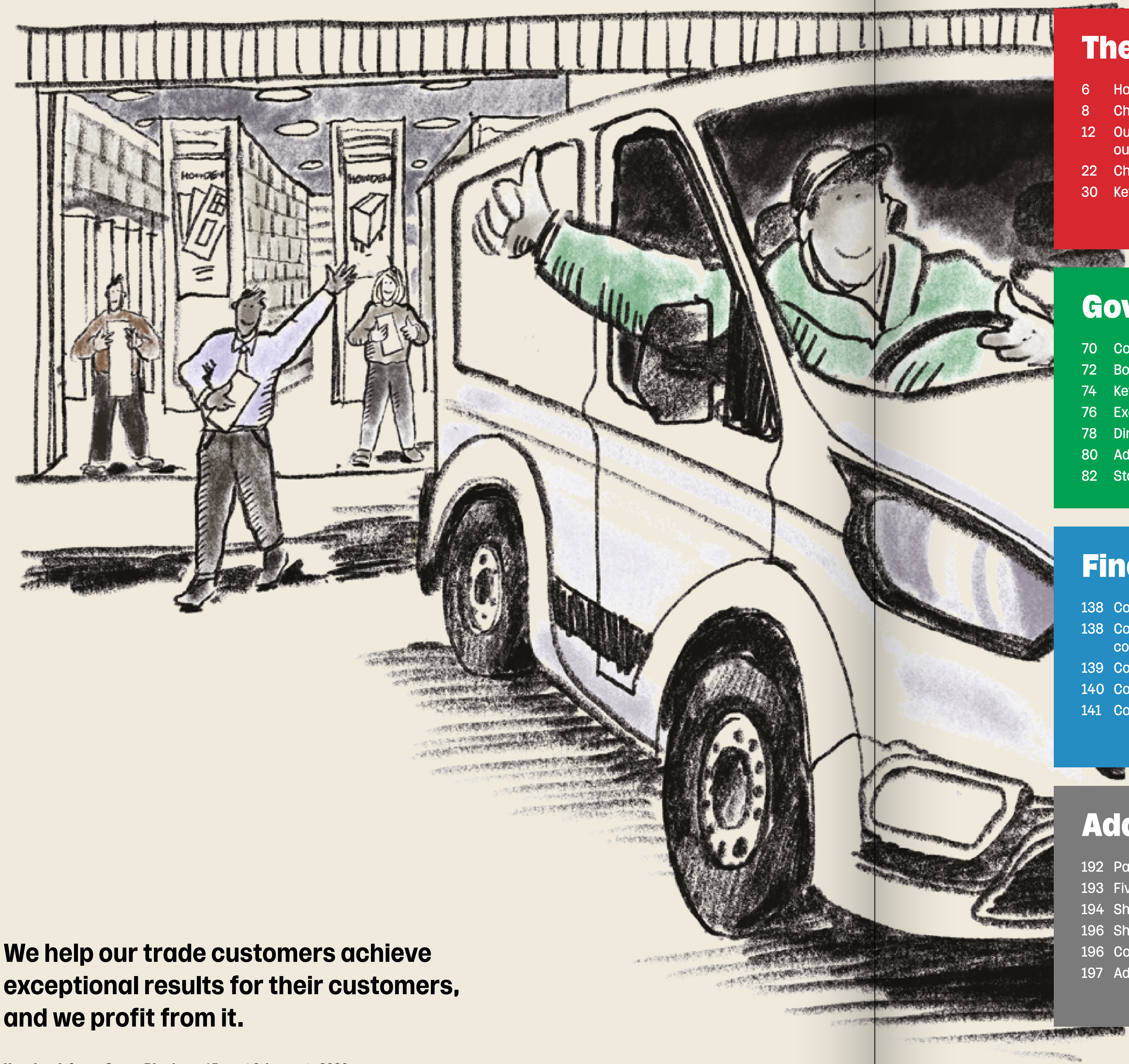
Annual Report and Accounts 2020

Howden Joinery Group Plc

HOWDENS

The UK's number 1 trade kitchen supplier

We make the builder's life simpler



We help our trade customers achieve exceptional results for their customers, and we profit from it.

Contents

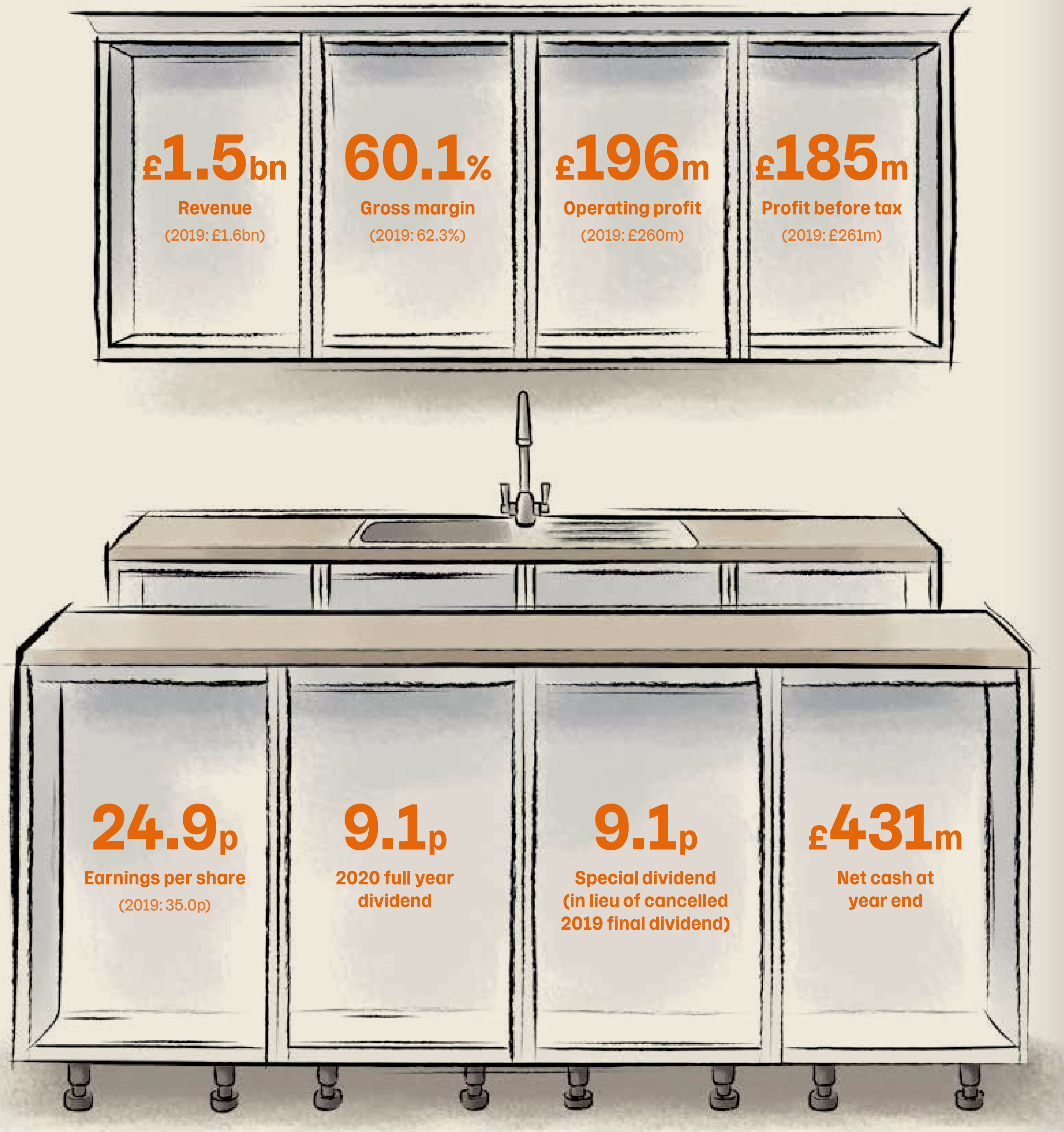
The strategic report

Governance

Financial statements

Additional information

Performance in 2020



£1.5bn
Revenue
(2019: £1.6bn)

60.1%
Gross margin
(2019: 62.3%)

£196m
Operating profit
(2019: £260m)

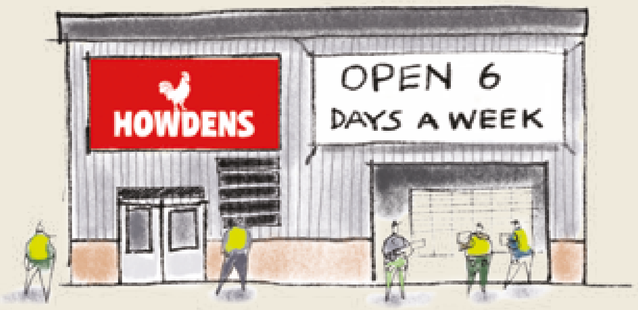
£185m
Profit before tax
(2019: £261m)

24.9p
Earnings per share
(2019: 35.0p)

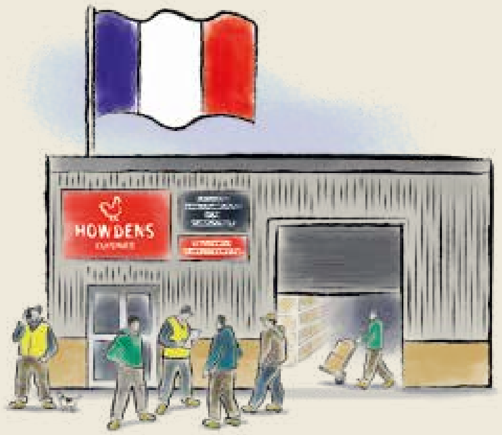
9.1p
2020 full year dividend

9.1p
Special dividend (in lieu of cancelled 2019 final dividend)

£431m
Net cash at year end

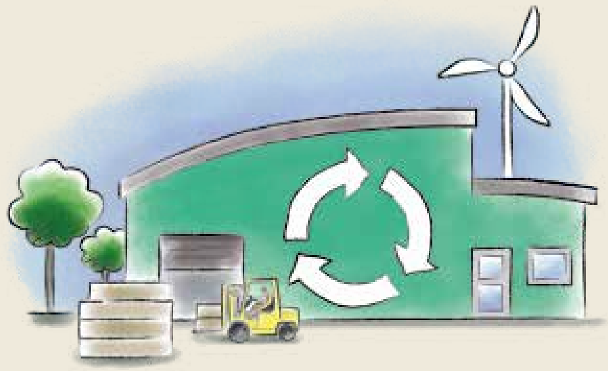


16 new UK depots



4 new depots in France

18 new kitchen ranges



Strategic review of ESG

See page 52

Making more product in our own factories

Continuing to strengthen our digital offering

Strategic report
Governance
Financial statements
Additional information

Chairman's statement

Howdens has grown steadily to become the leading supplier of kitchens in the UK, by focusing closely on the needs of our builder customers and providing value to all concerned.

8

Key performance indicators

We saw total UK sales of £1.5bn in 2020, 2.3% down on 2019. Profit before tax was £75m lower than 2019 at £185m. We put depot openings on hold in H1, but resumed them in H2 and opened 20 new depots.

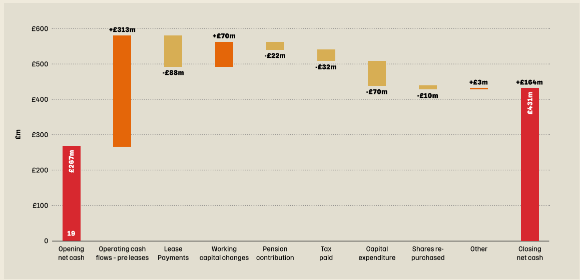
30

Our purpose, culture & values, market, business model and strategy

12

Financial review

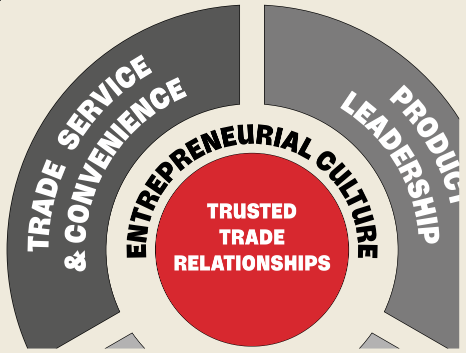
2020 results commentary.
2021 current trading and outlook.



33

Chief Executive's statement

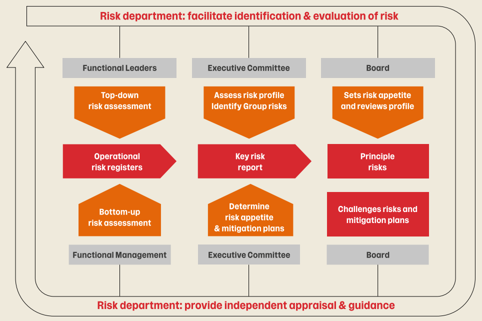
Howdens knows its purpose: to help our trade customers achieve exceptional results for their customers and to profit from doing so. When our customers succeed, we succeed.



22

Principal risks and uncertainties

Our approach to risk and how we manage it.
Our principle risks and what we're doing to mitigate their potential effects.



38

Strategic report

Sustainability matters

Why sustainability matters to us. What are our material areas. Our impact on our stakeholders. Sustainability KPIs, our 2020 strategic review, and our progress and targets in our material sustainability areas.

48

Going Concern and Viability statement

63

Other Directors' statements

67

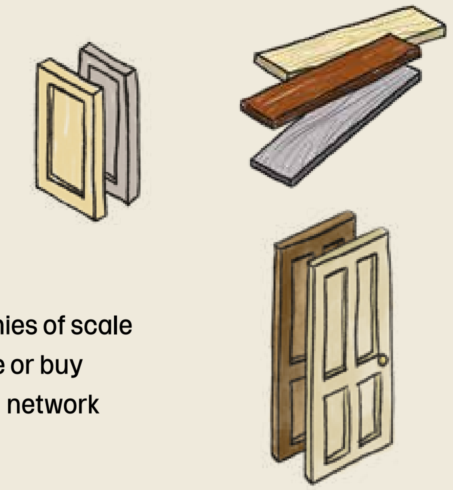
Howdens at a glance

The UK's largest kitchen supplier

We produce

Resources and relationships

- Trusted supplier relationships give us access to the latest products at the best prices
- Skilled and motivated workforce

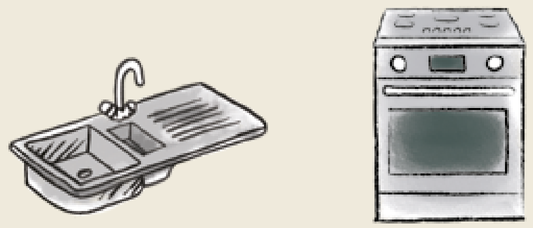


How do we create value?

- UK's largest kitchen supplier - economies of scale
- Our own factories - the choice to make or buy
- Our own warehousing and distribution network

Over 700 UK depots

We source



Resources and relationships

- Decentralised business model
  Empowered local depot managers
- Trusted customer relationships
- Local depot network with a nationwide reach
- The right product. In stock

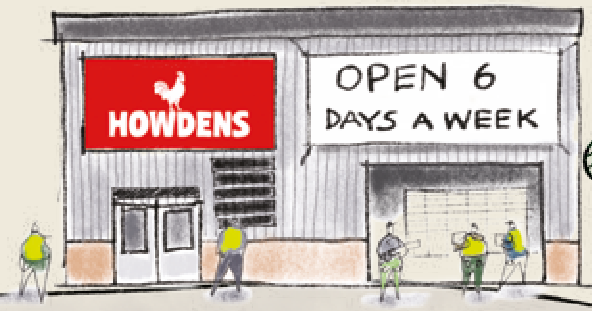
We deliver excellent service across our nationwide local depot network

We distribute

We are worthwhile for all concerned

Outcomes

- Happy builders and end-users
- Sustainable profits and strong cash generation
- Returns to shareholders
- Investment in:
  - our employees
  - new depots
  - new product
  - new manufacturing and logistics
  - new jobs throughout our business
- Giving back to local communities



We support the builder

How do we create value?

- Trade-only, with excellent service
- Helping our trade customers to succeed in selling to their customers:
  - Trade accounts support the builder's cashflow
  - Design and planning services
  - Home visits for end-users
  - Marketing materials
  - The right product. In stock in local depots

To supply from local stock nationwide the small builder's ever-changing, no-call-back quality and confidential trade terms... and to provide the builder's routine integrated kitchen and joinery requirements, assuring best local price, customer with enough choice, advice and aftersales to make a home to be proud of.

Chairman's statement

Richard Pennycook **Chairman**

Since its foundation in 1995, Howdens has grown steadily to become the leading supplier of kitchens in the UK, by focusing closely on the needs of our builder customers and providing value to all concerned.

COVID-19

2020 will unfortunately be remembered for the impact that COVID-19 had on all aspects of our lives. At Howdens, our priority continued to be the health and wellbeing of our employees, customers and the communities that we operate in. We closed our factories and depots on 23 March 2020 when the UK went into lockdown and acted quickly to preserve cash, including withdrawing our recommendation to pay a 2019 final dividend and postponing all non-essential capital expenditure, only gradually re-opening our business when we could operate in a safe, socially-distanced way.

I am immensely proud of the way that your Company reacted to the pandemic, from the initial provision during lockdown of emergency products to the NHS, care workers and vulnerable people and the way the teams quickly introduced new processes and procedures in manufacturing and depots to ensure a safe return to operation. We also worked continuously with suppliers around the world, ensuring we had products available in stock ready for when trading recommenced. This hard work made a significant contribution to our performance in the second half.

Continued growth

Following the decline in sales of 28.7% in the first half of 2020, we saw a strong recovery in the second half with sales up 16.2% as businesses were encouraged to return to work. Overall, 2020 sales were down 2.3% compared with 2019, with gross margin lower at 60.1% (2019: 62.3%), reflecting product mix, pricing and the impact from needing to close operations during lockdown. The first half loss before tax of £14.2m, benefited from £22m of Government furlough payments and £8m of business rates relief which were subsequently repaid in the second half, once the Board had determined that the Group did not require financial support from Government.

We were one of a number of companies who felt a societal obligation to repay the furlough moneys received from Government once we had had a chance to evaluate the impact of the crisis on our financial resources. More particularly, we were the first to also repay the business rates relief which had been provided by Government. We felt strongly that this was the right thing to do and have been delighted to note that many others have now followed suit, returning over £2bn to the Treasury which is much needed elsewhere.

Profit before tax was £185.3m, compared with £260.7m in 2019. This was pleasing, considering the impact COVID-19 had on our ability to trade and on our operations.

The excellent response to the logistical/supply-chain issues brought by the COVID-19 pandemic was testament to the Brexit planning that your management team put in place in recent years.

Our business model allows us to be agile in an uncertain and changing market environment. Considering the circumstances, we performed well against our financial and non-financial key performance indicators ('KPIs'), as shown on pages 30 to 32. Andrew Livingston discusses our performance in more detail in his review of the year on pages 22 to 29 and Paul Hayes in his financial review on pages 33 to 37. We talk about our Purpose and our Culture and values on pages 14 and 15.

Investment programme

In order to continue providing high levels of service to local builders and innovative products to our end-consumers, we believe that we must steadily invest in the business - both in our manufacturing and supply chain capability and in our national footprint. The Board believes that there are considerable opportunities for further growth, and that in order to fulfil that potential we must continue to invest in both capacity and capability through the economic cycle.

Howdens has undertaken a major capital expenditure programme in the past six years, investing more than £330m in the business.

Although our 2020 plans were interrupted by COVID-19, we opened 16 new depots, refurbished 30 older depots and continued to invest in our Raunds distribution facilities, in Northamptonshire. We continued to improve our digital services, both to our trade customers and to the end consumer. As a result, our new website is achieving more direct hits, increasing brand awareness and enabling end consumers to have a better dialogue with their builders and our designers.

We anticipate that capital expenditure for 2021 will be approximately £80m as we continue to open new depots, refurbish some of the older ones and invest in our manufacturing capability.

Returns to shareholders

Earnings for the year were 24.9p per ordinary share, a reduction of 28.9% on the prior year (2019: 35.0p).

As previously stated, the Board responded quickly to COVID-19 by withdrawing its recommendation for the 2019 final dividend of 9.1p per share and suspending other shareholder returns. As a consequence, no interim dividend was paid in 2020 and only £9.8m of shares were purchased as part of the outstanding £50m 2019 share repurchase programme.

Following the strong performance in the second half of 2020 and in line with our stated dividend policy, which is set out in detail in the Financial Review on page 36, the Board has decided to resume dividend payments. This includes, paying a special dividend of 9.1p in lieu of the 2019 final dividend that was cancelled during the peak period of COVID-19 uncertainty and recommending a final dividend for 2020 of 9.1p. The Group expects to announce an interim dividend for 2021 with its half year results in July.

Board

Paul Hayes joined Howdens as CFO designate in November and was appointed to the Board as Chief Financial Officer and an Executive Director at the end of the year. Paul is a seasoned listed company finance executive with complementary experience in consumer and manufacturing businesses. I am pleased to welcome Paul to the Board looking forward to working with him and Andrew through the next phase of Howdens' development.

Further reading

See my introduction to our Governance Report	**Page 70**
See our Sustainability Report	**Page 48**
See our Board of Directors	**Page 72**

Chairman's statement continued

The Board believes there are many opportunities ahead, and the strength of the Company will allow us to look through the economic cycle and to deliver relative outperformance in any downturn.

Paul replaced Mark Robson who stood down from the Board at the end of the year. Mark joined the Board as Chief Finance Officer in April 2005 and, in addition to this role, was appointed Deputy CEO in May 2014. In his early years, Mark was integral in the restructuring and refinancing of the Group, strengthening its balance sheet whilst ensuring that there was sufficient capital for the Howdens business to grow into the strong, sizeable and successful business it is today. His careful, thoughtful and prudent management of the Company's finances has been a key element of our ability to weather the storm of the COVID-19 pandemic. We are grateful to Mark for his service and contribution to Howdens.

The Board's response to COVID-19 is set out in more detail in the Corporate governance report, starting on page 70. Due to the unprecedented events of 2020 the Board were required to meet more regularly both on a formal and informal basis. It also significantly impacted the Board's agenda and focus. I'm pleased with the Board's response to the challenges which have arisen, and continue to arise, from the pandemic. Its impact can be felt in every section of this annual report and accounts.

Governance

Howdens has a clear governance framework and we operate with integrity in all we do. It is vital to maintain the trust of investors, customers, our colleagues and other stakeholders in an environment where expectations, as well as regulations, continue to grow. Our corporate governance framework and a summary of the work of the Board during 2020 can be found in our Corporate governance report.

We are pleased to report that the Company applied all the Principles of the UK Corporate Governance Code (the 'Code') throughout the period and we have reported how we have done so in summary starting on page 88. We are also pleased to report that we were compliant with all Code Provisions except for Provision 38. Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our Remuneration Policy ('Policy') was approved by shareholders in 2019 and stipulates that Executive Director new joiners' pension contribution rates must match that available to the wider workforce. A flight path for reducing our incumbent CEO's pension contributions is set out in more detail on page 106 of the Remuneration Committee Report.

Board meetings in 2020 inevitably focused on the impact of the COVID-19 crisis and a majority of meetings were held by video conference. Throughout the crisis, the Board ensured three areas of consideration were covered at each meeting: the health and safety of our colleagues and customers, cash retention and generation, and recovery planning. However, the Board was careful not to lose sight of other crucial areas such as ESG and corporate governance. Our Corporate governance report sets out in more detail how the Board responded to the COVID-19 crisis throughout the year (pages 80 and 81).

Sustainability

Our Sustainability report, which begins on page 48, talks to our aim of being a good corporate citizen and living our ethos of being worthwhile for all concerned. Howdens is a growing business and sustainable behaviour will help us continue to grow in a way that preserves our culture, supports our business model, mitigates our risks and addresses the needs of our stakeholders.

During 2020, the Group carried out a wide-ranging strategic review of its ESG priorities, identifying four main commitments, including zero waste to landfill and carbon neutral manufacturing, which each have Executive Committee member ownership. The review also identified a range of other additional focus areas and research projects as well as selecting and aligning our targets to the UN Sustainable Development Goals (UN SDGs).

Fundamentally, each of our depots represents a place in a local community and our people are encouraged to participate in community life. In 2020, the Group donated around £1.2m to good causes.

Market environment and risks

Howdens has a strong track record of dealing with change and facing the challenges of the evolving marketplace. The Board is mindful of the challenges that lie ahead and we continue to evaluate the potential and emerging risks that could impact the Group. We address these matters in more detail on pages 38 to 47. As in previous years, we monitor our market situation closely, in order to ensure timely responses to changing conditions.

Looking ahead

The Board believes there are many opportunities ahead, and the strength of the Company will allow us to look through the economic cycle and to deliver relative outperformance in any downturn.

These opportunities to grow our business represent a further step change in our ambition. The implementation of new generation depot designs, the ability to rollout smaller depots, as well as the potential for international growth, will, I expect, provide Howdens with strong opportunities to create value in the coming years.

We expect to open around 35 new depots in the UK and around eleven new depots in France, during 2021 as well as investing in our manufacturing capability and digital offering.

At the same time as we see good opportunities for expansion and creating value, I note that there is continuing uncertainty surrounding the UK consumer and the economic outlook. We remain confident in the Group's potential and believe that the business has the financial capability, the culture and the skills to enable us to plan for the future from a position of strength. Above all else, Howdens is a people business and it gives me great pleasure on behalf of the Board to thank our colleagues for delivering another fine performance in 2020.

Richard Pennycook
Chairman
24 February 2021

Our purpose-driven approach

Our purpose

To help our trade customers achieve exceptional results for their customers and to profit from doing so. When our customers succeed, we succeed and our stakeholders succeed.

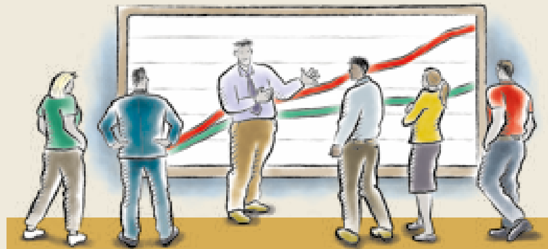
See page 14

Our purpose drives our business model and shapes our strategic decisions

Business model

Trade only. In stock from local depots. Entrepreneurial depots supported by UK Manufacturing and efficient sourcing and distribution.

See page 18



Strategy

Reach more builders. Offer them the best product, pricing, service and support. Generate profits for reinvestment and shareholder returns.

See page 20

We respond to external opportunities and mitigate threats

Markets

See page 16

Risks

See page 38

Culture & values

Worthwhile for all concerned.

See page 15

Sustainability

The importance of sustainable behaviour is recognised right through the business.

See page 48

Governance

A clear governance framework. Operating with integrity.

