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.	

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.

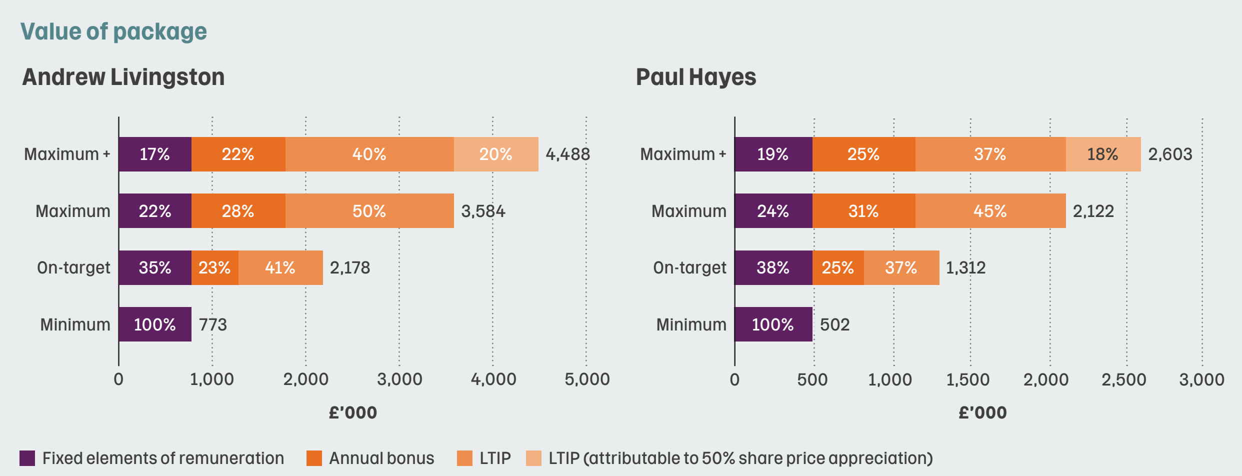
Statement of consideration of shareholder views

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.



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 reflect 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.