fowler was appointed to the Board in November 2019 and did not receive a full year of fees in respect of that year. The percentage change between 2019 and 2020 was therefore substantial as the figures are not pro-rated for the purposes of the above calculations.

Wider workforce considerations

The Remuneration Committee received updates from the Group HR Director in respect of average salary of an employee in 2021 versus the respective periods in 2020 and 2019 for depot, manufacturing, and logistics roles. 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 Provision 33 Dashboard, which includes information such as the CEO pay ratio, gender pay gap statistics, and the salary, bonus, pensions, benefits and share plan arrangements available to the wider workforce.

Remuneration Committee report continued

Directors' remuneration report

Part 2: Application of policy in 2021

In this section of the Directors' remuneration report we set out how the Committee has executed policy for 2021. Disclosures in this section are retrospective and where applicable are shown against prior year comparator.

2019 Directors' Remuneration Policy Summary

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 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. 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 108.	The Committee remains committed to providing competitive long-term savings opportunities provided they are aligned with the opportunities afforded to the wider workforce.

Fixed Variable

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. 30% of any bonus earned is deferred into shares. Shares are paid out on the second anniversary of the deferral date. Malus and/or clawback provisions operate on the bonus for a period of up to two years after the performance period.	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. Deferral links bonus pay out to share price performance over the medium term.	**Performance period:** 1 year **Additional deferral period:** 2 years **Time from end of performance period to receipt:** • 70% of bonus has no deferral period. • 30% of bonus paid after 2 year deferral period.

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.	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. 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.	**Performance period:** 3 years **Additional deferral period:** 2 years **Time from grant to receipt:** 100% of vested award after 5 years

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 free or matching SIP shares held in the SIP trust that were awarded to an Executive Director less than three years beforehand are not counted towards the shareholding requirement. SIP partnership and dividend shares, which do not have a holding period, are counted towards the shareholding requirement.

In 2019, a post-cessation shareholding requirement was introduced in the Directors' 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 131 for the 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 2022 and the prior year are set out of page 128. Non-Executive Directors are also entitled to receive expenses in respect of reasonable travel and accommodation costs.

Remuneration Committee report continued

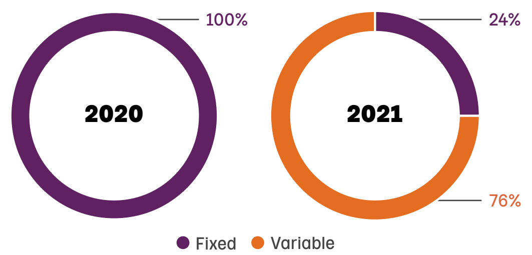
Directors' remuneration report

Part 2: Application of policy in 2021 continued

Single figure of remuneration (audited)

	Fixed								Variable						Total Remuneration	
	Salary/Fees		Taxable Benefits		Pension		Total Fixed		Bonus		LTIP		Total Variable			
£000s	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Executive Directors:																
Andrew Livingston	650	578	19	132	91	106	760	816	975	0	2,216	0	3,191	0	3,951	816
Paul Hayes	425	-	20	-	31	-	476	-	638	-	-	-	638	-	1,114	-
Former Executive Directors:																
Mark Robson	-	452	-	31	-	113	-	596	-	0	-	0	-	0	-	596
Total	1,075	1,030	39	163	122	219	1,236	1,412	1,613	0	2,216	0	3,829	0	5,065	1,412
Non-Executive Directors:																
Richard Pennycook	261	256	0	0	-	-	261	256	-	-	-	-	-	-	261	256
Karen Caddick	70	68	0	0	-	-	70	68	-	-	-	-	-	-	70	68
Andrew Cripps	70	68	0	0	-	-	70	68	-	-	-	-	-	-	70	68
Geoff Drabble	73	71	0	0	-	-	73	71	-	-	-	-	-	-	73	71
Louise Fowler	58	56	1	1	-	-	59	57	-	-	-	-	-	-	59	57
Debbie White	58	56	1	2	-	-	59	58	-	-	-	-	-	-	59	58
Total	590	575	2	3	-	-	592	578	-	-	-	-	-	-	592	578

Total current Executive Director fixed vs variable pay



Notes to the single figure table

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 2022 can be found on page 128. 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.

Taxable 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 pages 108 and 114.