See page 68

Culture is aligned with purpose, values and strategy

Sustainable behaviour preserves our culture, maintains focus on our business model, mitigates our risks and addresses the needs of our stakeholders

Our governance framework guides all decisions and outcomes

Our business model and strategy generate value for a range of stakeholders

Long-term value for our stakeholders

Long-term, sustainable growth and value for all stakeholders. Ensuring that our business positively impacts the world around us and the people within it.

Our purpose

To help our trade customers achieve exceptional results for their customers and to profit from doing so.

When our customers succeed, we succeed.

Howdens' focus on serving our trade customers underpins everything we do. We believe the best way to source and install a kitchen is to work with your local tradesperson, and we are clear that the purpose and future success of our business lies in serving the trade market to the highest standards.

Our relationship with our trade customers has three key facets, each supported by our entrepreneurial culture.

Trade service and convenience

Depots located where our customers need them; monthly account facilities; product in stock to get the job done including appliances, joinery, flooring and hardware. A design service to help customers choose and plan kitchens.

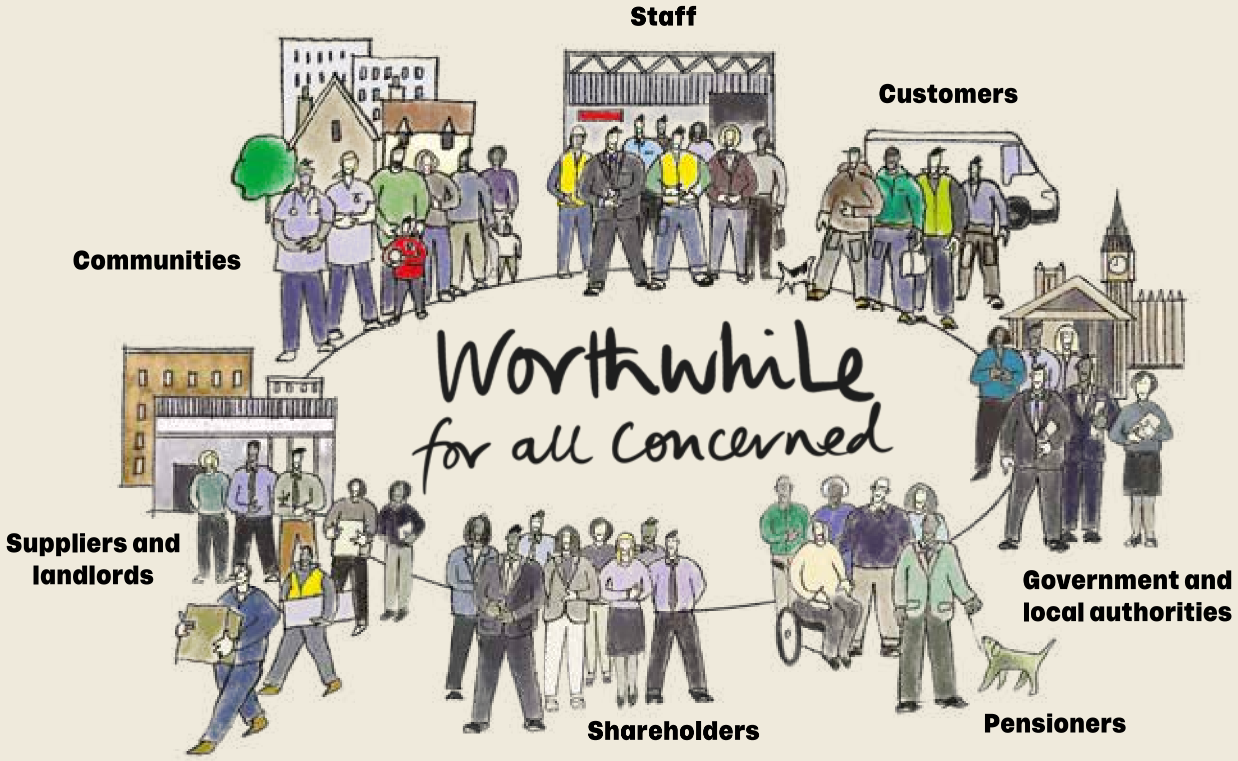
Product leadership

Product design and testing facilities ensure that we offer the right product styles that are attractive to consumers; designed to be trade quality and easy to fit with the builders in mind ('fit and forget quality').

Trade value

Best local trade prices enabled by in-house manufacturing, long-term key supplier agreements and a low-cost depot operating model.

Our culture & values



Howdens was founded on the principle that the business should be worthwhile for all concerned - customers, prospective customers, homeowners, tenants, local communities, our suppliers, our investors, our staff and their families.

This founding principle has shaped our business model and our strategic decisions for more than 20 years, and it continues to be at the heart of what we do.

Worthwhile for our trade customers

- Profitability, convenience, service, support
- Great product range for them to offer to their customers
- Outstanding service
- Trusted personal relationships - we do what we say
- Trade accounts and confidential discounts
- Design, planning and marketing support

Worthwhile for our staff

- A good living wage, plus local profit-sharing and incentives
- Excellent rewards and recognition for outstanding performance
- An entrepreneurial culture, with central support
- A growing company with opportunities to develop and progress

Worthwhile for our suppliers

- Strong and enduring relationships based on trust
- Working together to develop new products and deliver best service
- Scale - good opportunities for them to build a profitable business

Worthwhile for our other stakeholders

- Delivering consistent long-term value for shareholders
- A growing dividend
- Surplus cash returned in share buybacks
- Important local employer and good neighbour in over 750 communities
- Giving back to local and national charities
- Responsible purchasing and environmental policies

Our market

UK market

- 29 million UK homes, 18 million owned and 11 million rented.
- Market continues to shift from DIY to 'Do It For Me'.
- Strong level of investment in new house build.
- Stamp duty holiday has given short-term stimulus.
- Consumer spend switching into home improvement given current conditions.

Kitchens for everyone

- UK market leader, selling 1 in every 3 kitchens.
- Selling primarily to small builders who supply into a broad range of markets including social housing, private rentals and owner occupied homes.
- Contracts division supports the increasing demands of the new build market.
- One stop shop for each customer type.
- Over 4 million cabinets, 2 million doors, 1 million appliances, 2.5 million m² flooring.

Trusted by the trade

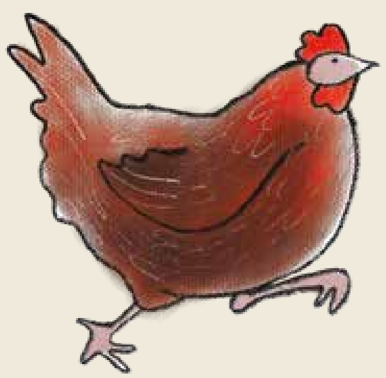
- Increasing customer expectations result in professionals being needed more and more.
- Our service to the builder is built on strong local relationships supported by our in stock model, depot manager autonomy and trade quality products.
- We support the trade with end consumer services - in-home survey, free planning and design service, in depot presentations and expert advice.
- All our products are tested to UK and Global standards and our accessories and appliances are tested to ensure they are easy to fit for our builder customer.
- One stop shop for all joinery and kitchen related products.

Kitchen is the heart of the home

- Kitchens play a big part in the home and must be functional and social places.
- Kitchens need to be functional in small spaces.
- Kitchens need to be design-driven as they are constantly on show in open plan spaces.
- Our ranges cater for traditional, modern and niche looks whilst our appliances, storage options and kitchen accessories ensure the level of functionality demanded by today's consumer.
- Technology advances mean more focus on sustainability, eco-focus and time saving features.

French market

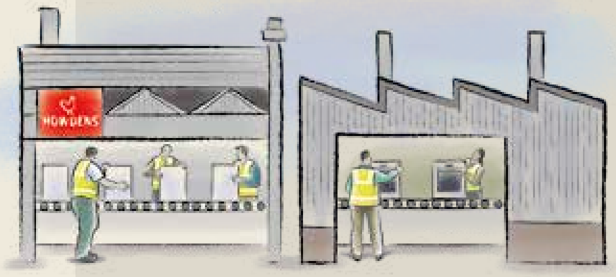
- 29 million homes in France: 60% owned, 40% rented.
- Consumer spend switching into home improvement, as in the UK.
- Market starting to shift from DIY to 'Do It For Me' - just as it was in the UK when Howdens first started.
- Customers want everything quickly, and we're the only one who offers our range of quality and product from stock.



Our business model

The UK's leading kitchen supplier, selling only through trade customers.

What we do



Product manufacturing and sourcing

- Our manufacturing and sourcing experts ensure that we offer attractive products that are trade quality and easy to fit.
- We make what it makes sense for us to make in our two UK factories and we buy other product in from our suppliers.
- We design and manufacture all our own cabinets, over 4 million per year, as well as some cabinet frontals, worktops and skirting boards. We're agile and we keep the make vs buy decision under review.
- We buy in thousands of different products from hundreds of trusted suppliers based around the world, including appliances, joinery, flooring and hardware. We offer everything necessary for a new kitchen.

Distribution

- Our in-house distribution operation delivers from our factories and central warehouses to our network of more than 750 depots.
- No two deliveries are alike, and each one must be correct, complete and on time. We can guarantee this because we control our own distribution.

Depots designed for our trade customers

- Our business depends on entrepreneurial depot managers and the relationships between highly motivated and incentivised depot teams and their local builders.
- A typical Howdens depot is in an edge-of-town location - more convenient for our trade customers, and cheaper to rent. Around 85% of our UK customers live within 5 miles of a Howdens depot.
- Our in-stock model means that builders can get the products they need at short notice, even when plans change part way through a job.
- We offer the builder quality products, excellent levels of service and trade accounts that allow them up to eight weeks to pay. We focus on helping our customers succeed. When they make money, we make money.

Consumers/Homemakers

- Our 1,600 specialist kitchen designers support the builder by visiting the end-user's home, or work with them remotely using our new virtual design service, and help them choose, plan and design their dream kitchens.

The value we create

Customers

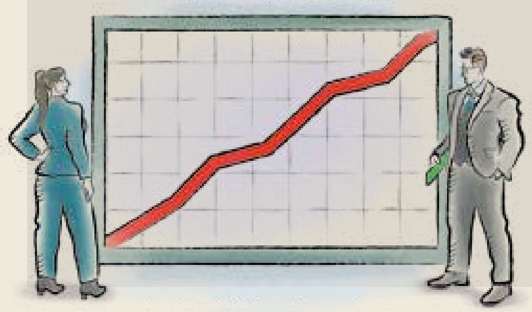
- Save time and money with Howdens. Trade quality, full product range for the complete kitchen, available from stock at competitive, confidential prices.
- Trusted personal relationships providing outstanding service, from kitchen design to delivery and aftersales support.
- Trade accounts allow the builder to finish their project and receive payment from their consumer before they need to pay us. We offer online account management and ordering to help the busy builder.

Staff

- A growing company with opportunity for training, development and career progression.
- A safe working environment, good salary, pension and benefits, with local profit-sharing and incentives.

Suppliers

- Strong and enduring relationships based on trust.
- Co-operative engagement on new products and the scale necessary to support suppliers' businesses and investment plans.



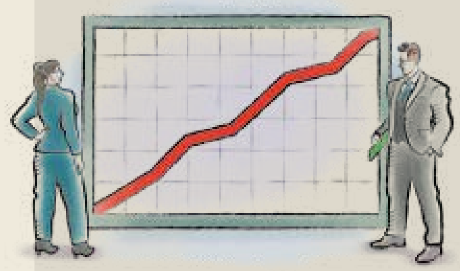
Investors

- Long-term value creation, generating cash for further investment in the business and to support a growing dividend.
- Surplus cash returned to shareholders through share buybacks.

Communities and environment

- Employment opportunities and good neighbour in over 750 communities.
- Supporting local and national charities.
- Responsible ESG practices and policies.
- See our Sustainability report (page 48).

Our strategy

Strategic objective	What does it mean? Why is it important?	What did we deliver? What are our future targets?	What risks does it mitigate?
Reach more builders. Grow market share. Increase trade convenience. 	• Continue to open more UK depots, closer to the builder. • Adding a new depot near to an existing one sees overall sales increase. We continue to see scope for 850 depots in the UK. • Open more depots in France, at the right pace and in the right places. • Use digital to drive personal relationships and save the builder time. Anytime Ordering and online account management means that conversations in the depot can focus on sales and profit. • Time is money for the builder. Trade convenience helps them to make more money, which means that we make more money.	• 16 new UK depots in 2020, with 35 new depots targeted for 2021. • 4 new depots in France in 2020, with 11 more targeted for 2021. • Website visits grew, and drove an increase in sales leads and brochure requests. • Online account management tool frees up builder time for more profitable conversations. • 2021 rollout of our digital Anytime Ordering service, offering further efficiencies for both builders and depots.	• Failure to maximise growth.
Operational excellence. Increase customer service, efficiency, trade value and profitability. 	• Invest in the safety and success of our people. Careers with prospects and excellent rewards for outstanding customer service. • Invest in our depots. New format depots reduce picking times and increase efficiency. • Invest in efficient manufacturing and distribution. High quality at low cost with reduced lead times and increased supply chain resilience. • Use digital to improve business processes, freeing up more time to serve the builder directly.	• Health & safety KPI: serious accident rate significantly lower than UK average. • ISO45001 in our factories and logistics network. Risk Management Initiative of the Year in our depot network. • 30 depots converted to our new format. Continued to increase the amount of product we make in our own factories in 2020. • Further 2021 investment in manufacturing will reduce costs, cut lead times and increase supply chain resilience.	• Health & safety. • Loss of key personnel. • Deterioration of business model and culture. • Cyber-security incident. • Credit control failure.
Product innovation. The right amount of the best product, at the best price. 	• Product leadership - constant investment in new product is critical in our offer to builders. End users demand it. • Good range management balances the benefits of having new product with the costs of managing it through its lifecycle. • Increase the amount of product we make in our own UK factories when it gives us a competitive advantage and security of supply. Make what it makes sense to make and keep this decision under review.	• 18 new kitchen ranges in 2020. • New handleless cabinet platform offers a stylish Linear look at affordable prices. • 16 new ranges planned for 2021, with other products and accessories to meet customers' needs for a more bespoke look. • Disciplined range management. • Acquired the assets to make our own solid surface worktops.	• Product design relevance. • Interruption to continuity of supply.
Prudent financial management. Giving us the tools to do the job. 	• Cost control and agility to manage through macroeconomic crises. • Manage cash through the operating cycle to cover changes in working capital without having to borrow. • Generate cash to invest in our strategic priorities. • Return surplus cash to shareholders.	• Strong financial management through the onset of COVID. • Cost control and conservation of cash. No need to borrow at any time during 2020, all Government COVID aid repaid before end of 2020. • Ending 2020 with a strong balance sheet, enabling us to announce both investment for growth and return of cash to shareholders in 2021.	• Changes in market conditions.

HOWDENS

Chief Executive's statement

Andrew Livingston Chief Executive Officer

Howdens has performed well in a challenging year that has been significantly impacted by COVID-19. We have adapted to COVID trading conditions whilst investing and progressing our strategic plans.

Perspectives on 2020 results

The result for the year reflects the spring lockdown period, followed by a year on year increase in 2nd half sales and profit. Sales for the full year were down 2% at £1,548m with profit before tax of £185m, £75m lower than 2019.

Howdens has performed well in a challenging year that has been significantly impacted by COVID-19. We adapted to COVID trading conditions while investing in the business and progressing our strategic plans.

Our performance shows the strength of our trade-only business model and how we've continued to evolve while prioritising the health and wellbeing of our staff and customers.

- First half UK sales were 29% lower than 2019, with all of the shortfall happening in the second quarter, coinciding with the start of the UK spring lockdown.
- UK second half sales increased by 16% on 2019, with the increase trending upwards across the half, exceeding our expectations in latter periods.

I believe this performance reflects the measures we put in place to enable safe working across the business and to support our customers with new services, lower prices, high stock availability and a safe place to trade.

With people by necessity spending more time at home and with concerns about further lockdowns we also believe people were choosing to spend more on their homes.

We extended our traditional 'P11' sale period across Periods 10 & 11.

- We saw signs of pent-up demand. We heard reports of extended delivery times amongst our competitors and there were end-user concerns about further lockdowns, so we extended our sale period to help builders to book in more kitchen fits over a longer time.
- Period 10 & 11 sales were above our original target, with Period 11 alone still returning a record result compared to previous years.
- It also benefitted supply chain management and the ability of depots to service demand.

Importance of our Culture and Business Model in 2020

The strength of our culture and business model - the unique way we serve our customers and go about our work- are at the heart of Howdens' success. I am pleased with how the business responded, and continues to respond, to the challenges of COVID-19.

First, we took care of staff and customer wellbeing.

- Safety-first, consensual approach when returning to work. Following government guidance, listening to our Health & Safety Team Leaders, our staff and our customers.
- Specific online employee resource for COVID-19 issues.
- Financial support for staff on furlough.

Strategic report
Governance
Financial statements
Additional information

We deferred or reduced cash expenditure where possible, whilst protecting essential areas.

- Made sure depots stayed in stock, and continued with the works at our new warehouse.
- Initially deferred new depot openings, refurbishments and refits, but restarted them later in the year.

We supported our customers and local communities.

- Re-opened depots and factories safely, with new working practices, as soon as we could.
- Increased stock levels to supply customers' immediate needs. This also meant we supported our supply partners.
- Lowered some prices, giving depot teams more flexibility on margin and incentivising them to maximise sales.
- Launched new services including 'call and collect' and an online kitchen design service.

Learnings in 2020

We applied learnings from trading under COVID conditions to the ways we do business and how we operate.

- Lockdown increased online shopping. Our new online services are pathfinders for future upgrades.
- Operating under COVID helps us see if there are surplus costs and inefficiencies in the business, and how we can use IT to free up time and increase productivity.
- We now know how to deal with varying degrees of lockdown and social distancing across all our operations. We have seen that these may be put in place at short notice and may have different rules in different areas.

Responsible stakeholder relations

COVID-19 had a significant impact on all our lives and our priority remains the health, safety and wellbeing of our employees and customers, while acting fairly and responsibly in all our other stakeholder relationships.

- During the spring lockdown we kept up an emergency provision to support the NHS, care providers and vulnerable people. We have continued to support local and national charities throughout the year.
- We continued to pay our landlords in full. We honoured, and in some cases increased, our orders from suppliers, and they supported us with high stock availability.
- Thanks to our strong balance sheet and our trading performance, we repaid all our 2020 furlough funding before the year end and settled a number of other payments that we initially deferred, including taxes, pension deficit contributions and business rates waived by local councils.
- We have subsequently been able to recommend paying a dividend to shareholders in respect of 2020 and also a special dividend in recompense for the cancelled 2019 dividend.

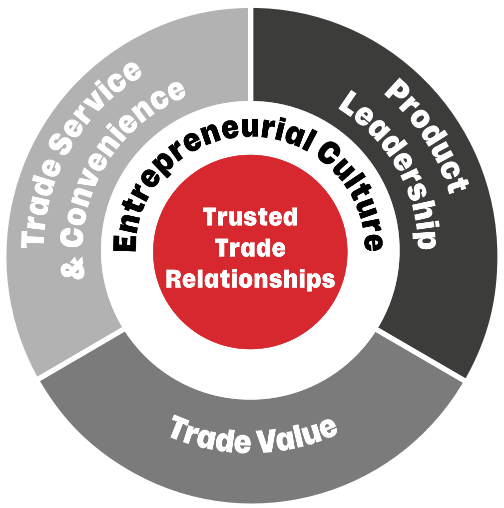
Chief Executive's statement continued

Based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership, we have initiatives in place to exploit opportunities in a challenging market.

Update on strategic initiatives

The market remains challenging and may be further impacted by COVID-19, Brexit and underlying consumer confidence. We believe we are well positioned with our in-stock, local model, providing we reinforce the differentiation of our offer profitably.

Based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership, we have initiatives in place to do this.



Our 4 strategic initiatives are:

1) Evolving our depot model to use space more efficiently and to provide the best depot environment for our staff and customers.
2) Improving range and supply management to help customers' buying decisions, to access supply chain benefits and to make productivity gains.
3) Using digital to raise brand awareness, to support the business model with new services and to free up time for depot staff and customers to use more productively.
4) Developing our international operations, based in France, using a city-based approach.

1) Depot evolution

We are opening depots in an updated format to provide the best environment to do business in, with no material change to fit-out costs.

This year we opened fewer depots than planned.

- In the 1st half we put our opening programme on hold.
- In the 2nd half, we opened 16 new depots.

We are targeting around 35 UK depot openings in 2021, including some more in Northern Ireland.

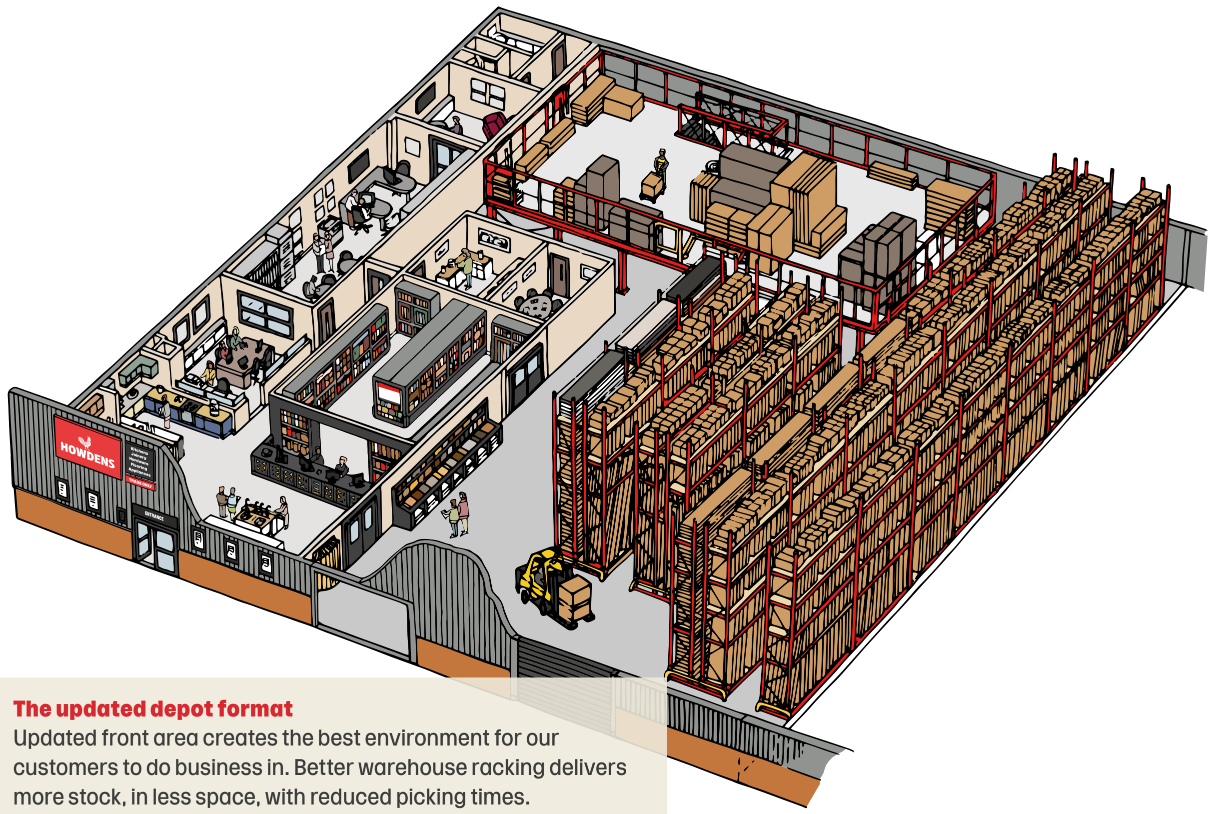
We also re-formatted some more of our older depots. We continue to learn how best to apply this opportunity to our existing depots.

In 2020 we converted 30 depots to the updated format, in line with our budgeted average cost of £225,000.

In 2021 we plan to reformat a further 40 depots. We are budgeting an average cost similar to the 2020 level, and we continue to refine the scope of refurbishments.

We also re-racked the warehouse areas of 17 existing depots without other modifications in 2020 and we plan to re-rack a further 20 in 2021.

By the end of 2020, we had 117 UK Depots in the updated format, and we had re-racked the warehouses of a further 79 depots. By the end of 2021 we are planning to have 192 UK depots in the updated format, as well as a further 99 that have been re-racked.



The updated depot format
Updated front area creates the best environment for our customers to do business in. Better warehouse racking delivers more stock, in less space, with reduced picking times.

2) Range and supply management

Range management

New kitchen ranges represent a significant portion of sales each year, as product lifecycles shorten and our customers want new product from us.

Our 2020 new product featured 18 new kitchens in two new styles plus more colour options.

We began using our new handleless cabinet platform to meet demand for a Linear look at more affordable price points.

Because we launched our new kitchen ranges earlier than last year, we were well-positioned with product as we returned to all-depot trading. New product sales were ahead of 2019.

2021 new product features 16 new kitchen ranges, new lines and products to promote sales of complete kitchens, and to enable customers to accessorise kitchens for a more bespoke look.

For 2021 we are introducing a new more traditional style timber shaker range that will strengthen our £4,000-plus offering.

We are adding more choice, with new colourways in some of our most popular ranges, together with a number of added value accessories so that customers can create a more personalised look.

All our new kitchen ranges for 2021 will be in-stock by the start of the 2nd Quarter, well ahead of our peak sales period and 4 weeks earlier than in 2020.

Disciplined range management is crucial to both best availability and profitability.

At the end of 2019, we had 67 current kitchen ranges and we ended 2020 with 63, having cleared more ranges than we added during the year.

We believe around 65 current ranges is the right number for our market at present and will be managing range introductions and clearances accordingly.

Chief Executive's statement continued

Improving stock management, protecting our in-stock offer, investing in making more of the product we sell and in our digital offering.

Improving stock management - XDCs

We are making an improvement to stock replenishment by supplementing the depot's core weekly delivery with a next day service from a regional cross-docking centre (or 'XDC').

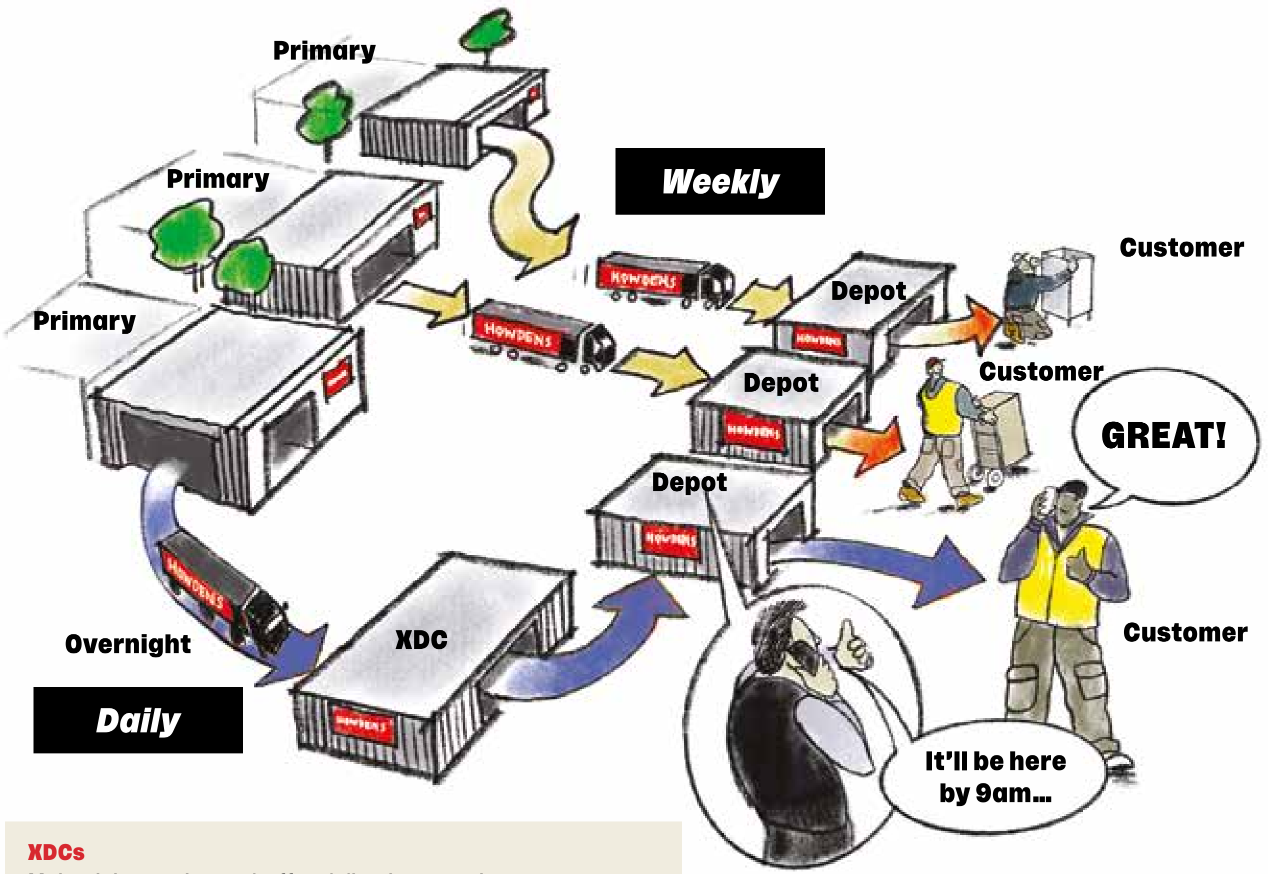
Howdens is an in-stock business. Builders tell us that our high level of stock availability is one of the key reasons they buy from us.

Our traditional stock replenishment model is based on weekly delivery to depots. It is cost-effective and is particularly suited to fast moving product and product with relatively predictable demand patterns.

Using XDCs to rebalance where we hold stock and changing the delivery pattern of some lines means that depots can, for example, allocate more warehouse space to faster-selling lines and reduce contingent stocks of slower-moving ones.

This makes it simpler and more efficient for depots to deliver the superior service levels and product availability that our customers expect. It frees up time and resources spent on stock management, for example on inter-depot stock transfers.

We are developing the XDC capability with 3rd party logistics partners and in the main we are using their existing infrastructure. The service is available to 120 depots at present and we expect to increase this to around 250 depots during the 2nd Quarter of 2021.



XDCs
Maintaining our in-stock offer, delivering superior customer service, and freeing up time and resources in our depots.

Safeguarding our manufacturing & distribution under COVID conditions

Our dedicated manufacturing & supply chain is critical to the success of our in-stock offer. It supplies all the product to all our depots, which each have individual and changing day to day requirements. Operating under COVID conditions meant finding ways to re-engineer how our factories operate and how we supply and distribute to depots.

When lockdown started, we initially closed substantially all our manufacturing and supply facilities.

- With employee consultation, we then designed a series of social distancing measures, work processes and practices as we prepared for a phased return to work.
- With added safety measures in place, we re-opened our factories and warehouses, making sure that depots remained in stock as demand and the number of depots trading changed.
- Since re-opening in April, we have continued to work with appropriate COVID-compliant processes.
- We can now manufacture all products whilst maintaining social distancing.
- Our efficiency, whilst below pre-COVID levels, has progressively improved, and we were able to accommodate the significant rise in 2nd Half volumes.

Protecting our in-stock offer

We acted to protect our in-stock offer against supply chain disruption and to accommodate irregular patterns of demand. We increased levels of safety stock and used back-up sources of supply. We will continue to do so as needed.

We first did this as part of our Brexit planning and again ahead of the spring lockdown. Our ability to use our disaster recovery capacity, together with the extra space at our new warehouse in Raunds, which came on stream as scheduled in September 2020, helped us to maintain stock availability.

Our stock strategy has also benefitted from significant engagement with our supply base.

- We have long-term relationships and agreements with many of our suppliers. Being a manufacturer ourselves has helped us anticipate the potential COVID risks in our supplier factories.
- We operate on 'Ex works' rather than 'Delivered' terms with the majority of our suppliers, which means we can work directly with our shipping partners to resolve logistical issues and provides us with earlier warning of orders that might be running late.

Stock availability is fundamental to our offer. We we have prioritised this in 2020 and will continue to do so in 2021.

- For 2021 we are extending our holdings of safety stock as a contingency against unexpected demand patterns and interruptions to supply.
- We have broadened the range of SKUs we protect in this way and increased the number of weeks cover we have on some lines.

More investment in our UK manufacturing

We keep under review what is best to make or buy, both in terms of cost and overall supply resilience and flexibility.

In 2019 we invested in manufacturing technology enabling us to make the doors for our new Hockley kitchen ranges.

Based on the success of that, we have now committed to a further investment.

- We intend to manufacture the frontals for some of our top selling kitchen ranges at a lower cost and a reduced lead time. We will still keep the benefits of sourcing from external suppliers, who will continue to provide around half of our frontals. The new investment will be at our Howden site. We expect that it will come on stream in the second half of 2022.
- We are also commissioning a second architrave and skirting line as our first line is now at full capacity. We expect this to be up and running in the first half of 2022.

Chief Executive’s statement continued

We are clear on our prospects and priorities for 2021. We are confident in our business model through changing economic conditions and in the future benefits of our strategic initiatives.

We identified the need to upgrade our offer in solid surface worktops. In 2020 we took the opportunity to buy the assets of a large UK solid surface worktop maker from the administrator.

- We bought a 16-acre site near our factory at Howden, including a recently-commissioned factory and new manufacturing plant and machinery.
- We acquired the assets at a competitive price, with significant savings in lead time versus building from scratch. We expect them to be operational in 2021.

3) Use of digital

We use digital to reinforce our model of strong local relationships between depots and their customers.

Our digital investments were instrumental in supporting our model in 2020, when relationships and ways of doing business were disrupted.

2020 saw increased activity on our web platform and growth in our social media presence, which also stimulates interest in viewing our products and services on Howdens.com.

- Howdens.com ‘ impressions’ were present in 48% more organic search results a month.
- Site visits increased by 53% year on year.
- Depot leads via the website increased by 88% and brochure requests by 39%.
- Across social media sites our follower base, at 213,000, was up 119%. We reached 8 million users a month, and those who actively engaged with us were up 165%.

In 2020 Howdens.com provided a key customer access point to the business. We extended our range of online services to support builders and end-users.

We rolled out the online account facilities so that users can manage their accounts and make payments at any time.

- By the end of the year, 30% of our credit account holders had registered to use the service, with around 43% of them using it to make a payment and 68% downloading documents.

We launched a call-and-collect service through our website, providing an additional way for customers to trade safely with us following the onset of lockdown.

When we couldn’t have kitchen planning meetings in depots or in homes, we developed a personal online kitchen design service.

- As well as enabling people to plan kitchens without the need for a depot or home visit, the service helps put Howdens front of mind earlier in the procurement process.
- Feedback has been positive, and we are continuing to offer the service.

We continue to add new digital capabilities and content to support the local relationships depots have with their customers.

Starting from February 2021, we are offering ‘Anytime Ordering’ for the first time on our trade website. This will be a major upgrade of our ‘call-and-collect’ service, providing efficiencies for both depots and customers.

Features of the service include:

- Bespoke pricing for each customer. Account holders can see their own prices, order product and quote for individual jobs out of hours.
- A scheduler for customers to select a depot collection or delivery time of their choosing.
- Integration with our depot lead management system, helping depots manage their customer relationships even more efficiently.

4) Developing our international operations

The 2020 International performance gives us the confidence to open more depots in France.

International delivered a step change in performance post-lockdown. 2nd Half sales increased significantly year on year.

- In France, lockdown occurred a little earlier than the UK. When lockdown started, sales were up around 3% year on year.
- We took a similar approach to re-opening as in the UK with depots initially re- opening in call & collect mode on a phased basis.
- During May, as lockdown ended, depots were able to trade in more normal ways, with appropriate safety protocols in place.
- Whilst sales in the 1st Half were down around 18% year on year because of the onset of lockdown, sales increased significantly year on year in the final two periods of the 1st Half.
- Sales in the 2nd Half increased by 38 % in constant currency terms and were up 13% for the year as a whole.

We believe customers are increasingly recognising the advantages of our trade-only in-stock model, our service levels and competitive pricing.

We opened 4 depots in the 2nd Half of 2020, ending the year with a total of 30.

We are planning 11 depot openings for 2021, which is around the number of new depots we could staff with ‘Howden trained’ teams.

Prospects for 2021

Our priority remains the safety of our people and customers and we have contingency plans to enable us to trade under the range of COVID conditions we have seen to date.

We have increased prices, having lowered some during 2020, and we aim to keep a profitable balance between price and volume, whilst aligning operating costs and working with suppliers to keep product and input costs controlled.

We believe high stock availability was a major contributor to our performance in 2020. We will continue to manage our stock levels to protect availability of both manufactured and bought-in product.

We will have all our 2021 new kitchen product on sale earlier than last year, aligned with depot promotions to keep Howdens at the front of our customers’ minds.

We will make improvements to service and availability by utilising XDCs.

We are making investments in our kitchen door, solid surface and skirting manufacturing capabilities.

We will continue to add capabilities to our digital platform with ‘Anytime Ordering’ as the centre piece.

We plan to open around 35 depots in the UK, to open 11 new depots in France and to refurbish around 40 existing UK depots to the updated format.

We remain cautious on underlying market conditions given the ongoing COVID-related economic uncertainties and the impact of the result of the recently concluded Brexit trade negotiations.

We remain confident in our business model through changing economic conditions and of the benefits our initiatives will bring to our performance.

I am very pleased with our achievements in 2020, in particular how we both adapted to COVID trading conditions and progressed our strategic plans, which make us well prepared for what we expect to be a challenging market in 2021. All this is made possible by the character, skills & commitment of our people and I thank them for all for what they have done.

Andrew Livingston
Chief Executive Officer
24 February 2021

Key performance indicators

Financial

Sales growth

Why we measure it

We believe that there are considerable opportunities to grow sales. As sales grow, we believe there are economies of scale which will also allow us to grow long-term profitability.

Links to strategy, risks and remuneration

Reach more builders.

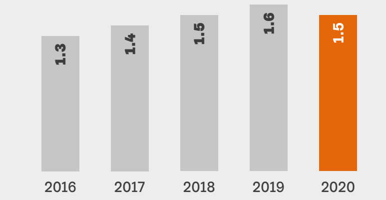
Failure to maximise growth potential.

Depot staff bonuses are directly linked to their depot's sales.

Progress

KPI

We are pleased with our progress. We saw total UK sales of £1.5bn in 2020, despite the effect of COVID 19.



Profit before tax

Why we measure it

Profit before tax is a simple and widely understood measure. We consider that it gives a complete picture of our performance as it includes all of our operating, selling and distribution, admin and financing expenses.

Links to strategy, risks and remuneration

Operational excellence. Prudent financial management.

Failure to maximise growth potential.

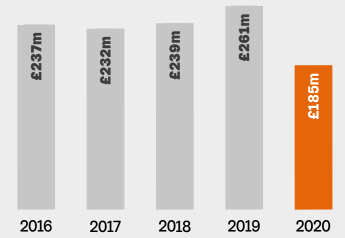
Deterioration of model & culture.

Executive Committee and senior management bonuses are directly linked to PBT.

Progress

KPI

We are pleased with our progress. Profit before tax was £185m in a very challenging year.



Cash

Why we measure it

We aim to generate sufficient cash throughout the operating cycle to cover our investment needs, to retain at least one year's working capital requirement and to pay a dividend in line with our stated dividend policy (detailed on page 35).

Links to strategy, risks and remuneration

Prudent financial management.

Invest in our strategic priorities.

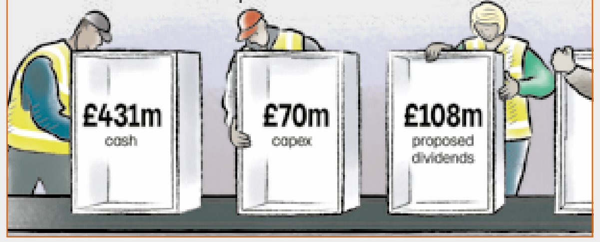
Return surplus cash to shareholders.

Executive Committee and senior management bonuses are directly linked to cash generation targets.

Progress

KPI

We are pleased with our progress. We have maintained capital investment and are proposing both a normal and a special dividend.



Links to:

Strategy Risk Remuneration

Non-Financial

Depot openings

Why we measure it

We believe that there is some way to go before the UK market is saturated. We continue to identify possible sites for new depots over the medium term whilst at the same time keeping our model flexible, and allowing us to take account of economic conditions and phase the speed of our growth accordingly. We also see scope to expand our depot network in France.

Links to strategy, risks and remuneration

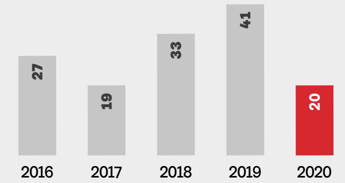
Reach more builders. Failure to maximise growth potential.

Deterioration of model & culture.

Progress

KPI

We paused depot openings in H1 2020, but resumed them in H2, opening 16 new UK depots, and 4 in France. We expect to open around 35 UK depots in 2020, and 11 in France.



Health & Safety

Why we measure it

We have around 10,000 employees working in our factories, our logistics operation, our support sites and our depots and we need to keep them all safe at work.

Links to strategy, risks and remuneration

Operational excellence.

Health & Safety.

Progress

KPI

We are pleased with our progress. See page 56 for more details.

Use of FSC® or PEFC certified materials

Why we measure it

We use over a quarter of a million cubic metres of chipboard and MDF in our factories. FSC® and PEFC are the two main certification bodies, so ensuring that all our MDF and chipboard is certified by them gives us assurance over their provenance. See page 58 for more details.

Links to strategy, risks and remuneration

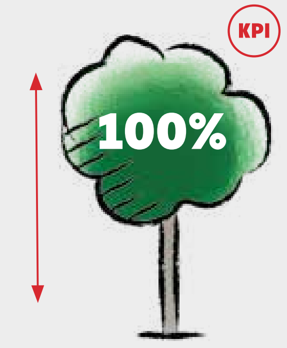
Product innovation.

Product relevance.

Continuity of Supply.

KPI

100% of wood-based material used in our manufacturing processes from FSC® or PEFC certified sources



Key performance indicators continued

Non-Financial

Production waste recycling

Why we measure it

One of the pillars of our business model is our efficient production, which gives us a significant cost advantage. Recycling as much of our waste as we can reduces our costs and helps us to deliver long-term sustainable returns.

Links to strategy, risks and remuneration

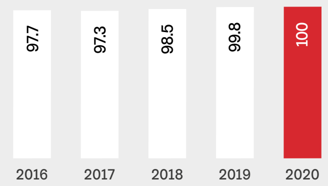
Operational excellence.

Prudent financial management.

Progress

KPI

We are pleased with our progress. 100% of our production waste was recycled or reused. See page 60 for more details.



Links to:

Strategy Risk Remuneration

Financial review

Paul Hayes Chief Financial Officer

Financial results for 2020[1]

Revenue

Revenue £m	2020	2019
Group:	1,547.5	1,583.6
Howden Joinery UK depots - same depot basis	1,470.5	1,540.5
UK depots opened in previous two years	39.1	9.8
Howden Joinery UK depots - total sales	1,509.6	1,550.3
Howden Joinery Continental European depots	37.9	33.3
Revenue €m		
France and Belgium - same depot basis	38.3	37.4
Depots opened in previous two years	4.3	0.3
France and Belgium - total sales	42.6	37.7

Total Group revenue was £1,547.5m (2019: £1,583.6m).

Howden Joinery UK depot revenue reduced 2.6% to £1,509.6m (2019: £1,550.3m). UK revenue reduced by 4.5% on a same depot basis[2] to £1,470.5m (2019: £1,540.5m); this excludes the additional revenue from depots opened in 2019 and 2020 of £39.1m (2019: £9.8m).

In the first half, Howden Joinery UK revenue was 1.1% higher in the first quarter and 55.9% lower in the second quarter, and 0.8% lower and 56.9% lower, respectively, on a same depot basis[2].

The table below shows the steady progression in UK sales following the initial impact of COVID-19 at the beginning of period 4, with the second half showing strong growth of 15.8% compared to the same period last year (13.6% on a same depot basis[2]).

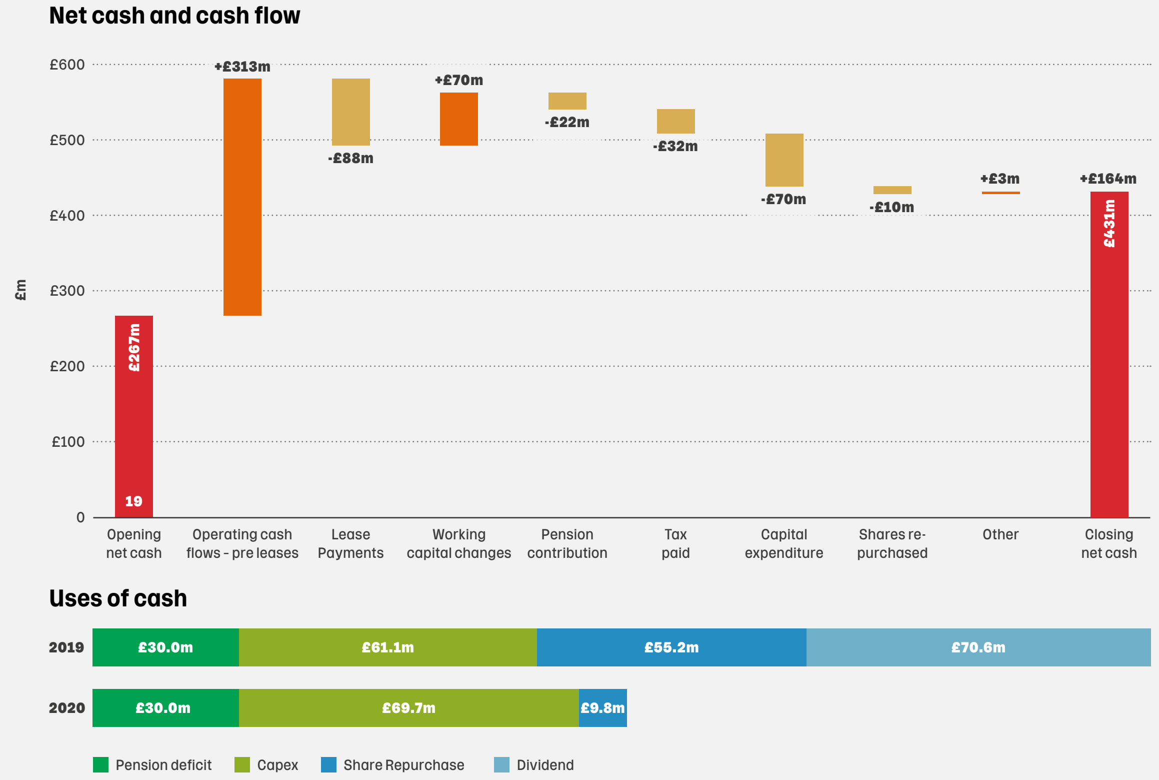
Howden Joinery UK Revenue	2020 £m	2019 £m	Change %
Quarter 1 (periods 1-3)	304.6	301.3	1.1
Period 4	15.3	113.6	(86.5)
Period 5	48.7	109.2	(55.4)
Period 6	84.8	113.9	(25.5)
First half (periods 1-6)	453.4	638.1	(29.0)
Second half (periods 7-13)	1,056.2	912.2	15.8

1 The information presented relates to the 52 weeks to 26 December 2020 and the 52 weeks to 28 December 2019, unless otherwise stated. The 2020 results are presented under IFRS 16 for the first time, 2019 results have not been restated.

2 Same depot basis for any year excludes depots opened in that year and the prior year.

Financial review continued

How we make cash and how we spend it



Dividend payments were suspended in 2020. At note 11 to these 2020 financial statements, the Board proposes a total of £108m in dividends, including a £58m special dividend in lieu of the 2019 final dividend.

Depot revenue in Continental Europe increased by 13.6% to £37.9m (2019: £33.3m). On a local currency basis, sales at our depots in France and Belgium increased by 13.0% and by 2.5% on a same depot basis[1]. Local currency sales in the second half increased 38.0% compared to the same period last year, and by 23.7% on a same depot basis[1].

Gross profit

Gross profit reduced to £930.0m (2019: £986.2m). This change reflected a negative volume and mix impact of £29m, lower pricing of £16m, input cost pressures of £5m and an additional £6m of COVID-19 costs as we carried fixed costs with lower production levels. These factors resulted in gross profit margin of 60.1% (2019: 62.3%).

1 Same depot basis for any year excludes depots opened in that year and the prior year.

Operating profit

Operating profit reduced to £195.7m (2019: £260.0m), principally due to lower revenue and gross profit and higher operating costs. The operating profit margin was 12.6% (2019: 16.4%).

Selling and distribution costs and administrative expenses increased to £734.3m (2019: £726.2m). As expected, costs increased due to continued investments in areas across the business, including £14m in UK depots opened in 2019 and 2020 and £9m additional costs to support growth, including the Raunds distribution facility and digital developments. The lower activity levels resulted in £7m lower costs in existing depots and the adoption of IFRS 16 reduced operating costs by £8m. There was also the absence of £6m depot closure costs in Germany and the Netherlands, incurred in the prior year.

Profit before and after tax

The net interest charge of £10.4m (2019: £0.7m credit), reflects an additional charge of £10.3m following the implementation of the leasing standard IFRS 16, and lower bank interest receivable. Profit before tax was £185.3m (2019: £260.7m).

The tax charge on profit before tax was £37.7m (2019: £51.7m), representing an effective rate of tax of 20.3% (2019: 19.8%). As a result, profit after tax was £147.6m (2019: £209.0m).

Earnings per share

Reflecting the above and the reduced share count following share repurchases, basic earnings per share were 24.9p (2019: 35.0p).

Shareholder returns and capital structure

In March 2020, the Group announced that its dividend and share buyback programmes were suspended and would resume once the Group had greater clarity about the impact on the business of COVID-19. Therefore, the Group cancelled the share repurchase programmes, did not pay the proposed 2019 final dividend of 9.1p per ordinary share and did not pay an interim dividend in 2020 (2019: 3.9p per share). Ahead of this decision, the Group acquired 1.8m shares for a consideration of £9.8m, relating to the £50m 2019 share repurchase programme. These shares were cancelled.

The Board's approach to capital structure is unchanged, targeting a capital structure that is both prudent and recognises the benefits of operational and financial leverage. The Board also retains our policy to return surplus cash to shareholders, having considered, amongst other things, the capital requirements of the Group. The Group has significant property leases for the depot network and continues to have a deficit in the Group pension fund. Taking into account this underlying level of gearing, the Board believes it is appropriate for the Group to be able to operate through the annual working capital cycle without incurring bank debt.

The Board regularly reviews the Group's cash balances considering future investment opportunities, expected peak working capital requirements, trading outlook and dividend payments. Against this backdrop and recognising the strong trading and cash performance in the second half of 2020, the Board has decided to resume dividend payments.

Dividend policy

The Group's unchanged dividend policy is to target a dividend cover of between 2.5x and 3.0x, with one third of the previous year's dividend being paid as an interim dividend each year.

Dividends

As a result, the Board will recommend to shareholders a 2020 final dividend of 9.1p per ordinary share, equating to dividend cover of 2.7 times.

In addition, the Board has decided that the Group will pay a special dividend of 9.1p per ordinary share, equivalent to the cancelled 2019 final dividend.

The final dividend payment in respect of 2020 of 9.1p per share will, if approved by shareholders, be paid on 18 June 2021, with an ex-dividend date of 20 May 2021 and a record date of 21 May 2021. The special dividend of 9.1p per share will be paid on the same timetable as the final dividend. The cash being returned to shareholders through these dividend payments totals £107.7m.

The Board expects to announce a 2021 interim dividend with its results in July of 3.0p per share, in line with its policy of the interim dividend representing one third of the prior year's total dividend.

The Group's strong balance sheet has positioned the business well in these challenging times and provides us with a robust foundation to face the ongoing uncertainty with confidence. The Board will review the level of shareholder returns once we see more stability in our market and the broader economy.

Cash

As soon as the impact of COVID-19 became clear, the Group took a number of actions in order to preserve cash, including suspending shareholder returns, deferring non-essential capital expenditure and agreeing a deferral of payments towards the Group pension deficit. In addition, by the end of the first half, the Group benefitted from available UK Government support, including furlough receipts, tax payment deferrals and business rate reductions, which we have since been able to repay.

Overall for 2020, there was a net cash inflow from operating activities of £329.2m (2019: £221.4m). This was after a cash contribution to the Group's pension schemes in excess of the operating charge of £22.2m (2019: £26.9m).

Net working capital reduced by £70.3m, mainly due to creditors that were up by £91.2m as a result of high levels of stock received late in the year and shipping delays of inbound stock. The impact of the high level of creditors is expected to reverse in the first quarter 2021. Stock increased £23.2m due to COVID-19 and Brexit contingency planning and depot openings. Debtors were down £2.3m.

Payments to acquire fixed and intangible assets including new depots, digital upgrades and investment in the Raunds distribution centre, totalled £69.7m (2019: £61.1m). Corporation tax payments were £32.2m (2019: £46.2m), share repurchases totalled £9.8m (2019: £55.2m) and the interest and principal paid on lease liabilities totalled £87.6m. There were no dividends paid (2019: £70.6m).

Reflecting the above, there was a net cash inflow of £163.3m (2019: £36.1m), leaving the Group with net cash at year end of £430.7m (28 December 2019: £267.4m net cash).

The Group has access to a £140m asset backed lending facility which remained undrawn at the balance sheet date.