Fixed Variable

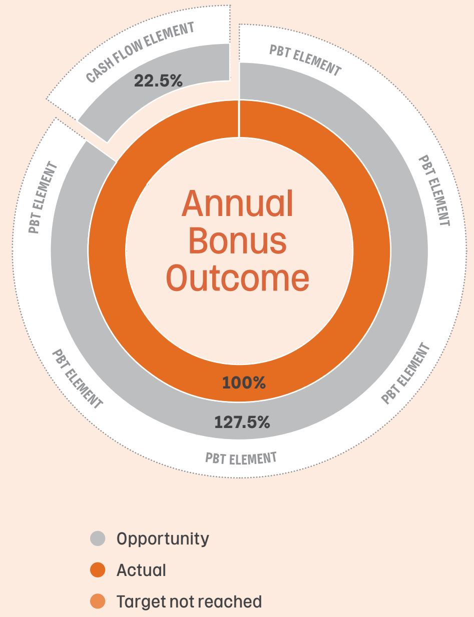
Annual Bonus (Audited)

Targets

Our annual bonus for 2021 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	£185.3m (17% of salary)	£246.0m (3% of salary)
Target	£259.1m (63.67% of salary)	£306.0m (11.25% of salary)
Outperformance	£272.1m (127.5% of salary)	£313.0m (22.5% of salary)

70% of the annual bonus will be paid in cash and 30% of the annual bonus will deferred as shares, which will vest two years following the deferral date (subject to continued employment).



Outcomes for the year

The PBT figure for the year in relation to the annual bonus is £390.3m. The cash flow figure for the year in relation to the bonus was £529.0m. In aggregate, the Executive Directors will receive an annual bonus of 150% of salary for 2021.

	Andrew Livingston	Paul Hayes
PBT (% of salary)	127.5%	127.5%
Cash Flow (% of salary)	22.5%	22.5%
Total Bonus (% of salary)	150%	150%
Total Bonus (£'000)	975	638

Performance Share Plan ('PSP') (Audited)

Targets

The PSP awards granted from 2016 to 2019 have been measured against PBT growth over a three-year period. The PBT growth for the 2019 award was measured between FY 2018 to FY 2021. Any shares that vest under the PSP award are subject to a two-year post-vest holding period for serving Executive Directors.

Outcomes for the year

The 2019 PSP had a threshold requirement of 5% PBT growth p.a. and a maximum requirement of 15% p.a. At the threshold requirement, 15% of the award would have vested. The PBT for 2021 was £390.3m, and therefore growth on FY 2018 was 17.2% p.a. The award will therefore vest at 100% of maximum opportunity at the beginning of May 2022.

£975,713 of Andrew Livingston's 2019 PSP award was attributable to share price increases. The share price at the date of grant was 502.6p and the three month average to 25 December 2021, the price on which the value of the award is calculated, was 898.0p.

Remuneration Committee report continued

Directors' remuneration report

Part 3: Implementation of policy in 2022

In this section of the Directors' remuneration report we set out how the Committee has implemented policy for 2022. 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 2022.

Non-Executive Director fees

Fee increases from 2022 are set out in the table below.

		Basic NED Fee[1]	Chair Fee	SID Fee	Committee Chair Fee
2022	Fee	£60,250	£273,000	£16,000	£13,300
	Effective date	1 January 2022			
2021	Fee	£58,500	£265,000	£15,500	£12,900
	Effective date	1 July 2021			

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.

Executive Director base salaries

Base salary increases from 2022 are set out in the table below. For 2022, salary increases for the wider workforce are around 3% of salary.

	2022		2021	
Executive Directors	Salary (£'000)	Effective date	Salary (£'000)	Effective date
Andrew Livingston	670	1 January 2022	650	1 January 2021
Paul Hayes	438	1 January 2022	425	-

In the 2020 Remuneration Committee Report, it was reported that the increase to Executive Directors' base salaries would revert to the usual cycle of annual salary reviews that applies at Howdens each year in July. Subsequent to this, the annual salary review date for all Howdens employees was changed to 1 January. The Remuneration Committee has agreed to align the increase in base salaries for Executive Directors and Senior Management to 1 January to provide alignment with the wider workforce. The Board has also agreed to align the effective date for increases in Non-Executive Director fees with the wider workforce and these will also be effective from 1 January.

Annual bonus measures

The table below sets out annual bonus measures for 2022. 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 2022 Remuneration Committee Report.

Bonus measure	Definition	Performance level	Pay out level
PBT	Pre-exceptional profit before tax from continuing operations	Threshold Target Maximum	17% of salary 63.75% of salary 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 Target Maximum	3% of salary 11.25% of salary 22.5% of salary

Fixed Variable

Performance Share Plan (PSP) measures

Set out below are the performance measures and relative weightings for each of the measures. For 2022 the maximum opportunity under the PSP is 270% of base salary for Andrew Livingston and 220% of base salary for Paul Hayes. The performance period is three years, measured over the relevant financial years, starting with the financial year of grant. See page 132 for scheme interests awarded in 2021.

PSP measure:	PBT growth	
Measure weighting	67%	
PBT component vesting schedule	PBT growth performance condition	Payout level
	12% p.a.	100% of maximum
	Straight-line vesting between these points	
	5% p.a.	15% of maximum
	Less than 5% p.a.	0

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). • 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 assessment	Performance against comparator group	Payout level
	Equal to or above upper quartile	100% of maximum
	Straight-line vesting between these points	
	Equal to median	15% of maximum
	Below median	0

Under the terms of the Directors' Remuneration Policy approved by shareholders at the 2019 AGM, the 2022 PSP awards will be subject to a two-year post-vesting holding period.

Remuneration Committee report continued

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.