Pensions

At 26 December 2020, the pension deficit shown on the balance sheet was £47.7m (28 December 2019: £56.6m). The decrease in the deficit was primarily due to an increase in asset returns of £133.2m and a £46.0m cash contribution partly offset by a £145.9m increase in liabilities (the main elements of which are a £203.7m increase in liabilities primarily due to a reduction in the net discount rate and a £37.9m decrease in liabilities due to adopting updated longevity assumptions).

Financial review continued

On 28 June 2018, we announced that, following the triennial actuarial valuation of the scheme as at 5 April 2017, we had reached agreement with the Trustees of the defined benefit pension scheme in relation to the schedule of payments required to fund the scheme deficit. We will make annual deficit contributions of £30m per annum for up to five years until June 2023.

The triennial actuarial review as at April 2020 is in progress and expected to complete in 2021. Following a period of consultation, the defined benefit pension scheme will close to future accrual from 31 March 2021.

The funding position will be monitored on an ongoing basis, and deficit contributions will be suspended should the scheme's funding position improve to at least 100% of the scheme's funding basis for two consecutive months and resumed if the funding position subsequently falls back below 100%.

The contribution to the pension deficit in the financial year ended 26 December 2020 was £30.0m (2019: £30.0m).

IFRS 16 - Leases

The Group adopted IFRS 16 for the first time in the current year. The effects of adoption are shown in detail at note 28 to the financial statements, together with our revised accounting policies at note 2 and the effect on the current year at note 14.

The effect of IFRS 16 on the Income Statement in 2020 compared to the previous accounting standard, IAS 17, was an increase in operating profit of £8.1m. This is more than offset by an increase in interest charges of £10.3m.

Under IFRS 16 we now recognise leases on the balance sheet. The addition to gross assets of £544m represents our right to use the leased asset and the increase in gross liabilities of £581m reflects the present value of our obligation to make future lease payments.

Current trading and outlook for 2021

Current trading

Howden Joinery UK sales in the first two periods of the new financial year (to 20 February 2021), increased by 5.1% (4.5% on a same depot basis). European sales increased by 32.3% (31.2% on a same depot basis). Excluding the first week of the year (when depots were closed in 2021, compared to 2020 which had 2.5 trading days), UK sales were up 7.1% (6.5% on a same depot basis) and European sales were up 38.6% (37.5% on a same depot basis).

We have made a solid start to the year although we have seen some greater caution from end consumers on allowing trades people into their homes under the current lockdown. We therefore remain cautious about the ongoing impact that COVID-19 may have.

Outlook for 2021

So far in 2021 we have implemented price increases across a range of products as we manage the drivers around margin and aim to get the right balance between price and volume. We are experiencing pressure from commodity prices, increasing freight costs and product mix, with a higher than usual proportion of sales coming from lower margin products. We believe that Howdens is in a strong position in an uncertain market and we continue to invest in new depots, digital investments and enhanced depot stock replenishment while incurring some inflationary cost increases. These investments are partially offset by the ending of the double-running costs of our legacy national distribution centre and the new Raunds development, incurred in 2020.

Capital expenditure of around £80m is expected in 2021, including around 45 new depots and 40 depot refurbishments, in-house manufacturing further investment in digital and maintenance deferred from 2020.

With respect to Brexit and COVID-19, we continue to monitor our supply chain closely and have increased stock levels. Our Brexit planning has meant that, to date, there has not been a material impact on our business and we are effectively managing through the short-term challenges.

Whilst we are aware of the economic uncertainties that we face, we remain confident in our business model for the future.

Use and management of financial instruments, and exposure to financial risk

The Group holds financial instruments for one principal purpose: to finance its operations. The Group does not currently use derivative financial instruments to reduce its exposure to interest or exchange rate movements.

The Group finances its operations by using cash flows from operations, and it has access to an asset-backed loan facility if additional financing is required. Treasury operations are managed within policies and procedures approved by the Board. The main potential risks arising from the Group's financial instruments are foreign currency risk, counterparty risk, funding and liquidity risk and interest rate risk, which are discussed below.

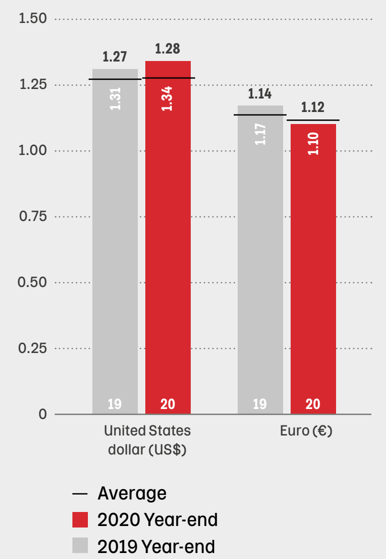
No speculative use of derivatives, currency or other instruments is permitted. The Treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements.

Foreign currency risk

The most significant currencies for the Group are the US dollar and the Euro. It is the Group's current policy that routine transactional conversion between currencies is completed at the relevant spot exchange rate. This policy is reviewed on a regular basis.

The net favourable impact of exchange rates on currency transactions in the year was £0.4m. The principal exchange rates affecting the profits of the Group are set out in the following table.

Principal exchange rates versus UK pound (£)



Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a short-term credit rating at least equivalent to Standard and Poor's A-1 or Moody's P-1. It also places limits on the maximum amount which can be invested with a single counterparty. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

Funding and liquidity

The Group's objective with respect to managing capital is to maintain a balance sheet structure that is both efficient in terms of providing long-term returns to shareholders and safeguards the Group's ability to continue as a going concern. As appropriate, the Group can choose to adjust its capital structure by varying the amount of dividends paid to shareholders, the returns of capital to shareholders, the level of capital expenditure, or by issuing new shares.

The Group has a committed, asset-backed, bank facility which allows borrowing of up to a maximum of £140m, dependent on the actual levels of stock and trade debtors held at any time. The facility was not used at any point during 2020 and is in place until December 2023.

The Group's committed borrowing facility contains certain financial covenants. The covenants are tested every four weeks and are based around: (i) fixed charges; (ii) tangible net worth; and (iii) earnings before interest, tax, depreciation and amortisation (EBITDA) for Howden Joinery Limited.

In addition, our pension trustees, who carry a charge over the share capital of Howden Joinery Limited, have a separate covenant test around the EBITDA of Howden Joinery Limited.

The Group's latest forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance and show that the Group will operate within the terms of its borrowing facility and covenants for the foreseeable future.

At the 2020 year end, the Group had £431m of net cash and £138m of funds available to borrow under the committed borrowing facility.

Interest rate risk

The Group has not had any borrowings during 2020 and does not consider interest rate risk to be significant at present.

New accounting standards

None of the new accounting standards that came into effect during 2020 had a material implication for the Group, other than IFRS 16, whose effect we have described on the previous page.

Cautionary statement

Certain statements in this Annual Report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

By order of the Board

Paul Hayes
Chief Financial Officer
24 February 2021

HOWDENS

Principal risks and uncertainties

What's changed in 2020?

- **No new principal risks**
- **1 risk has increased**
- **Biggest influences on risks over the year have been**
  - **Brexit uncertainty**
  - **COVID-19**

Our approach to risk

When we look at risks, we specifically consider the effects they could have on our business model, our culture and our long-term strategic objectives. These are set out on pages 12 to 21, and we encourage you to refer to them as you read this section.

We consider both short and long-term risks within a timeframe of up to three years.

ESG and Climate-related risks

We have always included ESG and climate-related risks as part of our existing risk identification and management process.

There are climate-related risks on our operational risk registers but at present there are none which we consider to be principal risks. We have two principal risks which are ESG-related; Health & Safety and Loss of key personnel.

ESG strategy and risk management

An effective ESG strategy will help us to manage our risk profile and reduce our principal risk exposures over time. In 2020, as part of the Strategic Review of ESG across the business (on pages 52 to 53) we completed a review of our inherent ESG and climate-related risk areas and considered how they link to our principal risks.

Task Force on Climate-related Financial Disclosures

TCFD reporting is important to effective ESG and climate risk management. It will also help us to meet the growing stakeholder demand to understand both how climate change could affect Howdens and the effects that our operations could have on the climate. In 2020 we have taken the first steps on our roadmap to TCFD reporting, which we set out below.

Roadmap for Howdens introduction of TCFD reporting 2021-2022

Area	2020 Progress	2021 Priority	2022 Priority
Governance	Established our TCFD governance framework and executive oversight	Develop our TCFD reporting mechanisms	Continue to develop our TCFD reporting
Strategy	Established our Climate Change strategy and agreed with the Group Board	Confirm Board Risk Appetite for climate risk	
Risk Management	Conducted a group wide inherent risk assessment and reviewed risk register for risk gaps	Address any risk gaps in our registers and identify risk appetite	
Metrics and Targets	Identify key areas and established responsibility for metrics and targets	Identify appropriate metrics for key climate risks	Establish mechanisms for monitoring and reporting metrics and targets

Risk appetite

'Risk appetite' describes the amount of risk we are willing to tolerate, accept or seek. Our risk appetite is determined by the nature of the risk and how that risk could affect us.

We have a higher appetite for risks that present us with a clear opportunity for reward, and we actively seek out those that provide the greatest opportunities.

We have some appetite for risks with a possible opportunity for reward. With these risks, we carefully balance our mitigation efforts with our view of the possible rewards.

We have a very low appetite or tolerance for risks that only have negative consequences, particularly when they could adversely impact health & safety, our values, culture or business model. We aim to eliminate these risks with our mitigation efforts.

Emerging risks

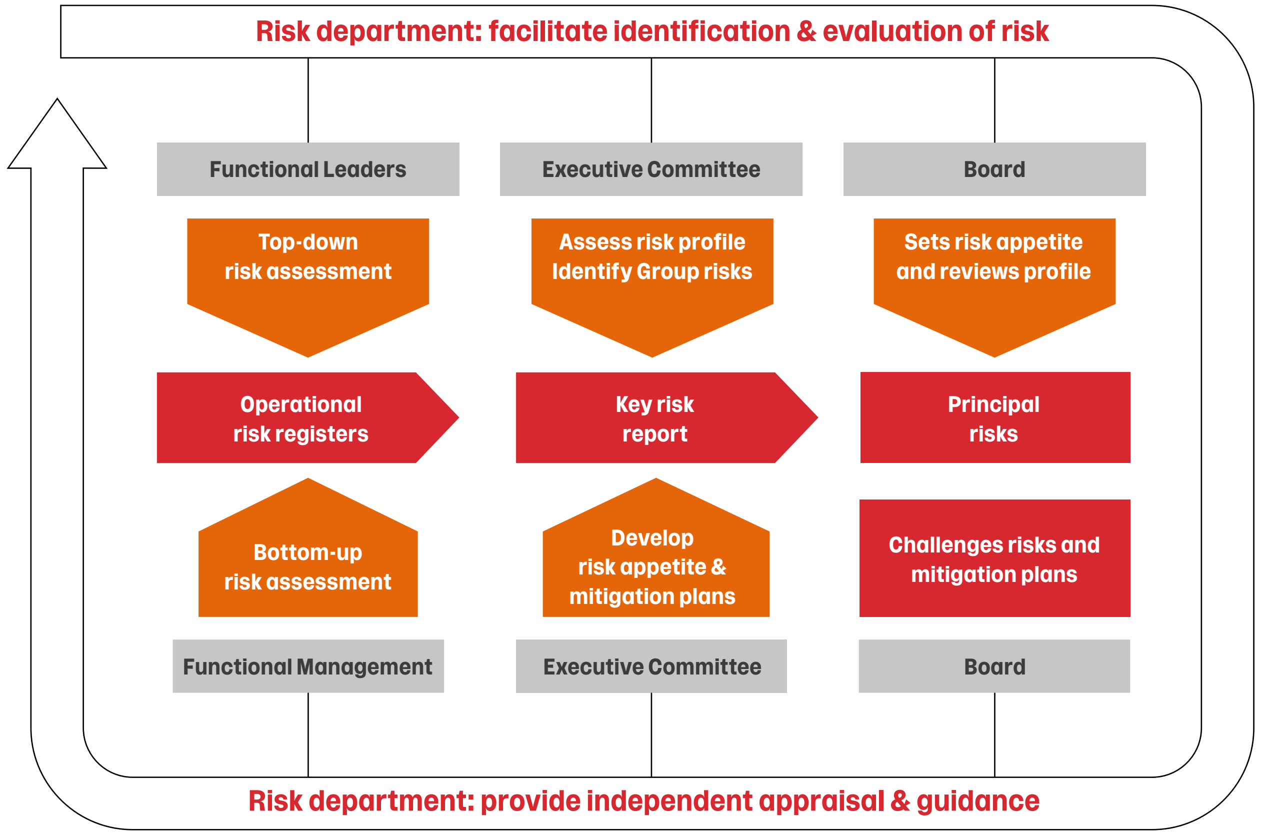
Emerging risks are considered by the business and risk management team in every risk review.

We use both internal expertise and external resources to identify emerging issues and their potential impact.

Where appropriate, emerging risks are escalated to the Executive Committee and Board as part of our regular risk reporting.

The risk management process

The main steps in the process are set out below:



- **Functional Management** review their risks regularly, to update their **Operational Risk Register**. They assess the likelihood and impact each risk could have on the business if not managed, identify what mitigations are in place to establish how much risk remains and discuss future mitigation strategies, where appropriate. They do this on both a top-down and a bottom-up basis.
- **The Group Key Risk Report** is formed of our most significant risks from across the entire business and gives an overview of how our risk profile is changing, how risks are being managed currently and future mitigation plans for review.
- **The Executive Committee** then review the Group Key Risk Report to assess any changes to our risk profiles. They also identify the risks that they are managing at a Group level. They then develop risk appetites and future mitigation plans for the Board to review.
- **The Board** challenge and agree the Group key risks, appetites and mitigation strategies twice yearly and use this information to determine the Group's principal risks. The risk process is defined by the Board and set out in the Group Risk Charter. The Charter was approved by the Board in 2020 and sets out the Board's expectations for how the Executive Committee manages risk, interprets risk appetites and what is reported to the Board.
- **The Group Risk Department** facilitates the identification and evaluation of risks, providing independent appraisal and guidance across the Group.

The principal risks are also taken into account in the Board's consideration of Long-Term Viability, as described in the Group Viability Statement on page 63.

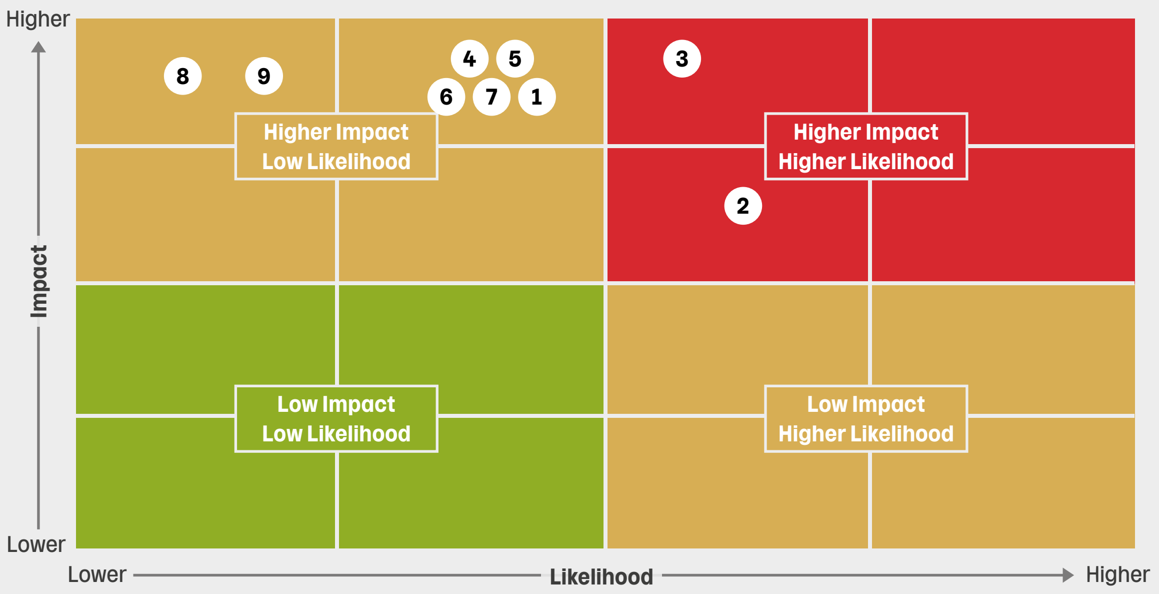
Principal risks and uncertainties continued

Principal risks

- No new principal risks
- 1 risk score has increased - Risk 3: Changes to market conditions
- Brexit and COVID-19 have been the key risk influences in 2020
- 2020 updates to mitigating actions are listed on the following pages

Risk heat map

To help visualise our principal risks, we have plotted them on the heat map below.
The individual risks are described in more detail on the following pages.



Risk

1. Failure to maximise growth potential
2. Deterioration of business model and culture
3. Changes in market conditions
4. Interruption to continuity of supply
5. Loss of key personnel
6. Health and Safety
7. Cyber security incident
8. Product design relevance
9. Credit control failure

COVID-19 - Risk timeline

COVID-19, identified as an emerging risk in last year's report, had a major effect on our principal risks in 2020. This timeline shows our risk response as well as the mitigations that are currently in place. The Howdens in-stock model has been critical to our response, as well as the strength of our culture and our people who gave us the agility to respond at speed. Early risk identification and management was key to minimising the effects on our business.

1 - Pandemic in Asia

Risks
- Supplier closures
- Transport difficulties
- Product delays

Mitigations
- COVID Working Party formed
- Invested in stock for key lines
- Increased temporary storage capacity
- Invested in remote working capabilities
- Modelled financial and operational scenarios

2 - Pandemic in Europe

Risks
- European supplier closures
- Transport problems
- Product delays
- European depot closures

Mitigations
- Worked closely with suppliers
- Optimised stockholding to support key trading period
- Used our supply chain resilience to deal with inbound transport disruption
- Invested in depot safety equipment and processes
- Introduced new ways for customers to interact with us using technology

3 - UK lockdown

Risks
- UK supplier delays
- UK depot closures
- Office closures
- Manufacturing difficulties
- Transport delays
- Deteriorating market conditions

Mitigations
- Conducted COVID-19 risk assessments at all locations
- Supported working from home
- Protected our vulnerable staff
- Increased staff welfare activities and training
- Protected our cash (via furlough, government facilities etc.)
- Reviewed our cyber risk profile and refreshed staff training

4 - Trading in COVID-19 environment

Risks
- Keeping our people and customers safe in COVID-19 Environment

Mitigations
- Introduced new Safe to Trade operations at depots
- Introduced additional safety measures at manufacturing and distribution locations

The mitigations we have taken allow us to operate safely under changing government guidelines, and we'll use what we've learnt to help us as we continue to manage the ongoing COVID risks into 2021.

How our governance and risk management procedures underpinned our COVID-19 response:

Approach
Set up COVID-19 governance framework for managing crisis using existing Business Continuity measures.

Board
Called an Extraordinary Board meeting to discuss risks and mitigations and confirm governance arrangements. Audit committee review of governance response.

Monitoring
Set up monitoring and provided regular updates to Board and Executive Committee.

Use of Experts
Used internal and external expertise to understand changing environment and adapt to it.

Stakeholders
Kept stakeholders informed and supported them, in line with our culture.

External Commitments
Considered impacts on our internal and external stakeholders when making key decisions (see examples on pages 79 to 81).

Supporting our staff
Regular communication with staff. Focus on staff safety and welfare, including training in working from home, Health & Safety away from the office, mental health and wellbeing.

Principal risks and uncertainties continued

Brexit risks

On 31 December 2020, the transition period for the UK's withdrawal from the EU ended. From that point new rules applied for trading, immigration and importing/exporting procedures. This has bought some clarity to areas where there was uncertainty and has addressed many of the pre-Brexit Risks which we outlined in our 2019 Annual Report and 2020 half-year update.

Our most significant post-Brexit residual risk is outlined below:

What are the Brexit impacts	What this could mean	What we have done
Trade & Customs Risks		
Exit from the EU Customs Union.	Supply chain delays as goods sourced from outside the UK come through a new customs regime.	Obtained preferred importer/ exporter status to reduce potential customs delays. Continuously assessed and invested in our stock position to ensure it remains optimal to mitigate customs delays. Reduced our reliance on the most affected ports.

This risk will be managed as part of our business as usual risk approach within our principal risk 'interruption to continuity of supply'.

Links to strategic areas

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

2020 Principal risks

The arrows alongside each risk show the year on year change

1. Failure to maximise the growth potential of the business R O P F

Risk and impact

- We see a significant potential for growth. This brings both opportunities and challenges.
- If we don't innovate, recognise and exploit our growth opportunities in line with our business model and risk appetite, or if we don't align structures and skills to meet the challenges of growth, we won't get maximum benefit from our growth potential.

Mitigating factors

- The opportunities and challenges related to growth are a major area of focus throughout the business, at all levels.
- We continue to invest in our depot environment, people, services, systems, manufacturing and distribution to equip them for growth.
- Growth activities are reviewed in the light of our risk appetite, values, business model and culture.

Mitigation actions in 2020

- Converted a further 30 depots into the new depot environment.
- Opened a further 20 depots in the UK and France.
- Developed our digital capabilities including rolling out builder logon, an online planning portal, and Anytime Ordering.
- Made our depots COVID safe to allow us to continue to serve our customers. Keeping them open for call and collect during lockdown.

2. Deterioration of business model and culture R O P F

Risk and impact

- Our future success depends on continuing to maintain our values, our unique business model and our locally-enabled, entrepreneurial culture (see pages 15 and 18 to 19).
- If we lose sight of our values, model or culture we will not successfully service the needs of the local small builder and their customers, and our long-term profitability may suffer.

Mitigating factors

- Our values, business model and culture are at the centre of our activities and decision-making processes, and they are led by the actions of the Board, Executive Committee and senior management.
- The Board and Executive Committee regularly visit our depots and factories, our logistics and support locations and hold events to reinforce the importance of our values, model and culture.

Mitigation actions in 2020

- In early 2020 we held our 'Rooster Awards' event, bringing together 1,000 managers from across the business to discuss our business model and our culture.
- During the COVID pandemic we have maintained close communications through virtual channels.
- Reinforced the core values and principals of our culture: 'Worthwhile for all concerned'.

Principal risks and uncertainties continued

2020 Principal risks continued

The arrows alongside each risk show the year on year change

3. Changes in market conditions R O P F

Over 2020 this risk has increased as a result of the COVID-19 Pandemic and the impact it has had on our marketplace.

Risk and impact

- We buy a significant proportion of raw materials and finished products in euros and US dollars. If sterling weakens, our input costs increase.
- Our products are mostly sold to small builders and installed in owner-occupied and private and public sector rented housing, mainly in the repair, maintenance and improvement markets. If activity falls in these markets, it can affect our sales. If activity increases we need to be ready to capitalise on opportunities.

Mitigating factors

- We have proven expertise in managing both selling prices and costs. This continues to be a main area of focus.
- We have a good track record of dealing with changes in market conditions. We monitor activity across our supply chain and depots closely, using the good relationships we have to give us early warnings of changing conditions. This enables us to take swift mitigating action.

Mitigation actions in 2020

- Focused our business model on supporting our customers needs during the COVID-19 Pandemic by increasing our communications with them during the first lockdown, ensuring that stock remained available where and when they required it, opened our depots for Call and Collect service and introducing a COVID-19 Safe to Trade environment at our depots.
- Maintained focus on our Brexit preparations and investment in contingency stock.

4. Interruption to continuity of supply R O P F

Risk and impact

- Howdens is an in-stock business. Our customers expect this, and rely on it.
- Any disruption to our relationship with key suppliers or interruption to manufacturing and distribution operations could affect our ability to deliver the in-stock business model and to service our customer's needs. If this happened, we could lose customers and sales.

Mitigating factors

- We build strong relationships with our suppliers, focused on integrity, fairness and respect, and which are worthwhile for all concerned.
- Where appropriate we enter into long-term contracts to secure supply of key products, services and raw materials.
- Wherever possible we have multiple-sourcing strategies for our key products, to reduce the effect of a supply failure.
- We have invested heavily in our manufacturing operations and this investment gives us an enhanced disaster recovery capability.
- We are also investing in new warehouse space to support our distribution capabilities and equip them for growth.
- Brexit uncertainty has also driven us to increase stock holding of at-risk products to help ensure the continuity of supply.
- Obtained 'AEO' preferred importer/exporter status to reduce potential customs delays.

Mitigation actions in 2020

- Opened a second new distribution centre in Raunds to provide more resilient and flexible warehousing capabilities.
- Optimised our safety stock to reduce the potential risk that COVID-19 or Brexit could have on product availability through the supply chain.

Links to strategic areas

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

5. Loss of key personnel R O P F

Risk and impact

- The skills, experience and performance of key members of our management team make a major contribution to the success of the business.
- The loss of a key member of the Group's management team could adversely affect the Group's operations.

Mitigating factors

- We use the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions and incentivised to continue their careers with us.
- Work is ongoing to ensure that appropriate continuity and succession plans are in place. We will also continue to focus on leadership development and succession planning.

Mitigation actions in 2020

- Ensured our working environments remained COVID safe for all our workers and bought in remote working for all our offices to reduce the Health & Safety risk to all personnel.
- Recruited a new Human Resources Director to help to continue to develop our people strategy.

6. Health and safety R O P F

Risk and impact

- Howdens is about people and relationships. We have over 750 depots, around 10,000 employees, hundreds of suppliers and hundreds of thousands of customers.
- Care for the health & safety of employees, customers, suppliers and everyone who comes into contact with Howdens is integral to our values and to our behaviour.
- If we don't ensure safe ways of working across the business, this could compromise the safety and wellbeing of individuals and the reputation and viability of the business.

Mitigating factors

- Since the beginning of our business, we have invested in safe ways of working. We have developed dedicated health & safety teams and formalised systems that help us stay safe.
- We monitor, review and update our practices to take account of changes in our environment or operations and in line with best practice and changing legislation.
- Most importantly, we make sure we keep talking about health & safety at every level of the business. See page 56 for our related KPI and discussion of our performance in recent years.

Mitigation actions in 2020

- COVID-19 has been a major Health & Safety risk influence throughout 2020 and we have focused on the welfare of our employees and customers. Key activities include COVID-19 Risk assessments, new 'Safe to Trade' approaches in depots and offices and physical and mental welfare focus and training for employees working from home.

HOWDENS

Principal risks and uncertainties continued

2020 Principal risks continued

The arrows alongside each risk show the year on year change

7. Cyber security incident R O P F

Risk and impact

- We depend on a core set of critical IT systems which are fundamental to the day-to-day running of the business. These systems are at risk from increasingly sophisticated security threats.
- If we experienced a major security breach, this could result in a key system being unavailable causing operational difficulties, and/or sensitive data to be unavailable or compromised. This could also lead to breach of customer data.

Mitigating factors

- We place focus on training our people about cyber security risks, as we recognise that these risks are not always technical and awareness is our first point of control.
- We employ complex technical IT security controls to protect our information and our key systems. We regularly engage external specialists to validate the effectiveness of our controls against industry best practice.
- We have robust disaster recovery and business continuity plans, and we test them regularly.
- We adopt a continuous improvement approach to IT security and continue to invest in the security of our systems.

Mitigation actions in 2020

- New Head of Cyber Security role created, reporting directly to the Group's Chief Information Officer.

8. Product design relevance R O P F

Risk and impact

- Ensuring that we have products that meet the design, price and quality needs of the small builder, and their customer, is a key focus of the business model and is a critical element of our future success and growth aspirations. Kitchen technology and design do not stand still, and our products must reflect that.
- If we do not support the builder with new products that their customers want, we could lose their loyalty, and sales could diminish.

Mitigating factors

- Our dedicated product team regularly refresh our offerings to meet builders' and end-users' expectations for design, price, quality and availability.
- We work with external design and brand specialists and attend product design fairs to monitor likely future trends.
- Our local depot staff have close relationships with their customers and end-users, and we actively gather feedback from them about changes in trends.
- We work with our suppliers, to develop new and improved products for the future, some of which are unique to Howdens. A number of new products were introduced during the year across all product categories, and more are already planned for 2021.

Mitigation actions in 2020

- 16 new kitchen ranges launched in 2020.
- Over 2,000 other new skus launched.
- Reset of our hardware range to focus on our customers' core joinery needs.

Links to strategic areas

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

9. Credit control failure R O P F

Risk and impact

- When a builder comes into one of our depots for the first time, we offer them a trade account, so they can complete the job before paying Howdens. Many of our customers rely on our trade account facilities, as cash flow is often critical to small businesses.
- Failure to provide, or service these facilities could affect our ability to continue to support our customers, and potentially our ability to collect debt. This could have a direct impact on both our revenue and our working capital.

Mitigating factors

- We have an effective trade account policy used to agree terms with our customers and efficient debt collection processes, which we monitor closely and regularly.
- We have robust systems and tested business continuity plans.
- We maintain good personal relationships with our customers, both at depot level and within the credit control department.
- Our concentration of debt is limited, as our exposure is spread across around 400,000 customer trade accounts.

Mitigation actions in 2020

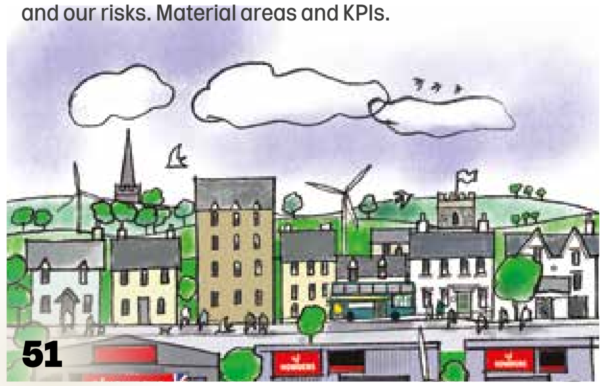
- We implemented several changes in 2020 to secure our Credit Control operations against potential COVID-19 risk. These included introducing remote working across the Credit Control team, providing appropriate communication and IT equipment and refreshing our cyber security training.

HOWDENS

Sustainability Matters

Introduction: Why sustainability matters to us

Links to long-term value, our culture, our business model and our risks. Material areas and KPIs.



51

2020 Strategic Review

Stakeholder engagement, materiality assessment, our Environment Social and Governance vision for the future, our four main ESG commitments, alignment with UN SDGs.

52

Our impact on our stakeholders

A summary of our social and environmental footprint.

54

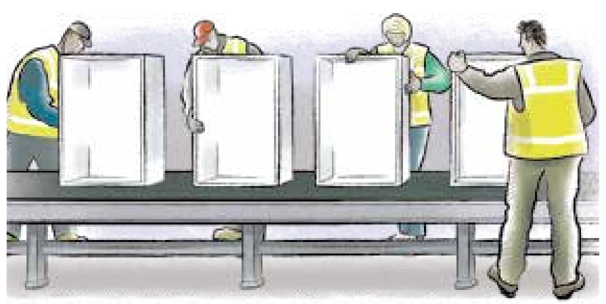
Our people

Keeping our people safe, offering them rewarding careers and a great place to work and grow.

56

Sustainable supply chain

Certified wood, responsible purchasing, efficient distribution.



58

Sustainable product

New product development, product re-engineering, sustainable sourcing strategy.

59

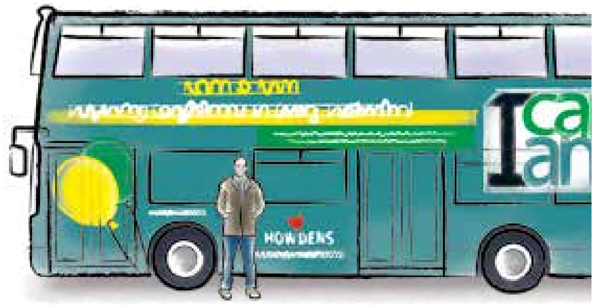
Our environment

Reducing waste, responsible operations, lowering emissions.

60

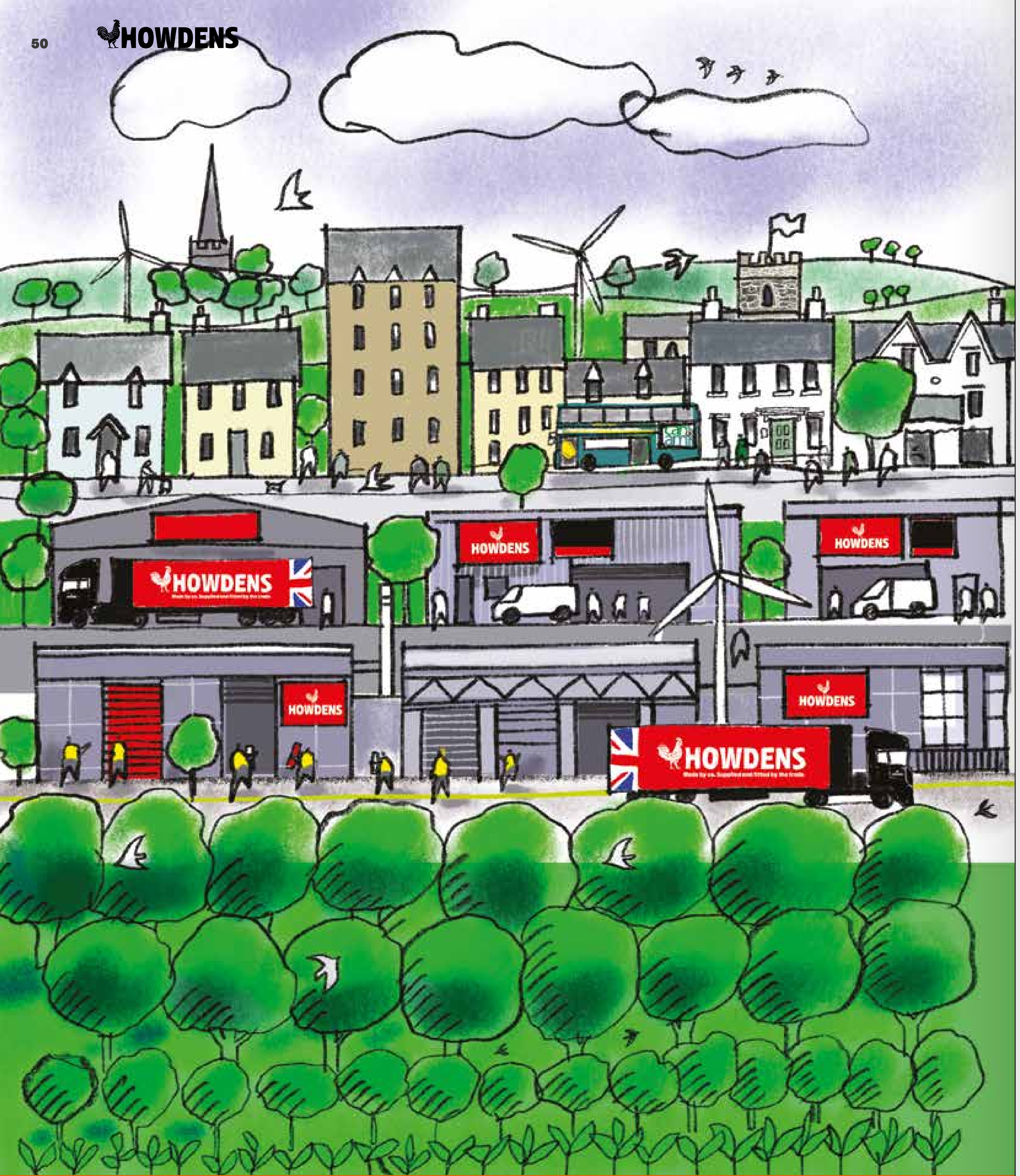
Our communities

Local community projects, national partnership with Leonard Cheshire, I can & I am.



62

Sustainability Matters



Howdens is a growing business, with exciting prospects for the future. Sustainable behaviour will help us continue to grow over time in a way that preserves our culture, maintains focus on our business model, mitigates our risks and addresses the needs of our stakeholders.

Sustainability Matters

Why sustainability matters to us

Generating long-term value

Howdens is a growing business. Sustainable behaviour will help us continue to grow in a way that preserves our culture, supports our business model, mitigates our risks and addresses the needs of our stakeholders.

Part of our culture

We describe the Howdens culture as being 'worthwhile for all concerned' and 'creating the conditions that allow everyone to succeed'. That means that our business needs to be worthwhile for our staff, our customers, our suppliers, the environment and the communities we work in.

Supporting our business model

Sustainable behaviour gives us a competitive advantage.

Lowest cost production in our dedicated UK factories leads naturally to minimising waste, energy and raw materials. Our mission statement aim of 'no-call-back quality' means that we need to produce and source product which is durable and safe.

Being trusted partners to our suppliers and customers means that our relationships need to be worthwhile for all parties over the long term.

We have over 750 depots in the UK and Europe. Each one of them relies on strong local relationships to trade profitably, so we need to be a good neighbour in each of those communities.

Mitigating our risks

We discuss our principal risks on pages 38 to 47. Sustainable behaviour helps us to address some of those risks.

For example, we place great emphasis on looking after our people. We invest in keeping them safe, developing their skills, and offering them rewarding careers and a great place to work. We do this because it's the right thing to do, but it also mitigates our 'Health & Safety' and 'Loss of key personnel' risks.

Developing and maintaining sustainable supplier relationships mitigates our 'Interruption to continuity of supply' risk. Energy-efficient, safe and durable product mitigates our 'Product design relevance' risk.

The Board and Executive Committee lead our commitment to sustainability

The importance of sustainable behaviour is recognised right through the business. You can see the Board's Statements of Intent on Health & Safety and Sustainability on our website at: www.howdenjoinerygroupplc.com/sustainability/group-health-safety-and-sustainability-policies.

Our 2020 Environment Social and Governance strategic review

The Board and Executive Committee reinforced their commitment in 2020 through a wide-ranging Strategic Review of our Environmental Social and Governance priorities, that we set out on the next two pages, and which is reflected throughout this report.

The review clarified our ESG Vision for the future. It identified four main commitments, as well as a range of other potential targets and research projects. It included engaging with key stakeholders to test our assessment of our material ESG areas, as well as selecting our material United Nations Sustainable Development Goals.

What are the material areas for us and our stakeholders?

We've organised the main body of this report into five sections, reflecting the material areas for us and our stakeholders:

People: keeping them safe, embracing diversity and inclusion, offering rewarding careers.

Sustainable supply chain: certified wood, responsible purchasing, efficient distribution.

Sustainable product: developing new sustainable products, re-engineering existing products, having a sustainable sourcing strategy.

Environment and operations: reducing waste, responsible operations, lowering emissions.

Communities: local community projects, our nationwide work with Leonard Cheshire Disability and I can & I am.

As part of our 2020 ESG Strategic Review we consulted key stakeholders, and were pleased to reconfirm that they continued to see these five areas as being the most material ones for us.

Our sustainability KPIs

Our sustainability KPIs cover safety, use of wood from certified sources, recycling of waste and recycled packaging, and you can find them on pages 56, 58 and 60.

Our 2020 ESG strategic review has resulted in a number of future commitments, targets and research projects. As we work towards the commitments, and learn more about the targets and research projects, this may lead to new KPIs and key metrics in the future.

Sustainability Matters

Our 2020 Environment Social and Governance strategic review

1 - Overview

Aims

Building on the existing good work across the Group, the aims of the 2020 Environment Social and Governance strategic review were: to engage with key stakeholders and test our existing assessment of material ESG areas; to identify ESG risks and opportunities, and to develop guiding principles and commitments for the longer term.

Findings

- Key internal and external stakeholders confirmed that they agree with our existing assessment of material ESG areas (people, supply chain, product, environment and operations, and communities). Investors share our belief that sustainable behaviour is an important part of delivering long-term value.
- Stakeholders want clear communication on ESG, with links to trusted frameworks and systems of measurement.
- There are opportunities to build on our good work to date, and to strengthen our ESG operations, governance and reporting in the future.

Outcomes

- A long-term ESG Vision, supported by four main commitments and a range of additional focus areas, targets and research projects.
- Ownership of the four main commitments assigned to individual Executive Committee members and the Company Secretary.
- Mapping our existing material ESG areas and projects, our four future commitments and our future focus areas and research projects to the United Nations Sustainable Development Goals and their underlying targets.

2 - Summary of our ESG Vision and our four main commitments

	E	S	G
Horizon goal	**Environment** UK's leading responsible kitchen business	**Social** A unique and sustainable culture	**Governance** Leader in risk and resilience governance
Our four 2020 ESG Vision commitments...	**1 - Zero waste to landfill 2 - Carbon neutral manufacturing**	**3 - Leader in UK Behavioural Safety and wellbeing**	**4 - Highly effective ESG reporting and disclosure, including KPIs**
...and other main focus areas	Responsible operations, product and sourcing Circular and customer-centric waste recycling	Best in class social mobility Fully embrace diversity & inclusion Outstanding community engagement	Clear and effective ESG governance structure Strong business resilience and local control frameworks
Key enablers	Our culture of 'worthwhile for all concerned', underpinning responsible behaviour and leadership by example. Sustainability embedded in the commercial decision making and long-term planning process. KPIs with clear accountability by Executive member.		

3 - How our Environment Social and Governance Vision fits with UN Sustainable Development Goals and our existing ESG focus areas

Alignment to UN Sustainable Development Goals		Existing focus areas			Outputs of 2020 ESG strategic review	
Our material SDGs	**UN SDG description and relevant targets under each SDG**	**Mapping to our 5 material ESG areas**	**Existing KPIs**	**Existing projects, actions and metrics**	**Mapping to our four 2020 ESG Vision commitments**	**Details of our ESG Vision commitments, plus other key targets and ongoing work**
8 DECENT WORK AND ECONOMIC GROWTH	"Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" SDG targets: 8.4, 8.5, 8.6, 8.7, 8.8.	People Communities Sustainable supply chain	Health & Safety - reportable injury rates.	Equal pay, responsible employment practices, good development opportunities. Best Companies to work for. Apprenticeship programmes. ISO 45001 in Supply. Behavioural H&S programmes.	Behavioural Health & Safety embedded across the Group. *ExCo owners: COO Trade and Supply Chain Op's Director*	Continue to develop existing Behavioural Safety programmes. Plan to achieve ISO45001 for UK depot network by end 2021. Initial training for all managers in Equality, Diversity and Inclusion in 2021. Develop Group EDI roadmap and strategy for 2022-2025. Develop Group wellbeing strategy in 2021.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	"Ensure sustainable consumption and production patterns" SDG targets: 12.2, 12.5, 12.6, 12.7.	Sustainable supply chain Sustainable product Environment	% of FSC® or PEFC certified wood. % of production waste reused, recovered or recycled.	Factory, warehouse and depot energy reduction initiatives. Renewable heat - turning factory waste sawdust into heat. Working with suppliers to develop energy-efficient appliances.	Carbon Neutral Manufacturing. *ExCo owner: Supply Chain Op's Director*	Achieve carbon neutral manufacturing by end 2021. Review carbon neutral opportunities for depot and distribution operations over longer term. Pursue 2021 and 2023 energy consumption and energy efficiency targets for our distribution fleet.
13 CLIMATE ACTION	"Take urgent action to combat climate change and its impacts" SDG targets: 13.1, 13.2.	People Sustainable supply chain Environment Sustainable product		Carbon trust standard. Consistent reduction in greenhouse gas emissions measured against turnover. ISO 14001 Environmental Management System in Manufacturing, Logistics and Distribution.	High quality ESG governance and external reporting. *Owner: Company Secretary*	Progressive, phased implementation of Taskforce on Climate-related Financial Disclosure reporting. Implement the well-known ISS external ESG reporting platform in 2021 to make our ESG information more accessible to stakeholders. Embed integrated risk and governance framework. Integrate ESG into business planning and product development cycles.
15 LIFE ON LAND	"Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests...and halt biodiversity loss" SDG targets: 15.1, 15.2.	Sustainable supply chain Environment Sustainable product	% of FSC® or PEFC certified wood. % of production waste reused, recovered or recycled.	Reducing packaging. Increasing reuse and recycling - reducing waste to landfill. Supplier audits, ethical procurement training.	Zero waste to landfill. *ExCo owners: COO Trade and Supply Chain Op's Director*	Maintain zero waste to landfill in manufacturing and distribution. Zero waste to landfill in depots over time. Target less than 5% to landfill by end 2022. Target 100% of kitchen frontals FSC® or PEFC by end 2022.

Sustainability Matters

Our impact on stakeholders

Environment

220,000m³ of chipboard from sustainably managed UK forests

100% of manufacturing waste reused recycled or recovered

11,000 tonnes of waste sawdust converted to energy to heat our factories

UK MANUFACTURED

People

450 apprentices in training. Tailored apprentice programmes across the Group

10,000 full-time jobs with prospects. In UK manufacturing, in over 750 local depots and in distribution, systems and support

100% of employees in share ownership schemes, or similar

Winner 2020 25 Best Big Companies To Work For

Shareholders

£108m total proposed dividends, including a special dividend in lieu of the cancelled 2019 dividend

Wider economy

£70m of rent paid to over 650 commercial landlords

£320m of tax generated or collected. Corporation tax, NI, PAYE and VAT

£270m of working capital extended to 400,000 small businesses in our peak trading period. No fees, up to 8 weeks to pay

£70m capital investment in the year. Investing in UK manufacturing and distribution. Expanding our depot network in the UK and France

All Government COVID financial support and rates relief repaid in the year

Community & charity

16th year of our national partnership with Leonard Cheshire. Supporting disabled young adults to find valuable roles within their communities

2,500 other charity donations. £1.1m given to local charities and community activities across our network

People

£460m of wages, salaries and benefits paid to our employees

Responsible for all or part of the pensions of over

18,000 people

£260m cash contributed to our pension schemes in the last 5 years

Employing people in over **750** local communities

Our people

Keeping our people safe and healthy

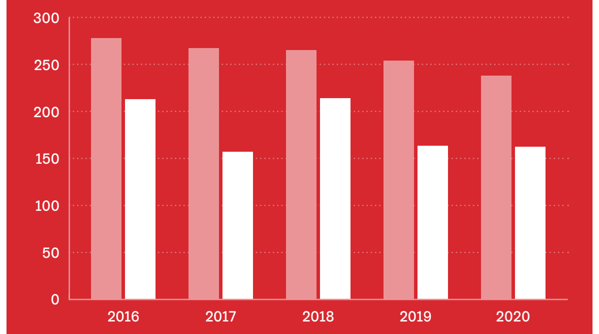
2020 highlights

- We have around 10,000 employees and we want all of them to be able to work safely every day.
- We are pleased that our safety KPI - the level of RIDDOR reportable injuries - continues to be significantly lower than the Health & Safety Executive's all-industry average. This gives us a strong base to build on as we continue to look for further improvements in working practices and ways to develop our safety culture.
- We successfully achieved the international safety standard ISO 45001 in our factories and logistics network. This standard builds on the outgoing standard, OHSAS 180001, and expands its focus from safety systems to safety leadership and culture.
- We continued to roll out our behavioural safety/safety culture approach across the business. We have always committed to developing, implementing and improving safe systems of work, and this has continued during 2020 with particular emphasis on re-engineering working processes in our factories, warehouses and depots in response to COVID-19.
- Our manufacturing and distribution operations were awarded a distinction - the highest grade - in the British Safety Council International Safety Awards. These prestigious international awards are evidence-based, and they recognise best practice in occupational health, safety and wellbeing.
- In our depot network we were very pleased to be awarded the International Institute of Risk & Safety Management's Technology Risk Management Initiative of the Year. This award was in recognition of a major project that involved us working with our fork lift supplier to develop a bespoke warning alarm system that alerts our fork lift drivers against trying to lift loads which are above the recommended capacity of the fork lift truck. Following a successful development phase, we then made the investment to retrofit the alarm system to our fleet of over 700 fork lift trucks. All new trucks are fitted with this system as standard.
- During 2020 we continued to see the benefits of our Safe to Trade change management programme in the depot network. Amongst a range of measures which we featured in detail in our 2018 report, this programme uses video books in each depot to deliver health & safety information and training in an appealing and easy to access format. This way of getting up to date messages to the depots was particularly useful in 2020 when we were able to use it to get the latest COVID operating procedures, bulletins and alerts to depots at the drop of a hat.

KPI

Reportable injuries/100k employees

32% below HSE all-industry average in 2020



For further KPIs see pages 30 to 32

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **COMMITMENT:** Achieve ISO 45001 across our UK depot network by the end of 2021.
- **TARGET:** Achieve the British Safety Council 5-star safety standard across all manufacturing and logistics sites by the end of 2023. This standard requires an independent audit of our safety practices and goes far beyond the requirements of current health and safety management systems. Undertaking this audit will allow us to objectively demonstrate our commitment to achieving excellence in health and safety standards.
- **ONGOING WORK:** Continue to roll out a behavioural safety and safety culture approach across the Group. We will do this based on outputs of the HSE Safety Climate Tool. This tool gives local managers tangible information on where their safety culture strengths and areas of improvement are and allows us to set objective-based targets. Enhance the maturity of Health & Safety in the workplace.
- **ONGOING WORK:** Development of a wellbeing strategy across the Group in 2021.

Rewarding careers, opportunities to develop and thrive

2020 highlights

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2020

BEST COMPANY 2020

- We were very pleased to win 14th place in the Sunday Times 2020 Best Big Companies to Work For survey. We received a two-star Best Companies accreditation recognising our outstanding commitment to workforce engagement and were also given special recognition in the 'Giving Something Back' category for the support we do for our local communities and the environment.
- We've done extensive work throughout 2020 to support employees dealing with the impact of COVID. During the national lockdown over 8,000 employees were furloughed and the Group kept staff pay ahead of Government requirements throughout the year. We prioritised staff health and safety, with regular risk assessments and new controls to ensure COVID-secure environments across all locations.
- We've done detailed work to support ongoing remote working arrangements for office-based staff. Over 800 staff continue to work remotely, and we've supported them to ensure they have safe working environments at home. We've communicated regularly with our remote workers and surveys have shown that over 91% have said that we've supported them well throughout the disruptions.
- Further work is in hand to teach managers new skills to best support and lead their teams as remote working continues.
- We've continued to invest in developing the next generation. We currently have over 450 apprentices on a range of tailored programmes throughout all areas of the business.

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **ONGOING WORK - Equality Diversity and Inclusion:** Building on our 2020 pilots, we will roll out initial EDI introductory training to all line management in 2021. We will also further develop our EDI roadmap and strategy for 2021-2025.
- **ONGOING WORK - Social Mobility:** In 2021 we will begin our investigation and data-gathering phase to see what contribution we can make to improve social mobility through the career development opportunities we offer our people.

Case study

COVID-19

H&S response in the depots

When lockdown started we temporarily closed all our depots as staff and customer safety was our first priority.

We used this time to study safety guidelines and best practice and to develop safe systems of work so that we could reopen responsibly.

We supported our staff on their return to work and were pleased when they told us that they quickly felt reassured by the measures in place, and in fact felt 'safer than in supermarkets'.

H&S response in the supply chain

As a manufacturing business, we were not required to close our factories and warehouse under lockdown. However, we chose to close them for a short period of time so that we could assess the risks, re-engineer processes where necessary, and keep our people safe.

Returning to work after the temporary shutdown was not easy. Our people, culture and commitment to keep each other safe helped us to come back to work with confidence. We worked together on the new controls, we were sensitive to peoples' anxieties and home circumstances and we listened to each other where things could be improved.

It is testament to each of our staff that we adapted to new ways of working, protected service to our depots and their customers and most importantly, kept each other safe.

Employee wellbeing

As a response to the pressures of lockdown, we tripled the number of wellbeing sessions we ran in 2020. These covered topics such as resilience in difficult times, and also helped employees with practical tips for dealing with the pressures of change, the stresses of working remotely, and the importance of exercise and good diet.

Sustainable supply chain

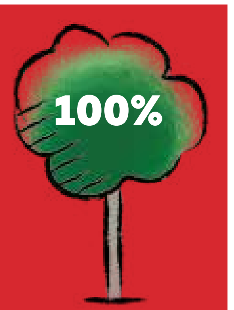
Certified wood, responsible purchasing, efficient distribution

2020 highlights

- We used 220,000 cubic metres of chipboard and 49,000 cubic metres of MDF in our factories in 2020 - enough to fill the Albert Hall 3 times - so we need to know where our timber comes from.
- FSC/PEFC certification means that the wood comes from responsibly-managed forests and that we have independent documented evidence of an unbroken chain of ownership all the way from the forest to us - via the mill, the importer and our suppliers.
- We are also members of the Timber Trade Federation and are recognised by them as a 'Responsible Purchaser' which means that we have third-party assurance on our timber purchasing due diligence systems.
- Our transport fleet drove around 15 million miles in 2020 so we need it to be both efficient and safe. All of our trucks comply with the latest emissions standards, and we've fitted further refinements to the standard build to increase efficiency and reduce emissions even further.
- We also invest in safety and energy-efficiency training for our drivers. We combine this with the latest in-cab telemetry and a system of daily debriefs where driver behaviour is assessed against energy-efficiency and safety targets. We reward drivers who reach the highest standards and we work with any drivers who need help to improve.
- In recent years, we have invested in training our own new drivers via a driving apprenticeship scheme. We were very proud in 2020 when one of our drivers who had come through this apprentice scheme was awarded Young Driver of the Year in 'the UK's premier HGV Driver Awards'. The award recognised the highest level of achievement in both safety and fuel economy.
- All of our buyers and our compliance team have taken and passed the Chartered Institute of Procurement and Supply's Ethical Procurement & Supply training, and we have a rolling programme of refresher training on Modern Slavery and Anti-Bribery. We've supplemented this in 2020 with a bespoke online course on FSC and PEFC chain of custody standards and timber regulations.
- Our Modern Slavery Statement can be found here: https://www.howdenjoinerygroupplc.com/governance/modern-slavery-statement.