Loss of office payments or payments to past Directors (audited)

No loss of office payments or payments to past Directors were made in the year under review other than those paid to Mark Robson, as disclosed in the 2020 Directors' remuneration report.

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 FTSE 250 REIT. Andrew received £54,937.54 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 are invited to participate in the Howdens Retirement Savings Plan (the 'Plan') or receive an amount in lieu of membership of the Plan. More information on pension entitlements for Executive Directors can be found on page 108 and in the Directors' Remuneration Policy at www.howdenjoinerygroupplc.com/governance/remuneration-policy

The table below sets out the payments made in lieu of membership of the Plan for the Executive Directors who served during the year. No additional benefits become receivable if Executive Directors retire early.

	Executive Directors	
	Andrew Livingston	Paul Hayes
Accrued pension at 25 December 2021 (£'000)	-	-
Normal retirement date	-	-
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)	91	31
Total	91	31

Fixed Variable

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 Share Plan awards 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]	144,766	94,655
Shares owned outright (including by connected persons)[2,5]	146,577	7,051
Current shareholding (% of salary)[1]	203%	15%
Guideline met	Y	N
Unvested deferred bonus shares	20,242	-
Share awards subject only to continued employment[3,5]	203	49
Share awards subject to performance conditions and continued employment[4]	689,040	125,436
Options subject to performance conditions	-	-
Vested but unexercised options	-	-

1 Based on a share price of £8.98, being the three-month average price to 25 December 2021, and basic salary as at 25 December 2021. This is calculated by using only those shares owned outright by the Executive Directors and their connected persons at 25 December 2021 and the Executive Director's salary at that date.

2 Includes Share Incentive Plan ('SIP') partnership and dividend shares.

3 Includes only SIP free and matching shares.

4 Performance Share Plan awards under the Long-Term Incentive Plan.

5 Between the end of the period (25 December 2021) and 23 February 2022, Paul Hayes has acquired 38 SIP Partnership Shares and 6 SIP Matching Shares. No other changes to the Executive Directors' total shareholdings (including any holdings of their connected persons) have occurred between the end of the period and 23 February 2022.

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[1,2]:	6,000	3,000	3,000	470	54,663	4,562

1 Including shares held by connected persons.

2 No changes to the Non-Executive Directors' total shareholdings (including any holdings of their connected persons) have occurred between the end of the period and 23 February 2022.

Remuneration Committee report continued

Directors' remuneration report

Part 4: Additional disclosures continued

Scheme interests awarded during the financial year (audited)

During 2021, the Executive Directors were invited to participate in the Performance Share Plan (PSP) and Share Incentive Plan (SIP), as set out in the table below. Further information on conditional shares and SIP free and matching shares may be found in note 25 on page 177:

Nature of award:	Award of Conditional Shares under the PSP	
	CEO	CFO
Number of shares under award	191,843	125,436
Face value of award[1]	£1,430,000	£935,000
Performance condition	Proportion of PSP award subject to the performance condition	
TSR performance condition:	33%	
PBT performance condition:	67%	
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 FY2023	
Grant date	6 Apr 2021	
Vesting date	6 Apr 2024	
Additional holding period	2 years	

1 Based on a share price of £7.454, being the closing price on 1 April 2021.

Nature of award:	Free and Matching Shares under the SIP[1]					
	Award type	Grant date	Vest date	Number of shares under award	Award price[2]	Face value of award[2]
CEO	Free Shares	6 Apr 2021	6 April 2024	33	£7.454	£245.98
	Matching Shares	12 Oct 2021	12 Oct 2024	24	£8.360	£200.64
CFO	Free Shares	6 Apr 2021	6 Apr 2024	33	£7.454	£245.98
	Matching Shares	12 Oct 2021	12 Oct 2024	6	£8.360	£50.16
	Matching Shares	19 Nov 2021	19 Nov 2024	5	£9.248	£46.24
	Matching Shares	17 Dec 2021	17 Dec 2024	5	£8.680	£43.40

1 Free and Matching Share awards under the SIP do not have performance conditions; however, there is a service condition of three years from the Grant date during which time the participant must remain employed by a UK Howdens Group company to avoid forfeiting the award.

2 The face value of the award is calculated using the share price at grant (the 'Award price').

Fixed Variable

Consideration by the Directors of matters relating to Directors' remuneration

The Committee met six times during 2021 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.

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 usually attends each meeting of the Remuneration Committee. Fees paid to PwC in relation to remuneration services provided to the Committee in 2021 totalled £171,350 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 2021. PwC is a member of the Remuneration Consultants' Group which operates a code of conduct in relation to executive remuneration consulting.

Voting at the 2021 AGM

The results of the advisory vote on the Directors' remuneration report at the 2021 AGM may be found in the chart below, along with the results of the 2020 and 2019 AGMs.

1. A vote 'for' includes those votes giving the Chair discretion.
2. A vote 'withheld' is not a vote in law.

By order of the Board

Karen Caddick
Remuneration Committee Chair

23 February 2022

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