KPI

100% of chipboard & MDF used in our manufacturing processes from FSC® or PEFC™ certified sources



KPI For further KPIs see pages 30 to 32

Responsible Purchaser
Timber Trade Federation

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **TARGET to reduce energy consumption:** MPG improvement targets for our distribution fleet. Targeting a 1% improvement by 2021, with a further 2% by 2023.
- **TARGET to increase energy use efficiency:** CO_2 KG/M3 emission targets for our distribution fleet. Targeting a 5% reduction in 2021, with a further 2% by 2023.

Case study
UK depot waste backhaul

One of the new projects that helped us cut our UK depot waste percentage to landfill by 30% in 2020 was developing a 'backhaul' waste recovery system using our own distribution fleet.

When we deliver stock to depots, we collect waste from them. Depending on the type of waste material, we then either return it to our factory or warehouse sites where we already have sophisticated reprocessing facilities, or we take it directly to wood processing facilities across the country. This means that a large volume of this waste is recycled into chipboard and ultimately back into our new cabinet production.

In the first part-year of this project, we have made over 8,000 waste backhaul collections and dealt with 2,000 tonnes of waste.

Sustainable product

Development, re-engineering and a sustainable strategy

2020 highlights

New product development

- All the new kitchen frontals introduced in 2020 were from either FSC or PEFC certified sources.
- We introduced a new engineered stone flooring which has a pre-attached underlay made from 100% recycled plastic bottles. Every 50m2 saves 550 bottles from ending up in our oceans and polluting our landscapes. In 2020 this equated to Howdens saving 400,000 bottles. This underlay also takes 90% less water and 50% less energy to produce.
- We also launched two of our own-brand Lamona washing machines with a drum made from plastic containing recycled plastic bottles. Each drum contains 60 recycled bottles, and sales of these appliances were equivalent to an energy saving from the recycled plastic of 0.9m kWh per year, enough energy to power 270 homes.

Product re-engineering

Because of the scale that we operate at, small changes can have big effects. Some 2020 highlights were:

- We used to supply spare plastic installation clips with some of our cabinets, but we realised that our customers were not using them. Instead we made the clips stronger and supplied fewer clips with each cabinet. This simple change will avoid using around 10 tonnes of plastic per year.
- We did a similar thing with hinge packs on some of our units, which will avoid using around 9 tonnes of steel per year.
- Looking again at the protective packaging on one of our larger units meant that we'll avoid using enough packaging each year to fill a small house.
- Two-thirds of our Lamona ovens have an integrated plastic handle to aid with lifting during installation, this year we have changed the plastic to one made from 100% recycled fishing nets recovered from the oceans.

Our sourcing strategy

- Our sourcing strategy helps us to build sustainable partnerships with our suppliers. In lockdown we committed to support our customers by sticking to our in-stock business model. This gave us a commercial advantage, but it also had a significant positive impact on our suppliers. By maintaining the inbound flow of products we kept the production lines and supply chains of several factories both in the UK and abroad flowing when they were facing big reductions in demand from their other customers.
- We have invested in our own UK manufacturing so that we can make more of the new product which we previously bought in from Europe. This supports local communities and staff where our factories are based, and also brings the environmental benefits of shorter supply chains. As an example of this, the additional product we made in-house in 2020 saved us transporting nearly 100 container loads into the UK from Italy.
- We take control of our bought-in products from the EU at producers' factory gates wherever possible. This means that we can make the transport more efficient, by consolidating loads and moving them from road to rail. In 2020 around 90% of our freight from the EU was dealt with in this way, saving around 2,000 tonnes of CO_2 as well as giving us much greater control, transparency and flexibility in an extremely challenging period for our supply chains.

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **TARGET:** 100% of our kitchen frontals to have FSC or PEFC timber accreditation by the end of 2022.
- **TARGET:** 100% recycled corrugated cardboard in our own packaging by the end of 2022.
- **TARGET:** Introduce code of practice for all timber suppliers. This is to enhance our existing trading terms with suppliers and be clear on our commitment and expectations regarding ESG standards within the supply base and throughout the supply chain.

HOWDENS

Sustainability Matters

Our environment

Reducing waste, responsible operations, lowering emissions

2020 highlights

- **Zero to landfill in 2020 in our manufacturing and logistics operations.** We've had less than 5% of this waste going to landfill for several years, but getting to zero in 2020 represents a terrific achievement and is the culmination of years of hard work.
- When we started on this journey five years ago, we recognised that we could achieve zero to landfill immediately - by sending all our site's produced waste to offsite energy recovery. However, we also knew the right way for us was to follow the internationally recognised principals of the 'Waste Hierarchy'. This approach promotes removing or minimising the use of resources in the first instance, and then maximising the amounts of waste that we can reuse, recycle and recover. Doing things this way takes longer as it is significantly more difficult due to the need for finding innovative solutions for the small amounts of residual waste that remains. However, it's the better solution in the long term for all concerned.
- An example of how we were able to move from 0.2% of waste to landfill in 2019 to zero in 2020 is the boiler ash we generate at one of our factories. Historically we'd had to send this to landfill as it couldn't be processed further in transfer stations or sent direct for recovery.
- During 2019, we worked with our on-site's waste management contractor to explore alternative routes for this ash by re-analysing the content and then looking for alternative disposal outlets. We identified an opportunity for it to be taken to composting and aggregate recycling sites in the UK for them to further process and recreate a reusable end product. Following stringent compliance checks carried out on various suppliers we were successful in approving an aggregate recycler who now accepts our boiler ash in its current form and blends with their existing products to recreate a reusable material, giving it a new life and avoiding it ending up in landfill.
- **Moved from 40% to 10% to landfill in our UK depots.** Waste management across our 750 depot network is a bigger challenge than it is in our manufacturing and logistics operations, but we are pleased to have made significant progress in 2020, and we give more details of how we have found an innovative solution to the wood waste in the case study on page 58. There is still work to do to close the final 10% gap and we continue to put in place processes to deal with the difficult items and scenarios. We set out our commitment to close that gap below.
- **ISO 14001.** Our manufacturing, warehousing and transport are certified to ISO 14001 Environmental Management System. This assures us that we have sustainable processes in place and also encourages us to look for improvements.
- **Sawdust-to-heat.** in 2020 we converted 11,000 tonnes of sawdust into energy in biomass boilers at our Runcorn and Howden factories. This is enough sawdust to fill over a dozen Olympic swimming pools, and it would otherwise have to have been transported elsewhere to be reused. Using it to heat our factories also saves us money. We generated over 40,000 MWh of energy from our biomass boilers, equivalent to the average electricity consumption of over 10,000 households.
- **Green Gas.** We've reduced our electricity demand from the grid in 2020 by using gas to generate electricity onsite at both of our factories. We've offset the impact of this change using certified biomethane or 'Green Gas', which has reduced our net carbon equivalent emissions from manufacturing by around 33% compared to 2019.

KPI

100% of production and warehouse waste reused, recovered or recycled

KPI For further KPIs see pages 30 to 32

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

- **COMMITMENT:** Zero to landfill across our UK depot network over time, with a target of less than 5% to landfill by the end of 2022. As we've done with our manufacturing and logistics waste, above, we intend to use the principles of the waste hierarchy to eliminate the 10% of depot waste that currently goes to landfill in a responsible way.
- **COMMITMENT:** Carbon neutral manufacturing by the end of 2021.

Greenhouse gas and emissions reporting

Greenhouse gas and emissions reporting

Gross emissions have increased in by 0.3% in 2020 but carbon offsetting has reduced net emissions by 22.6%

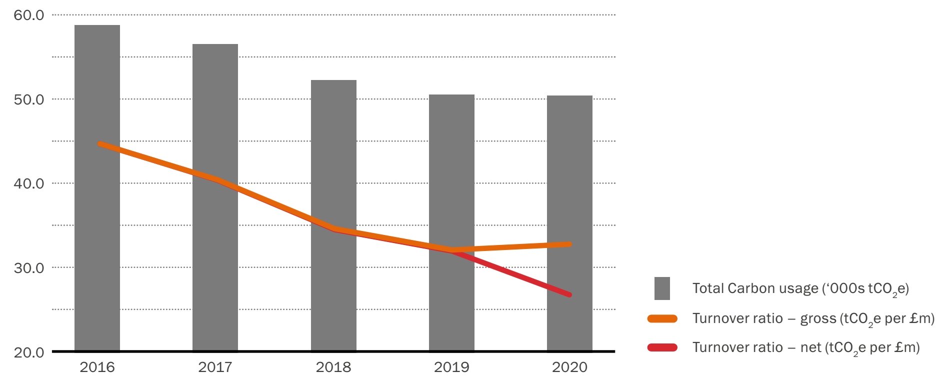
We reduced our electricity demand from the grid In 2020 by using natural gas to generate electricity at our factories. This increased our gas use which in turn has increased our gross emissions. However we have offset this by using 'Green Gas' biomethane, backed up by certificates of Renewable Gas Guarantee of Origin, with the result that our total net carbon equivalent emissions from manufacturing after the offset are 33% lower than 2019.

Howdens are Standard Bearers for the Carbon Trust Standard, and we have committed to being carbon neutral in manufacturing by the end of 2021.

	Total CO_2 emissions (Tonnes) 2020	Total CO_2 emissions (Tonnes) 2019
Scope 1 - Direct: Gas	13,032	2,622
Scope 1 - Direct: Diesel	24,744	28,705
Scope 1 - Direct: Other fuels	629	690
SCOPE 1 - DIRECT: TOTAL	38,405	32,016
Scope 2 - Indirect: Electricity	11,968	18,517
SCOPE 2 - INDIRECT: TOTAL	11,968	18,517
TOTAL (Scope 1 and 2) gross emissions	50,373	50,532
Carbon Offset: Green Gas credits	(9,168)	0
Total net emissions after carbon offset	41,205	50,532
Turnover (£m)	1,547.5	1,583.6
Turnover ratio (Gross tCO_2e per £m)	32.6	31.9
Inflation adjusted turnover ratio (Gross tCO_2e per £m)	34.0	33.1
Additional turnover ratio (Net tCO_2e per £m)	26.6	31.9
Additional Inflation adjusted turnover ratio (Net tCO_2e per £m)	27.8	33.1
Total energy consumed (kWh)	179,523,458	201,067,293
Proportion of CO_2 emissions generated in the UK:	98.9%	99.0%
Proportion of total energy consumed (kWh) in the UK:	98.2%	98.4%

Emission source data is converted to carbon tonnes using the conversion factors published by BEIS.

Our record over the past five years is shown on the chart below.



CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

Our communities

Local and national donations

2020 highlights

Local donations, nationwide reach: £1.1m donated to over 2,500 local charities

Despite all of the challenges 2020 has thrown at us, our enthusiasm for supporting the communities in which we operate is as strong as ever. Lockdowns and ongoing restrictions have made it harder for charities, community groups and public services to operate, and we have had to adapt how and where we give our support.

In the first half of the year, when the full extent of lockdown restrictions were unknown, depots donated personal safety equipment and cleaning materials to the NHS and other key workers. From hospitals in Antrim to hospices in Weymouth, our depots donated stock to where it was needed most.

Later in the year we focused on our cash donations. We made an additional £1,000 available per depot for depots who had already used their 2020 charity budgets and any unutilised charity budget was split locally and donated to hospices, care homes, mental health and homeless charities.

More information about our 'Truly Local' approach to charity and community giving can be found at https://www.howdenjoinerygroupplc.com/about/in-the-community/truly-local

Employee donations

Howdens once again received the Charities Aid Foundation Gold Award in respect of charitable donations made via payroll giving. In 2020, our employees donated over £200,000 to their chosen charities. The generosity of our employees, even during times of crisis, is something of which we are very proud.

In recognition of the difficulties facing charities resulting from COVID-19 restrictions, members of the Howdens Board and Executive Committee donated a proportion of the salaries to charities in 2020 via payroll giving. In total, these donations amounted to £104,000.

Leonard Cheshire Disability partnership

Our partnership with Leonard Cheshire Disability entered its 16th year in 2020. Whilst our joint fundraising activities were curtailed by COVID-19 restrictions, Howdens donated over £120,000 to the 'Can Do' programme during the year.

We regard the principle of independent living as being central to our enduring partnership with Leonard Cheshire Disability and five inclusive kitchens were fitted in Leonard Cheshire care homes across the UK in 2020. We would have liked to have installed more and will increase this number in 2021.

Case study

'I can & I am'

'I can & I am' is a charity whose purpose is to inspire confidence and to 'inflate balloons of self-belief'. The charity was founded by the inspirational educational speaker James Shone, who visits hundreds of schools and businesses every year speaking to teachers, parents, pupils and employees.

Following James' speech at The Golden Rooster Awards 2020, our annual awards event attended by nearly 1,000 employees, Howdens gifted a refurbished double-decker bus to 'I can & I am'. The lower level of the bus features a Howdens kitchen used for groups of young people to learn new skills, whilst the upper level is used for mentoring as well as teaching a variety of different skills and workshops.

More information about the 'I can & I am Bus' can be found at https://www.icanandiam.com/the-bus/

Results of our 2020 ESG Strategic Review - Future commitments, targets and ongoing work

ONGOING WORK: We will take the learnings from the COVID-19 crisis and will look to make more impact with our community donations in the future. We want to improve how we organise ourselves in respect of charitable giving and better help the communities in which we work, whilst retaining our core strength of local giving through local networks.

Going Concern and Viability statements

Going Concern

The Directors have adopted the going concern basis in preparing these accounts and have concluded that there are no material uncertainties leading to significant doubt about the Group's going concern status. The reasons for this are explained below.

Assessment of principal risks

The Directors have reached their conclusion on going concern after assessing the principal risks, including the risks arising from COVID-19 and Brexit.

Five main themes relating to COVID-19 and Brexit risks, and which were subject to particular scrutiny by the directors were:

Theme	Mitigations and other considerations
Can we source the necessary supplies of raw materials and finished goods?	
• Are suppliers able to make and deliver? Will suppliers be able to remain in business? • Transport of goods into and out of EU	• Increased stockholdings of key products • Strong relationships with suppliers. Continuing to place orders and receive stock • Long-term supply arrangements • Obtained preferred importer/exporter status to reduce potential customs delays
Can we continue to manufacture, distribute and sell?	
• Safe working practices	• Safe working practices across factories, warehousing, distribution, depots, and offices • Robust disaster recovery capability
How will customer demand be affected?	
• How will our builder-customers be affected? • How will end-user consumer confidence be affected?	• Long-term relationships with builders give us good visibility of future market trends and end-consumer demand • Regularly reviewing our forecasting models
Can we maintain sales volumes and margins?	
• Changing consumer tastes • Competitor actions • Pressure on input costs and sales prices	• Continued new product introduction, strong in-stock position, excellent service, support and convenience for our customers • Flexible operating model that can react quickly
Do we have sufficient financial resources and working capital?	
• Sufficient underlying cash • Sufficient working capital	• High cash balance increases resilience against uncertainties • Ability to review distributions and capital allocation model as economic conditions change

Consumer and regulatory reactions to COVID-19 make prediction of future levels of demand difficult. Management have taken actions to secure availability of stock and raw materials, to secure workplaces and distribution routes to meet reasonably foreseeable levels of sales. The principal remaining uncertainties are therefore around the timing and level of demand.

Going Concern and Viability statements continued

Going Concern continued

Review of trading results, future trading forecasts and downside scenario modelling

The Directors have reviewed trading results and financial performance in 2020, as well as early weeks trading in 2021. They have reviewed the Group balance sheet at December 2020, and the appropriate levels of working capital, including higher inventory and cash balances.

They have also considered three financial modelling scenarios prepared by management:

1. **A 'base case' scenario.** This is based on the Group's latest budget, which was approved by the Board in January 2021.

   This scenario assumes capital expenditure in line with the announced plans for new depot openings and additional investment in our manufacturing sites. It also includes a cash outflow for the dividend payment which the Board will propose at the Annual General Meeting in May 2021, and which is detailed in note 11 to the Group Financial Statements.

2. **A 'plausible downturn' scenario.** This scenario starts with 2019 sales - taking the view that 2019 was the last normal full year of trading - and models a going concern period where those sales are reduced by 7% and margin is at 2020 levels. This compares to 2020 actual performance where sales were down 2.3% on 2019.

   This scenario maintains the same cost base as the base case, despite assuming a reduction in sales. It assumes capital expenditure and dividends at the same level as the base case.

3. **A 'reverse stress-test' scenario.** This scenario starts with the plausible downturn model and reduces sales even further, to find the maximum reduction in sales that could occur with the Group still remaining cash positive over the whole going concern period, without the need to borrow or take mitigating actions.

   This scenario maintains the same cost base as the base case, despite assuming a reduction in sales. It assumes capital expenditure at around two thirds of the level of the base case - which is broadly at a level which would cover maintenance capex, plus the full planned investment in new manufacturing and digital capability, plus half of the planned new depot openings and refurbishments. It assumes no dividend.

In the first two scenarios the Group has significant cash throughout the going concern period after meeting its commitments.

In the reverse stress-test scenario, the results show that sales would have to fall by 40% before the Group would have to draw on borrowing facilities or take further mitigating actions. The likelihood of this level of fall in sales was considered to be remote.

Borrowing facilities and mitigating actions

All of these scenarios are modelled on the basis that the Group does not draw on its existing £140m borrowing facility that could provide additional headroom.

In the reverse stress-test scenario, the EBITDA covenant in the Group's existing £140m facility would need to be renegotiated or partially waived for the facility to be available. However, our stress testing looks at the level of fall in sales before the Group would need to borrow, and so it does not assume that the facility will be available.

Whilst the plausible downturn and stress-test scenarios assume reduced sales, they both assume the same cost base as in the base case scenario. They do not assume, for example, reduced transport and delivery costs, a lower headcount, lower bonuses or tax payments. They do not assume any Government assistance - for example through furlough payments or business rates relief - nor do they assume any restructuring actions which the Group could take.

All these assumptions build additional elements of prudence into the scenario modelling.

Conclusion on going concern

Taking all of the factors above into account, the Directors believe that the Group is well placed to manage its financing and other business risks satisfactorily and they have a reasonable expectation that the Company and Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Long-term prospects and viability

Assessment of long-term prospects

The Directors have assessed the Company's long-term prospects, with particular reference to the factors below:

Current position

- History of resilient profits, strong net profit margins.
- Cash and cash equivalents balance at December 2020 of £431m.
- Debt-free. Consistently cash-generative. Proven ability to maintain strong cash balances whilst also investing for growth and returning cash to shareholders.
- £140m borrowing facility, which expires in December 2023, if needed.
- Strong relationships with suppliers and customers, built on trust.
- Proven ability to flex the operating cost base in a severe economic downturn.
- Robust disaster recovery and business continuity framework.

Strategy and business model

- Proven, successful business model.
- Scope, and resources, for growing the depot network in line with announced plans.
- Clear strategic direction.

Robust assessment of principal risks

- The Directors' role in the risk identification, management, and assessment process is outlined on pages 38 to 47, together with details of the principal risks and mitigations.
- Specific detail on how the Directors have approached their review of COVID-19 and Brexit risks is set out in the discussion of going concern, above.
- The Directors are satisfied that they have carried out a robust assessment of the Company's principal risks.

Assessment of viability

Time period and scenario modelling

The Directors' review of the Company's long-term viability used a three-year period as this aligns with the Company's strategic planning process.

The financial modelling to support the assessment of viability was based on the three scenarios used for the going concern assessment and detailed above.

1. The base case scenario is a three-year forecast which covers the viability assessment period and assumes an increase in sales and profit over this period.
2. The plausible downturn scenario took the same decline over the going concern period as is detailed in the discussion of going concern above, and then assumed a phased recovery over the rest of the 3 year period. It assumed that sales recovered cautiously, and in line with IMF future economic forecasts for the UK and France. On gross margin, which had been modelled at 2% down on 2019 over the going concern period, the model assumed an improvement of 1% each subsequent year, thereby returning to the 2019 margin level by the end of the viability assessment period.
3. In the reverse stress-test scenario, the model assumed a phased recovery of margin and profit on the same bases as for the plausible downturn scenario. This was then stress-tested to find the maximum amount by which sales in the first year would have to fall before the Group would no longer be cash positive at any point in the viability assessment period, without borrowing or taking further mitigating actions.

The Directors consider that the reasonably foreseeable financial effects of any reasonably likely combination of the Company's principal risks are unlikely to be greater than those effects which were modelled in the plausible downside and reverse stress-test scenarios.

Going Concern and Viability statements continued

Long-term prospects and viability continued

Results of scenario modelling

The results of the base case and plausible downturn scenario modelling showed that the Company would have sufficient cash over the viability assessment period and would not need to use its borrowing facility.

The reverse stress-test showed that the level of fall in sales required in the first year of the viability assessment period before the Company would need to use its borrowing facility at any point over the viability period was over twice the fall modelled in the plausible downturn scenario.

None of the scenarios factored in any mitigating actions that would be open to the Company in the event of a severe downturn, and which are discussed in the going concern assessment above.

In the reverse stress-test scenario, the EBITDA covenant in the Group's existing £140m facility would need to be renegotiated or partially waived for the facility to be available. However, our stress testing looks at the level of fall in sales before the Group would need to borrow, and so it does not assume that the facility will be available.

Conclusion on viability

Having taken into account the Company's current position, strategy, business model and principal risks in their evaluation of the prospects of the business, the Directors concluded that they have a reasonable expectation that the Company will continue to operate and to meet its liabilities as they fall due during the three year period to December 2023.

Further reading

Principal risks and mitigations, including a review of the risks arising from COVID and Brexit	**Pages 38 to 47**
Management actions to secure stock availability, workplaces and distribution routes	**Pages 22 to 29**
Trading results	**Pages 33 to 37**
Balance sheet	**Page 139**
Details of our £140m borrowing facility	**Page 159**
Auditor's report, with details of their work and conclusions on going concern and viability	**Pages 177 to 186**

Other Directors' statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors are required to prepare Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have chosen to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the Parent Company Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the Financial Statements.
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Section 172(1) statement

The Board reviews all matters and decisions through the consideration and discussion of reports which are sent in advance of each of their meetings and through presentations to the Board. When the Directors discharge their duty as set out in section 172 of the Companies Act 2006 ('section 172' or 's.172'), they have regard to the other factors set out on page 78 and they also consider the interests and views of other stakeholders, including our pensioners, regulators and the government, and the customers of our trade customers.

The Directors are required to include a statement of how they have had regard to stakeholders and the other factors set out in section 172(1)(a) to (f) when performing their duty. The full s.172(1) statement may be found on pages 78 and 79. On page 79, we have set out examples of how the Directors have had regard to the matters in s.172(1)(a) to (f) when discharging their section 172 duty.

Non-financial reporting

In order to consolidate our reporting requirements under sections 414CA and 414CB of the Companies Act 2006 in respect of Non-Financial Reporting, the table on page 135 shows where in this Annual Report and Accounts to find each of the disclosure requirements.

Disclosure of information to the auditor

Having made the requisite enquiries, the Directors in office at the date of this report have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each of the Directors has taken all the steps they ought to have taken as a Director to make themself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Directors' responsibility statement

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company, and the undertakings including the consolidation taken as a whole;
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

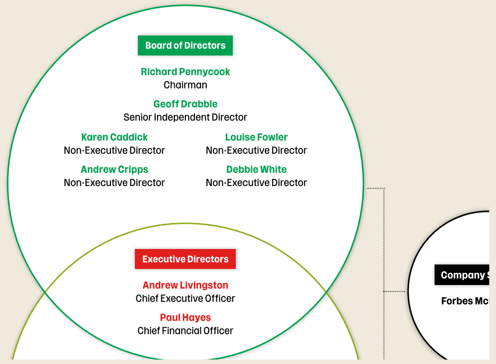
Andrew Livingston
Chief Executive Officer

Paul Hayes
Chief Financial Officer

Governance

Corporate governance report

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



70

Board of Directors

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

72

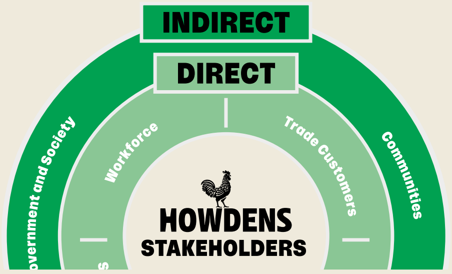
Executive Committee and Company Secretary

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

76

Section 172(1) statement and stakeholder engagement

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



78

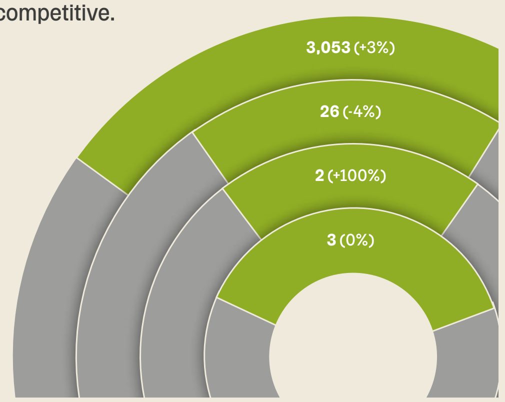
2018 UK Corporate Governance Code application and compliance

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

88

Nominations Committee report

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

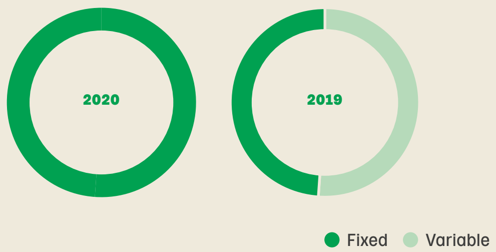


94

Remuneration Committee report

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

Total Executive Director - Fixed vs Variable Pay



104

Audit Committee report

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

126

Directors' report

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

134

Corporate governance report

Richard Pennycook **Chairman**

Introduction from the Chairman

COVID-19

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

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

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

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

Board and Committees

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

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

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

Governance

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

2021 Annual General Meeting (AGM)

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

Share capital and significant agreements

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

Board meeting attendance

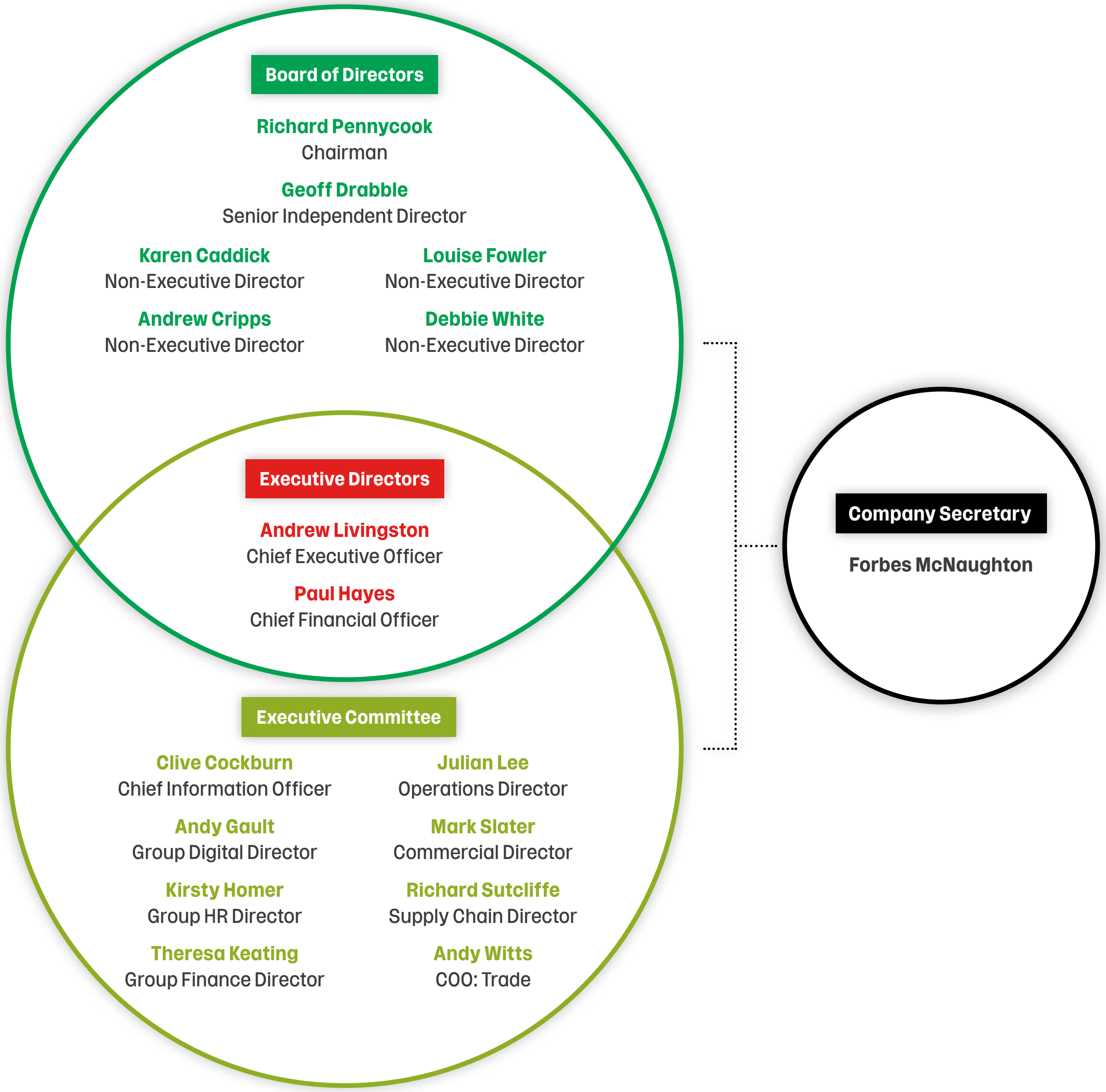
Richard Pennycook (10/10)	Geoff Drabble (10/10)	Mark Robson (9/10)[3]
Karen Caddick (9/10)[1]	Louise Fowler (8/10)[2]	Debbie White (10/10)
Andrew Cripps (10/10)	Andrew Livingston (10/10)	

1 Karen was unable to attend the March Board meeting due to technical difficulties. Karen received all the Board papers in advance of the meeting and was able to feedback her views to the Chairman.

2 Louise was unable to attend the September Board meeting due to a pre-existing commitment entered into prior to joining the Company and a subsequent unscheduled meeting due to a family bereavement. Louise received all of the Board papers in advance of the meetings and was able to feedback her views to the Chairman.

3 Mark did not attend one of the October meetings as the meeting was called to discuss his succession.

Board and Executive Committee structure



Roles

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

Corporate governance report continued

Board of Directors

Executive Directors

Andrew Livingston
Chief Executive Officer

Andrew was appointed to the Board as Chief Executive Officer on 2 April 2018.

Other listed company appointments

Non-Executive Director at LondonMetric Property Plc

Contribution to the long-term sustainable success of the Company

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

Paul Hayes
Chief Financial Officer

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

Contribution to the long-term sustainable success of the Company

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

Non-Executive Directors

N

Richard Pennycook
Independent
Non-Executive Chairman

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

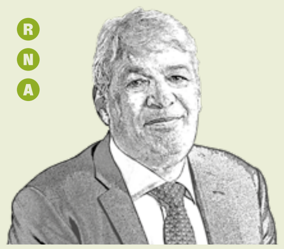
Other listed company appointments

Chairman of On the Beach Group plc

Contribution to the long-term sustainable success of the Company

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

R N A



Geoff Drabble
Senior Independent Director and Non-Executive responsible for workforce engagement

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

Other listed company appointments

Chairman of Ferguson Plc
Chairman of DS Smith Plc[1]

Contribution to the long-term sustainable success of the Company

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

Key to Board Committee membership

- Chair of Committee
- N Nominations Committee
- R Remuneration Committee
- A Audit Committee

Independence

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

Non-Executive Directors

R N A

Karen Caddick
Independent
Non-Executive Director

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

Contribution to the long-term sustainable success of the Company

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

R N A

Andrew Cripps
Independent
Non-Executive Director

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

Other listed company appointments

Deputy Chair of Swedish Match AB

Contribution to the long-term sustainable success of the Company

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

R N A

Louise Fowler
Independent
Non-Executive Director

Louise was appointed to the Board in November 2019.

Other listed company appointments

Non-Executive Director of Assura plc

Contribution to the long-term sustainable success of the Company

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

R N A

Debbie White
Independent
Non-Executive Director

Debbie was appointed to the Board in February 2017.

Contribution to the long-term sustainable success of the Company

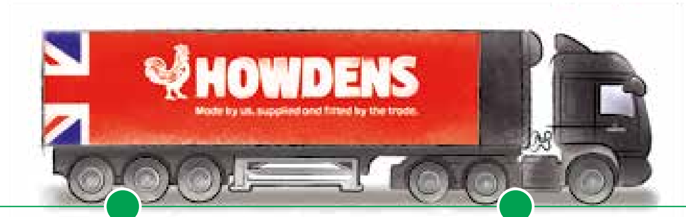
Debbie has direct operational experience in the business-to-business sector from her time as CEO at Interserve plc. She also has in-depth knowledge of the UK and French markets, both of which Howdens operates within. Her previous experience as a chief financial officer and as Chair of the Audit Committee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

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

Corporate governance report continued

Key Board activity

2020



H1

January
- ESG review
- Health & Safety
- Pensions update[1]
- 2020 priorities and budget
- Workforce engagement
- Investor relations update
- External Board Evaluation feedback

Executive Committee presenters:
- Rob Fenwick (Chief Governance Officer)
- Theresa Keating (Group Finance Director)
- Gareth Hopkins (Interim Group HR Director)[3]

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

Executive Committee presenters:
- Gareth Hopkins (Interim Group HR Director)[3]

March
(Out of cycle meeting held in response to the COVID-19 crisis)
- Health & Safety
- Government guidance
- Cash flow scenario analysis
- Final dividend
- Crisis risk structure and analysis
- Safety stocks

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

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

June
(Out of cycle meeting held in response to the COVID-19 crisis)
- Health & Safety
- Cash flow scenario analysis
- H2 trading
- Pensions - future provision
- AGM feedback

H2

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

Executive Committee presenters:
- Rob Fenwick (Chief Governance Officer)
- Theresa Keating (Group Finance Director)

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

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

October
- CFO Succession

- Broker update
- Q3 IMS considerations

Executive Committee presenters:
- Theresa Keating (Group Finance Director)

November
- ESG update
- Health & Safety
- P11 performance
- Pensions update[2]
- Shares and dividend forfeiture programme update
- 2021 Board calendar

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

February 2021
Board effectiveness evaluation

Set out above and on the facing page are highlights of the matters the Board considered (or will consider - see 2021 Activities on the opposite page) as part of its annual meeting cycle. Not all of the matters the Board considered or will consider are listed, therefore this should not be considered an exhaustive list of activities.

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

Governance and risk

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

Risk remains a matter reserved for the Board and a detailed review of our risk management processes and principal risks can be found on pages 38 to 47. We have reviewed our risk management processes and remain satisfied that they are robust and effective. Reporting from our whistleblowing helpline is also considered by the Board on a biannual basis. In 2020 the Board reviewed and approved a Group Risk Charter. More information on the Group Risk Charter is set out on page 39.

Shareholder engagement

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

2021

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

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

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

May
- AGM - further details on page 194

June
- Trading update
- AGM feedback

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

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

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

1 The Company's actuaries reported to the Board on routine funding and investment matters and the Chair of the Pension Trustees attended to provide an overview of the Trustees' funding and investment strategy and to seek approval from the Board of its long-term strategy proposal.
2 The Company's actuaries reported to the Board on routine funding and the valuation and the Chair of the Pension Trustees attended to provide an overview of the Trustees' funding and investment strategy.
3 Gareth retired from the Executive Committee in April 2020.

Corporate governance report continued

Executive Committee and Company Secretary

Executive Directors

Andrew Livingston
Chief Executive Officer

Paul Hayes
Chief Financial Officer

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

Executive Committee members

Clive Cockburn
Chief Information Officer

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

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

Andy Gault
Group Digital Director

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

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

Kirsty Homer
Group HR Director

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

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

Theresa Keating
Group Finance Director

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

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

Executive Committee members

Julian Lee
Operations Director

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

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

Mark Slater
Commercial Director

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

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

Richard Sutcliffe
Supply Chain Director

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

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

Andy Witts
Chief Operating Officer: Trade

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

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

Company Secretary

Forbes McNaughton
Company Secretary

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

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

Strategic report
Governance
Financial statements
Additional information

Corporate governance report continued

Directors' duties

Section 172(1) statement

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

Long-term thinking

The likely consequences of any decision in the long term.

Environment and community

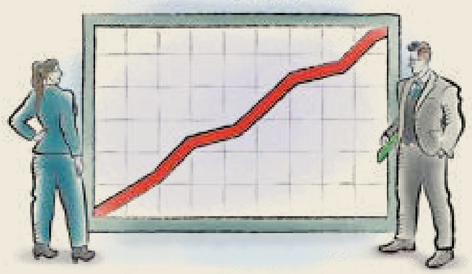
The impact of the company's operations on the community and the environment.

Reputation

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

Investors

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



Suppliers

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

Workforce

The interests of the Company's employees.

...Customers

Howdens is a company that strives to be worthwhile for all concerned. It's the principle that we were founded on. But balancing the needs and views of all of our stakeholders is challenging as there are often competing interests. This is why the Board first and foremost considers our purpose, our culture, our mission and our strategy to ensure all decisions have a clear and consistent rationale.

For details on the matters which the Board discussed and debated during 2020 please see pages 74 and 75.

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

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

We have set out some examples below of how the Directors have had regard to the matters in section 172(1)(a)-(f) when discharging their Section 172 duty and the effect on certain decisions taken by them in 2020.

Restarting operations

Following the announcement of the UK Government's 'stay at home' measures on 23 March 2020, the decision was taken to close our UK operations, with the exception of essential activity at our distribution and manufacturing sites. Essential activity at these sites was only carried out where two-metre social distancing could be maintained, and where operations involved the provision of products to NHS trusts and other 'at needs' organisations.

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

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

Stakeholder returns

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

When coming to this decision, the Board was mindful of its obligations to all its stakeholders. As there was no obligation on the Company to repay the support it had legitimately received as a result of the COVID-19 crisis or to pay back deferred payments ahead of agreed schedules, it is arguable that these decisions were done to the detriment of shareholders who could, in principle, have received higher levels of returns had the Board not taken this decision. However, the Board was also mindful of its statutory obligations to society as a whole and on that basis (and in the face of competing stakeholder demands) agreed to this course of action. The Board has been pleased with the feedback from shareholders that they support this decision and that other companies followed Howdens' lead in the repayment of business rates, which have contributed over £2bn to Treasury finances to date.

Investment in in-house manufacturing capabilities

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

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

- The creation of shareholder value through cost savings and improved stock turnover.
- Greater control of the supply chain, resilience and greater speed to market which would help protect customers from exposure to international supply chain interruptions.
- Employee benefits such as job creation.
- The associated environmental benefits, with an estimated 200 less tonnes of CO_2 due to fewer loads being transported internationally.

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

Corporate governance report continued

Adapting for COVID-19

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

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

The Board's response

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

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

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

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

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

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

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

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

Shareholder returns

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

Stakeholder engagement

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

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

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

Annual General Meeting (AGM)

In April 2020, the Board took the decision to change the venue and list of permitted attendees to the AGM. The meeting was held as a 'closed' meeting, with only the DCEO & CFO and Company Secretary, both shareholders in their own right, in attendance. The Board were mindful that the AGM provides a forum for small shareholders to speak to the Board directly. As such, an online facility to submit questions was established prior to the AGM so that shareholders retained the ability to ask their questions. To keep an open dialogue with all shareholders, this facility was retained for the rest of the year.

Returns

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

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

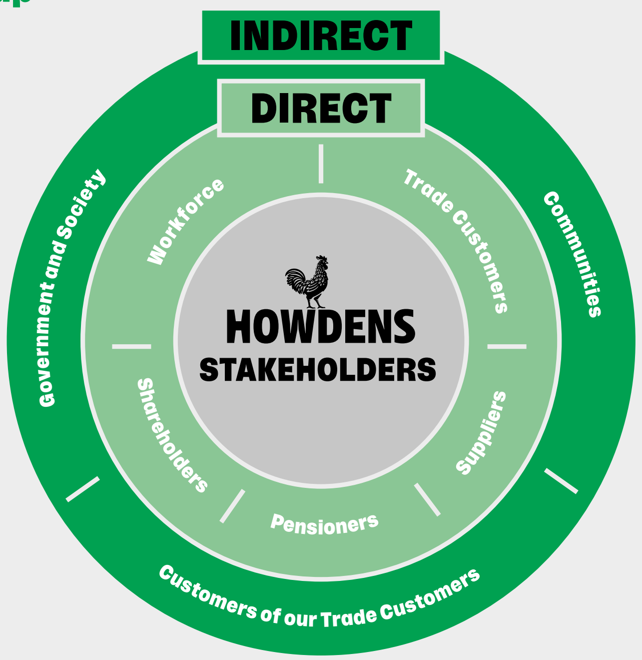
Ongoing

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

Corporate governance report continued

Stakeholder engagement

Stakeholder map



Stakeholder and forms of engagement	Engagement detail and how it has influenced Board discussions and decision-making
Workforce Engagement with our workforce includes the following: • Employee surveys • Senior leadership meetings • Town hall-style meetings • Regional Board meetings • Meetings with the Trade Union and works councils 	**Non-Executive Director responsible for workforce engagement** In 2019, the Board appointed Geoff Drabble as the Non-Executive Director responsible for workforce engagement. 2020 has been a challenging year for face-to-face employee engagement but, during the year, Geoff held an interactive session with blue and white collar workers at the Howden factory. Geoff also received briefings from management in relation to: 1. The consultation and employee involvement in establishing and maintaining COVID-secure working (return to work plans). This included the communication and engagement activities in this regard and Trade Union and works council involvement. 2. Furlough payment and communication. 3. How the business was supporting remote working. 4. Mental health and wellbeing support. 5. Protecting Clinically Extremely Vulnerable (CEV) employees.

Stakeholder and forms of engagement	Engagement detail and how it has influenced Board discussions and decision-making
Workforce continued 	**Engagement with Trade Union and works councils** Howdens respects the collective bargaining of its employees and actively engages with the Trade Union and works councils on employee related matters. In 2020, there were a number of significant areas of engagement with these collective groups which included: 1. COVID-19-related return to work engagement. 2. Ballot for flexible working. 3. Engagement on defined benefit scheme closure. **Employee surveys** Building on the success of the all-employee survey in 2019, a number of employee surveys were used in 2020. Targeted surveys relating to 'return to work' and 'remote working' were used to capture employee sentiment. The results were then used to inform management and Board decision making when addressing each of these matters. **Senior Leadership Meetings ('SLMs')** The Senior Leadership Team (SLT) is made up of around 25 leaders from across the business who work closely with the Executive Committee to develop and deliver our business plans. The SLMs are designed to encourage open and frank discussions across all business matters. **Members of the SLT are invited to present to the Board directly when relevant, which is both important for individuals' development, but also provides the Board with an ongoing view of the talent pipeline below Executive Committee level.** **Whistleblowing helpline** The Company uses a third-party operated, confidential whistleblowing helpline. The helpline is multilingual and available 24 hours a day. The Company Secretary provides the Board with a bi-annual report which details the number and nature of whistleblowing instances made during the period. Whilst no specific complaints were escalated for Board attention, the governance processes are in place should this be deemed necessary. The Board encouraged management to ensure that employee communications about the helpline were refreshed during the year and that there be a continuous communication programme put in place.

Corporate governance report continued

Stakeholder engagement continued

Stakeholder and forms of engagement	Engagement detail and how it has influenced Board discussions and decision-making

Trade customers

Engagement with our trade customers includes the following:

- Local depots
- Builder forums
- Product research groups
- Customer surveys

Local depots

The primary method of engaging with our trade customers since Howdens opened its doors in 1995 has been through the conversations at the local depot. The relationship between the depot manager and the trade customer has always been at the heart of what we do. Our depot managers feed back builder views to management at Regional Board meetings, which the COO of Trade is present at and which the CEO and other members of the Executive Committee often attend. Feedback from Regional Board meetings influences product and pricing decisions. However, it also reinforces our strategic decisions on new depot openings, ensuring that we are maintaining excellent customer service and investing in new product.

During 2020, the Regional Board meetings were mostly held virtually and were held more regularly as the business navigated its way through the pandemic. From these meetings, managers were able to feedback directly to the CEO, COO of Trade and other senior executives of the local experiences. It was through these sessions that managers discussed the urgent need for product to supply the NHS Nightingale Hospitals and to self-employed account holders, who were also said to be extremely grateful for the service provided during the strictest lockdown periods (even where these were required to be limited), as they were able to finish their jobs (especially in vacant properties) and receive much-needed cash.

Builder forums

Ensuring all levels of our organisation understand the challenges of our trade customer is fundamental to ensuring our service proposition is worthwhile to them. We therefore hold regular direct feedback sessions with our trade customers in the form of Builder Forums. These forums normally see a small group of customers coming together in an informal setting to talk about their experience of our product and also how it compares with others in the market. The agendas for the forums are driven by the customers themselves so we can be sure we are hearing everything that is on their mind.

In Q1 2020, prior to the COVID-19 lockdown measures being put in place by the Government in March, 20 forums were held with our trade customers. In response to feedback from the forums, we made a number of product and process improvements, including additional investment in key manufacturing components to enhance our cabinet specifications, improving the way we manufactured our 22mm worktops, and improving our storage pallets for worktops and bulk storage.

In 2021, the business will once again host Builder Forums, but these will take place virtually while Government COVID-19 measures are in place.

Cabinet research groups

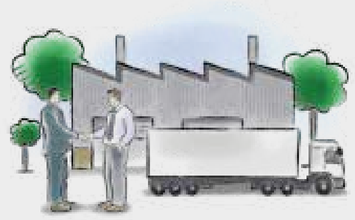
Each year, we host a cabinet research group which is made up of a number of our account holders, from small builders to landlords to developers. In these sessions, our teams begin by asking our customers about their businesses and what they are experiencing in the market. The session then focuses on our cabinets and discussions are held as to how the cabinets are performing in the field. These sessions are key to ensuring that our cabinets are the best in the trade market. In 2020, the group was split into three sessions to ensure COVID-19 measures could be adhered to.

Stakeholder and forms of engagement	Engagement detail and how it has influenced Board discussions and decision-making

Suppliers

Engagement with our suppliers includes the following:

- Supplier conference
- Category team relationships



Supplier conferences

Each year, our key suppliers are invited to join senior leadership at our annual Supplier Conference. This is an important date in our calendar as it's a time when the Company can communicate its priorities and any changes in the business to its suppliers, ensuring a consistent message is heard by all.

During 2020, the business hosted two supplier engagement sessions. These were held virtually for the first time given COVID-19 restrictions.

The first session, 'Leading the Way', received strong feedback on the key messages, which were to build back faster and fitter than the competition, investment in stock and new opportunities on promotional activity, and the introduction of new products.

The second virtual supplier engagement session 'Leading the Way… into 2021' was held to maintain an ongoing conversation with our key partners to ensure the full range of opportunities could be taken advantage of into 2021. Each session was attended by over 100 senior executives from our key partners, who were given the opportunity to ask questions of our senior leadership.

It was more important than ever throughout 2020 to engage with and support our supplier base, who experienced significant disruption to operations. Throughout the COVID-19 crisis all our orders placed prior to the crisis were honoured, and while many other companies cancelled orders, we placed additional orders to ensure we were able to keep supporting our customer, the builder. The Board and the Executive Committee understood the importance of ensuring our suppliers' order books were such that they could continue to operate and persevere beyond the pandemic and that ongoing engagement on forecasting was crucial for suppliers to be able to plan in our demand.

In both supplier engagement sessions, our leadership was keen to thank our partners for their continued strong support and keenness to go above and beyond for the business during the pandemic. Without the enduring strong relationships with our supplier partners, the business would not have been in the position to maintain the in-stock promise to our customers.

Category team relationships

In 2019, a new commercial structure was established, which is organised into categories. This structure provides clearer accountabilities for ranging decisions and with greater internal accountability comes the fostering of stronger relationships with our suppliers. Suppliers are now engaging with focused teams within the organisation and this clarity brings the opportunity for even more valuable discussions.

Corporate governance report continued

Stakeholder engagement continued

Stakeholder and forms of engagement	Engagement detail and how it has influenced Board discussions and decision-making

Pensioners

Engagement with our pensioners includes the following:

- Board engagement with the Trustee Board
- Annual newsletter
- Triennial valuations

At 26 December 2020, the Howden Joinery Defined Benefit Pension Plan (the 'Plan') had 10,600 members, of which 1,246 were active members, 5,354 were deferred members, and 4,000 were pensioners and dependants.

Board engagement with the Trustee Board

The Trustee Board, chaired by an independent trustee, is responsible for investment strategy and for the day-to-day running of the Plan. There are a number of matters reserved for the Company as sponsor under the Trust deed and the Board invites the Chair of the Trustees to present to the Board on an annual basis and provide an update on matters affecting the membership.

In 2020, the Company engaged with the Trustee Board on a number of matters outside of the normal engagement cycle of investment and funding strategy. In the first half of the year, the Company and Trustee Board entered into arrangements to defer deficit recovery payments in order to safeguard the Company's cash position at the outset of the COVID-19 crisis. Following this, the Company and Trustee Board entered tripartite arrangements in conjunction with the Company's banking partners to negate the effects of a technical breach of the earnings covenant.

In the second half of the year, the Company and Trustee Board engaged closely on the Company's proposals to close the Plan to future accrual and the statutory consultation process which was undertaken. The Company and the Trustee Board will continue to work together closely on this matter to ensure a smooth transition of active employee members from the Plan to the Company's defined contribution pension scheme.

Triennial valuations

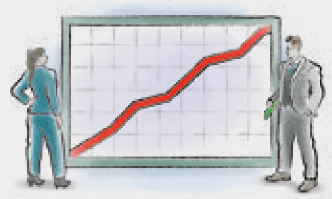
Ensuring that there is an appropriate balance between shareholder distributions and Plan deficit funding is a priority for the Board. The triennial actuarial review as at April 2020 is in progress and expected to complete in 2021.

Stakeholder and forms of engagement	Engagement detail and how it has influenced Board discussions and decision-making

Shareholders

Engagement with our shareholders includes the following:

- Annual General Meeting
- Shareholder meetings and Roadshows
- Shareholder consultations
- Asset reunification



Annual General Meeting (AGM)

In compliance with the Government's 'Stay at Home' measures (effective from 23 March 2020 and extended on 16 April 2020), whereby public gatherings of more than two people were prohibited, the 2020 AGM was held as a closed meeting with the minimum quorum required by the Articles of Association. The attendance of the DCEO & CFO and Company Secretary (the quorum) at the meeting were considered essential for work purposes and therefore permitted under the measures. However, the Company was keen that its shareholders should be provided with the opportunity to submit any questions they may have of their Board of Directors and therefore a question facility was set up on the Company's corporate website and this remained open throughout the year following the conclusion of the AGM.

Voting for the AGM was by way of a poll, which ensured that the votes of shareholders who were unable to attend the AGM, but who had appointed proxies, were taken into account in the final voting results. We believe this method gives a more accurate reflection of the views of all of our shareholders and therefore routinely use this method for each general meeting of the Company.

Shareholder meetings and results roadshows

Due to COVID-19, face-to-face meetings with investors were unable to take place during 2020. However, following both the preliminary results and interim results announcements, the Executive Directors had calls with investors owning around one-third of the Company. On these calls, investors showed particular interest in the initiatives that the business was pursuing, the strength of the balance sheet, and the cash needed to sustain the business throughout the COVID-19 pandemic.

The Non-Executive Directors, in particular the Chairman and Audit and Remuneration Committee Chairs, are available for meetings with shareholders throughout the year. The Chairman met with shareholders during the year to discuss a number of corporate governance related matters including Board succession, diversity and distribution of capital.

Shareholder consultation

In January 2021, the Company wrote to its largest 10 shareholders and shareholder advisory groups regarding proposed changes to CEO base pay. Further details of the consultation may be found on page 105 of the Remuneration Committee report.

Asset reunification

The Company, in conjunction with its Registrar, commenced a proactive asset reunification programme in April 2020. The programme targeted holders of certificated ordinary shares who had 12 consecutively uncashed dividends and sought to re-unite them with their shares and unclaimed dividend payments.

Corporate governance report continued

2018 UK Corporate Governance Code: application and compliance

The Financial Reporting Council ('FRC') published its most recent iteration of the UK Corporate Governance Code (the 'Code') in 2018, which applies to accounting periods beginning on or after 1 January 2019. We are pleased to report that the Company applied all the Principles of the Code throughout the period and we have reported in summary below how we have done so. We are also pleased to report that the Company was compliant with all Provisions except for Provision 38.

Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our Remuneration Policy ('Policy'), which was approved by shareholders in 2019, stipulates that Executive Director new joiners' pension contribution rates must be in line with that available to the wider workforce. Our Deputy Chief Executive and Chief Financial Officer (who retired from the Board on 26 December 2020) received pension contributions which were not in line with the wider workforce during the reporting period. However, in 2021, our new Chief Financial Officer (who was appointed to the Board on 27 December 2020) will receive a pension contribution rate which is in line with the wider workforce. Our incumbent Chief Executive's pension contribution rate, while in line with Policy for existing Directors, is not yet in line with the wider workforce. This is because the reduction of fixed, contractual remuneration must be applied carefully and proportionally over time. Our Chief Executive is fully supportive of his rate tapering as set out on page 106 of the Remuneration Committee Report and the Board confirms that his contribution rate will be in line with the wider workforce by the AGM in 2022.

Section 1: Board leadership and company purpose

A

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

Howdens' founding principle of being worthwhile for all concerned supports the premise that its role is to ensure long-term, sustainable growth and value for all its stakeholders.

During 2020, the Board led the Company's response to the unprecedented challenges which arose as a result of the COVID-19 pandemic. The Company's primary focus was on keeping our employees and customers safe from COVID-19 at all times. Once this had been established, action was taken to safeguard the Company's cash position to ensure that it remained viable in the face of extremely challenging external conditions.

In the latter part of the year, as pressures eased on cash, depots and manufacturing operations reopened and trading returned to a more normalised cycle (albeit in a COVID-secure way), the Board was able to focus on longer-terms strategic initiatives and stakeholder experience. In line with Howdens' values-led approach, the Board decided to return Government support received during the year relating to the Coronavirus Job Retention Scheme and business rates relief. More information on our sustainable business model and strategy, and our contribution to wider society may be found in the Sustainability report beginning on page 48.

Governing in an effective way ensures the framework and controls needed to align our operations with our strategy are in place. It is only by doing this that we can ensure long-term strategic success of the Company for our stakeholders. We discuss throughout the Governance section how our actions support the strategy. For example, we have set out the way our remuneration structure supports our strategic aims in the Remuneration Committee report on page 108.

B

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

An explanation of our purpose, values and strategy are set out in the Strategic report which starts on page 4. The Board regularly discusses the importance of Howdens' unique culture and are mindful that it remains aligned with its purpose, values and strategy. This remains an area of regular scrutiny following the transition from the Founder CEO. Workforce engagement is also an important part of the Board's agenda and more information about the methods of engagement with the workforce may be found on pages 82 and 83.

Integrity and sympathy to the Howdens culture are paramount when the Board recruits new members to the Board. More information about our recruitment and inductions process can be found on pages 99 to 101.

C

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

The Board are satisfied that the necessary resources are in place to ensure that the Company meets its objectives and measures performance against them. Our KPIs and how we have performed against them can be found on pages 30 to 32.

More information on our risk processes, including our principal and emerging risks, can be found in the 'Principal risks and uncertainties' section starting on page 38. Our Audit Committee report provides a summary of our internal control framework on page 132.

Section 1: Board leadership and company purpose continued

D

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

Howdens has a broad group of clearly defined stakeholders and the Board actively engage with each of these groups on a regular basis. A detailed explanation of our engagement with our shareholders and wider stakeholder base and how this engagement has informed the Board's decision making processes can be found on pages 82 to 87. How the Board members discharged their 'section 172' statutory directors duties is described on pages 78 and 79.

E

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

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

One example of this is how our Remuneration Committee consider the pay policies and practices of the wider workforce when determining Executive reward. More information in this regard can be found on page 114.

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

Section 2: Division of responsibilities

F

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

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

The Chairman is mindful of his role in facilitating constructive board relations and promoting a culture of openness and debate amongst the Board. This in turn encourages the effective contribution of all the Non-Executive Directors. The 2020 Board evaluation concluded that the Board worked well as a group and continued to adopt a collegiate approach. Further information about the outcomes and process of the 2020 Board evaluation may be found on pages 102 and 103 of the Nominations Committee report.

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

Corporate governance report continued

2018 UK Corporate Governance Code: application of Principles

Section 2: Division of responsibilities continued

G

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

At least half of the Board was made up of Independent Non-Executive Directors (not including the Chairman) throughout the reporting period. The Non-Executive Directors which the Board considered to be independent are shown as such on pages 72 and 73. The Board confirms that all the Non-Executive Directors (excluding the Chairman) were independent during the reporting period and that the Chairman was independent on appointment.

There is a clear division of responsibilities between the leadership in the organisation. The responsibilities of the Chairman, Chief Executive, and Senior Independent Director may be found on the Company's website (www.howdenjoinerygroupplc.com/governance/division-of-responsibilities) and the function of the Board Committees may be found in the respective committee terms of reference, also available on the Company's website (www.howdenjoinerygroupplc.com/governance/tor-and-schedule-of-matters).

I

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

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

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

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

H

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

The number of Board meetings which were held during the reporting period and the attendance at each of these meetings may be found on page 71. Similarly, the number of each Board Committee's meetings and attendance may be found on the following pages: page 95 (Nominations Committee), page 105 (Remuneration Committee), and page 127 (Audit Committee).

When reviewing the Nominations Committee's recommendation to appoint a new Director, the Board will always assess whether the candidate is able to allocate enough time to the role. Similarly, when assessing the acceptability of an existing Director's wish to take on external appointments, the Board will assess the additional demand on that Director's time before authorising the appointment within its agreed existing protocol whereby any significant appointments taken on whilst a Director of the Company must be approved by the Board before they are entered into. This is set out in the Schedule of Matters Reserved for the Board which may be found on the Company's website (www.howdenjoinerygroupplc.com/governance/tor-and-schedule-of-matters).

During the reporting period, Geoff Drabble's appointment as Non-Executive Director and Chairman Designate of DS Smith Plc was authorised by the Board. Prior to Geoff's appointment, the Board considered whether Geoff could allocate enough time to his role as Senior Independent Director and Non-Executive Responsible for Workforce Engagement of the Company in addition to a chair role of a FTSE 100 company. The Board was satisfied that, given Geoff no longer held any full time executive positions, he had the requisite time to fulfil the new role as well as his current role with the Company.

Members of the senior management team regularly presented to the Board on their respective areas of the business (please see pages 74 and 75 for a timeline of Board meetings and information regarding any Executive Committee attendees), which provided an opportunity for the Board to constructively challenge and to provide advice to our senior management team.

Information about the management of conflicts between the duties Directors owe the Company and either their personal interests or other duties they owe to a third party may be found on page 133.

Section 3: Composition, succession and evaluation

J

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

The Nominations Committee engages external search consultancies when searching for Board position candidates. Further information about the appointments process is available on page 99 of the Nominations Committee report and the Board's diversity policy is available on page 98.

The Nominations Committee regularly reviews the tenure of each Board member and the skills matrix (please see pages 99 and 96 respectively for further details). This ensures the Board's succession plan remains aligned with the natural rotation of Directors off the Board and the strategic objectives of the business.

The succession plans for the senior management team are regularly reviewed by the Nominations Committee (see the Nominations Committee timeline on pages 94 and 95).

K

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

As mentioned above, the Board uses a skills matrix to ensure it has the necessary combination of skills, experience and knowledge to meet its strategic objectives, business priorities and to ensure the unique Howdens culture is maintained. The skills matrix may be found on page 96.

The tenure of each Director may be found on page 99 of the Nominations Committee report. The Board has a good balance of new and longer-serving Directors (as at the year end date, tenures of the Non-Executive Directors (including the Chairman) range from just over one year to just over 7 years, and the average tenure is just over four years).

L

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

Details of the 2020 Board evaluation process and outcomes may be found on pages 102 and 103 of the Nominations Committee report.

The specific reasons why the Board considers that each Director's contribution is, and continues to be, important to the Company's long-term sustainable success may be found on pages 72 and 73 of this report. Reference to the specific reasons and where to find them in the Annual Report and Accounts will accompany the resolutions to re-elect the Directors in the 2021 AGM Notice. The Board recommends that shareholders vote in favour of the re-election or election of all the Directors.

Corporate governance report continued

2018 UK Corporate Governance Code: application of Principles

Section 4: Audit, risk and internal control

M

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

The Board has established formal and transparent policies and procedures, which ensure the external auditor and internal audit function are independent and effective and are accountable to the Audit Committee. The Board also monitored the integrity of the annual and interim financial statements of the Company through the Audit Committee. Further information about the work of the Audit Committee, including the subjects above, may be found in the Audit Committee report which begins on page 126.

N

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

A statement regarding the Directors' responsibility for preparing the Annual Report and Accounts and the Directors' assessment of the Annual Report and Accounts, taken as a whole, as being fair, balanced and understandable and providing the necessary information for shareholders to assess the Company's position, performance, business model and strategy, may be found on page 67.

O

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

The Board is responsible for the Group's systems of internal control and risk management, and for reviewing their effectiveness. The Board is assisted with these responsibilities by the Audit Committee. Such a system is designed to manage rather than eliminate the risks of failure to achieve business objectives. The Board has conducted reviews of the effectiveness of the system of internal controls through the processes described within the 'Principal risks and uncertainties' section of the Strategic report (the 'Principal risks and uncertainties' section begins on page 38) and are satisfied that it accords with the Code and with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board has not identified, or been advised of, any failings or weaknesses which it has determined to be significant.

The assessment of the principal and emerging risks, the uncertainties facing the Group, and the ongoing process for identifying, evaluating and managing the significant risks faced by the Group is set out in the 'Principal risks and uncertainties' section (which begins on page 38). The Board confirms that it has conducted a robust assessment of the principal and emerging risks.

Section 5: Remuneration

P

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

The way the Remuneration Committee has ensured our remuneration policies and practices are aligned with our culture, our strategy and risk management is discussed in the Remuneration Committee report, which starts on page 104.

Q

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

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

The Remuneration Committee reviews workforce remuneration and related policies when setting Executive Director remuneration. Ensuring these factors are always considered means our remuneration policies are clear and as predictable as possible. Further information may be found in the Remuneration Committee report on page 114.

R

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

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

Details of how the Remuneration Committee exercised its discretion during the year may be found on page 107 of the Remuneration Committee report.

By order of the Board

Richard Pennycook
Chairman

24 February 2021

Nominations Committee report

Richard Pennycook Nominations Committee Chairman

Introduction from the Committee Chairman

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

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

Succession

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

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

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

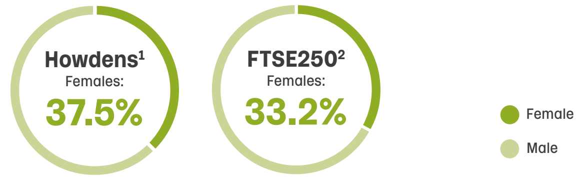
Having operated with an interim HR Director for a number of years, the business appointed Kirsty Homer as Group HR Director in September. Kirsty's appointment in the lead people role is an important step forward for the business and she brings with her extensive experience from roles at Mothercare Plc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

Nominations Committee meeting attendance

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

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

Board gender split



1 Figures correct as at 26 December 2020.

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

Composition

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

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

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

Evaluation

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

Richard Pennycook
Nominations Committee Chairman

Key activities in the year ahead

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

2020 Nominations Committee activity

February
Meeting
- Executive Committee succession
- Board succession and recommendations for AGM elections
- Review of the draft 2019 Nominations Committee Report

July
Meeting
- Executive Committee succession and talent management

September
Executive Committee appointment
- Kirsty Homer appointed Group HR Director

September
Extraordinary Meeting
- CFO succession update and recommendation to Board

September
Meeting
- Non-Executive Director succession update and skills matrix update
- Board Diversity Policy review
- Nominations Committee Terms of Reference

November
Executive Director appointment
- Paul Hayes appointed Chief Financial Officer Designate

2020

Nominations Committee report continued

Composition

Skills and experience matrix

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

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

Importance

M Medium   H High

Diversity

Equality, Diversity and Inclusion (EDI) Group

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

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

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

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

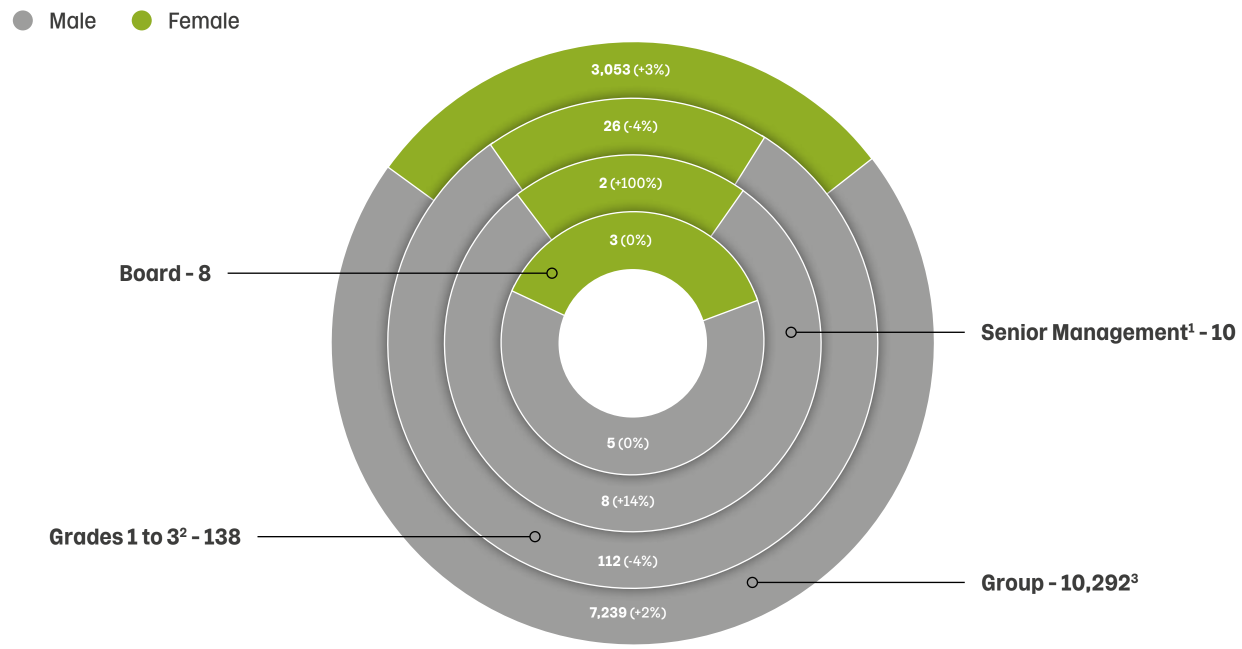
In 2021, the Board will continue to receive regular updates from the EDI Group and Debbie White will continue in her role as Board sponsor to the EDI Group in 2021.

Group gender diversity statistics

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

Group gender diversity as at 26 December 2020

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



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

Nominations Committee report continued

Composition continued

Boardroom Diversity Policy

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

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

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

Group Diversity Policy

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

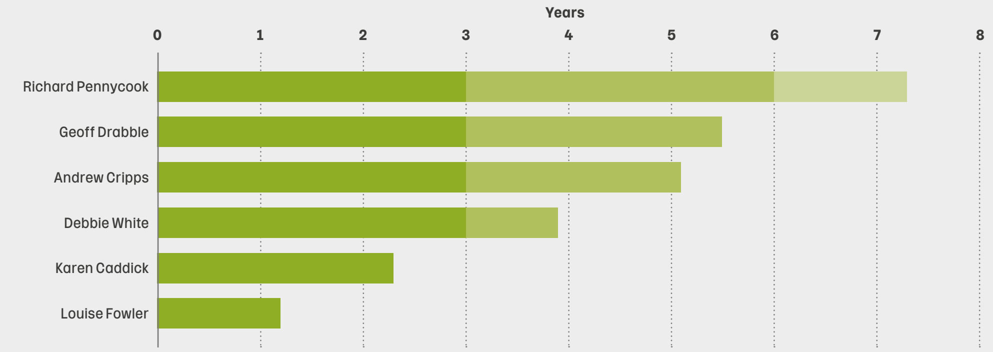
The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people. The Group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

Succession

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

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

Non-Executive tenure as at 26 December 2020



Board succession

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

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

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

Appointment

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

The Committee engaged the external search consultancy, Odgers Berndtson[1], to undertake the process of recruiting a new CFO following Mark Robson's indication that he would considering retiring from the Board should an appropriate candidate be identified.

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

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

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

Nominations Committee report continued

Succession continued

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

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

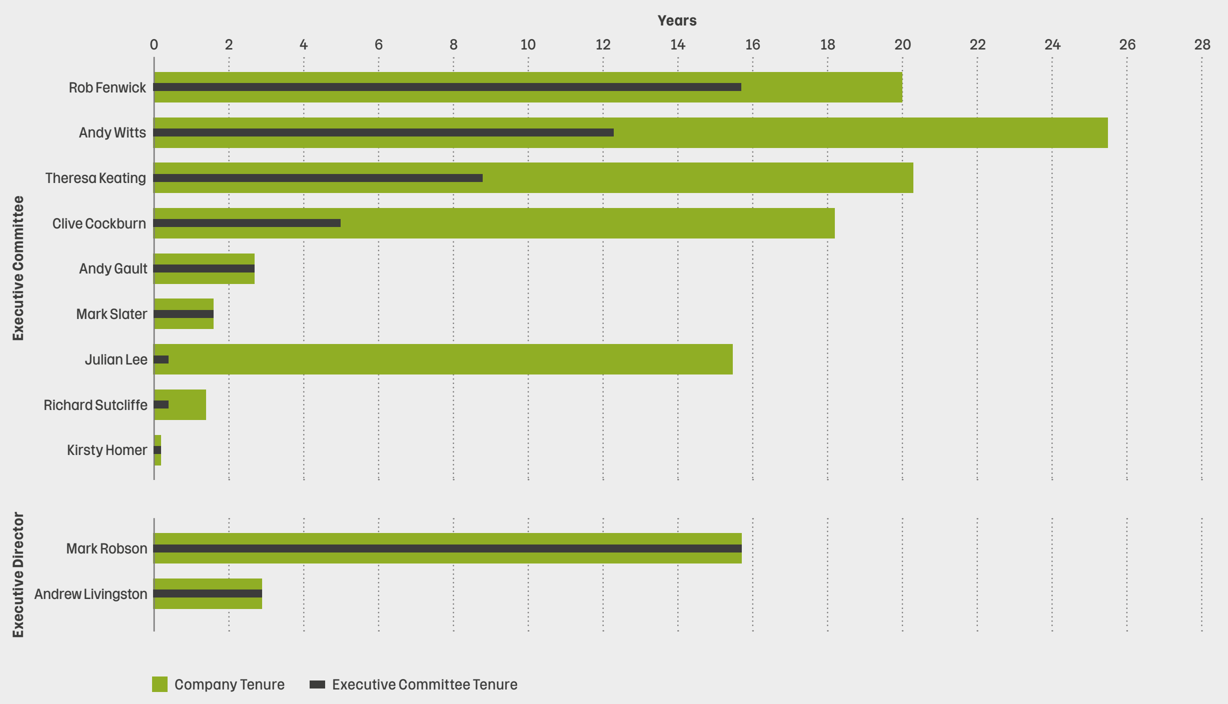
Following a further Nominations Committee meeting, it was agreed to seek to engage with a particular individual and agree contract terms. The Remuneration Committee worked with Mark Robson to agree an exit arrangement which was fair and in line with the Remuneration Policy. The Remuneration Committee also agreed an onboarding package with the new CFO. More information and detail about both Mark Robson and Paul Hayes' remuneration arrangements can be found in the Remuneration Committee report, which starts on page 104. After contractual arrangements had been agreed with both parties in principle, the Board met on 15 October 2020 to consider the recommendations of both the Nominations Committee and the Remuneration Committee. They unanimously approved the proposals and internal and external announcements were made on 16 October.

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

Induction

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

Company and Executive Committee tenure as at 26 December 2020



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

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

Senior management succession

The Committee received regular updates regarding senior management[1] succession planning (see Nominations Committee activity on pages 94 and 95). These updates included the following:

Group Human Resources ('HR') Director appointment

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

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

Operations Director and Supply Chain Director appointments

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

Chief Governance Officer retirement

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

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

Case study
Chief Governance Officer

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

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

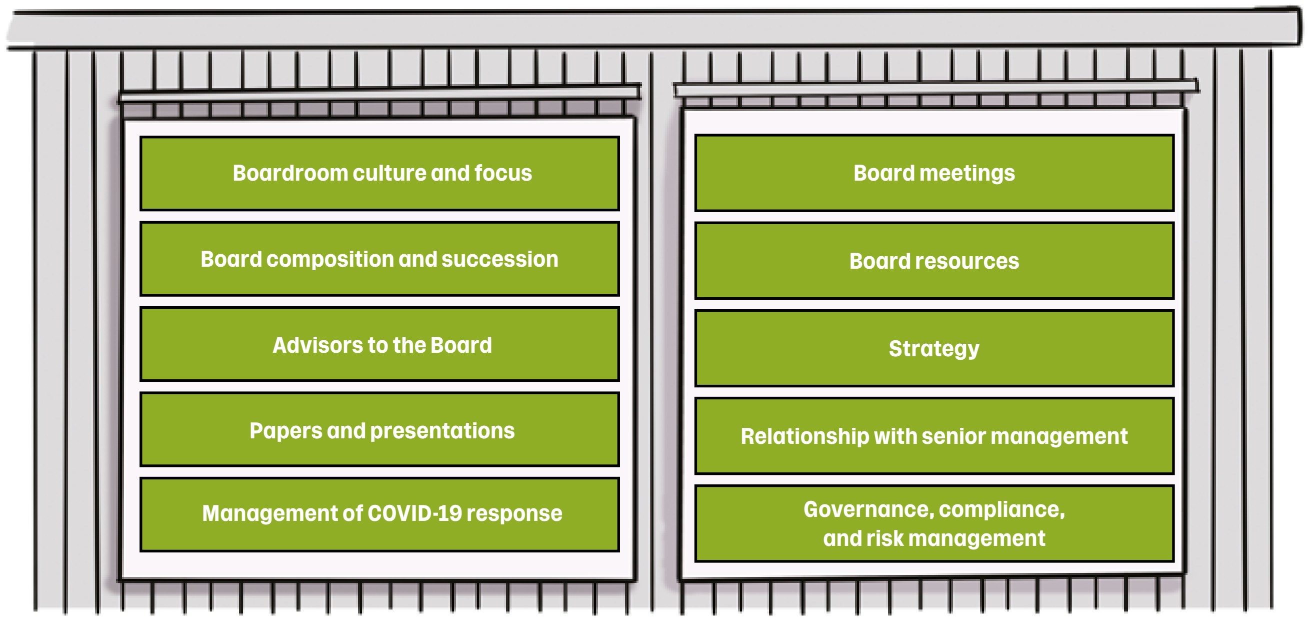
Howdens has been fortunate to have a settled and long-serving senior management team and careful management of the succession process for their roles is fundamental to the future long-term success of the Company. The retirement from the Executive Committee of both Mark Robson and Rob Fenwick marks a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

Nominations Committee report continued

Evaluation

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

Evaluation areas of focus



Methodology

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

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

The process is outlined below:

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

Conclusions and recommendations

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

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

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

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

Highlighted strengths

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

Recommended areas for development and actions going forward

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

Influence on Board composition

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

Nominations Committee evaluation

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

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

Richard Pennycook
Nomination Committee Chairman

24 February 2021

Remuneration Committee report

Karen Caddick Remuneration Committee Chair

Annual Remuneration Committee Chair's statement

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

Using this report

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

The report is split into three sections:

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

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

Part 1 Company performance and stakeholder experience

Part 2 Application of policy in 2020

Part 3 Implementation of policy in 2021

Part 4 Additional disclosures

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

2020

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

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

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

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

Policy

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

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

Remuneration Committee meeting attendance

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

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

Remuneration Committee report contents

2020 reward outcomes

Annual bonus

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

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

Performance Share Plan (PSP)

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

2021 reward and incentives

Salary

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

1. Andrew's growing experience in the role and the desire to fairly reflect the substantial growth in the business delivered by Andrew since his appointment;
2. His salary positioning at the lower end of the market upon appointment; and
3. An increase in his responsibilities as a result of the departure of Mark Robson as Deputy CEO and the Company's reversion to a traditional model with a CEO and CFO, with some accountability therefore moving back to the CEO.

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

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

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

Annual bonus

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

PSP

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

Remuneration Committee report continued

Annual Remuneration Committee Chair's statement continued

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

Pensions

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

Our Executive Directors are now on that agreed flightpath and, in January 2020, Andrew Livingston's pension supplement, received in lieu of Company pension contributions, reduced from 20% of basic salary to 18% of basic salary. In January 2021, it reduced by a further 4% to 14% of basic salary and in May 2022 Andrew's pension supplement will be aligned to the Company pension contributions of the wider workforce, which is currently 5% of basic salary[1].

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

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

Senior management and the wider workforce

In addition to the Executive Directors, the Howdens Remuneration Committee also sets remuneration for senior management[2]. The Committee agreed during the year that from 2021, and in line with best practice, the definition of senior management would include the Head of Internal Audit and Risk.

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

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

Karen Caddick
Remuneration Committee Chair

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

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

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

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

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

2020 Remuneration Committee activity

February
Committee meeting
- Approval of 2020 salaries for Executive Directors and senior management as well as payment of the 2019 bonus and 2017 PSP
- Targets agreed for 2020 annual bonus and 2020 PSP
- Proposal from management approved regarding the reduction the pension benefits for the Executive Directors
- Approval of 2019 Remuneration Committee report
- Governance update
- Group benefits review update from HR Director

April
Share award grant
- SIP Free Share grant to all UK employees approved

May
AGM
- Remuneration report approved by shareholders

June
Committee meeting (out of cycle)
- Consideration of impact on remuneration on all employees from COVID-19
- Approval of management proposal to forgo 20% of salary for Executive Directors and Executive Committee members and 20% of fees for the Chairman and Non-Executive Directors for two months. Salary forgone would be donated to a charity

July
Committee meeting
- Governance and AGM update
- Update on outstanding awards
- Review of 2020 PSP measures
- 2021 remuneration timeline reviewed

Shareholder communication
- Company and Remuneration Committee Chair communication with shareholders on updated PSP measures weighting

August
Share award grant
- PSP granted to Executive Directors and Senior Management

September
Committee meeting
- Approval of remuneration package for new CFO and confirming arrangements for outgoing DCEO & CFO
- Consideration of COVID-19 impact on all employees' remuneration
- Review of CEO salary

October
Committee meeting (out of cycle)
- Approval of agreements reached in principle with new CFO and outgoing DCEO & CFO

November
Committee meeting
- Governance update
- Consideration of COVID-19 impact on all employees' remuneration
- 2021 planning and salary benchmarking
- Review of PSP measures
- Approval of CEO 2021 salary
- Review of Committee's terms of reference

January 2021
Shareholder communication
- Company and Remuneration Committee Chair communication with shareholders on CEO salary

2020

Remuneration Committee report continued

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 2020 and will be applied during 2021 can be found on subsequent pages in the report.

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

Executive Directors

Fixed pay

Base salary	Link to strategy
Salaries are reviewed annually and set within a range defined by a market benchmark. This is derived from companies of a comparable size or operating in a similar sector. Our policy is to pay at median.	Salaries reflect the market value of the Executive's role in addition to their skill, responsibilities, performance and experience.

Benefits	Link to strategy
The Company pays the cost of providing benefits on a monthly basis or as required for one-off events.	Our policy provides a competitive level of benefits.

Pension	Link to strategy
Executive Directors appointed after May 2019 are invited to join the Company defined contribution pension scheme or receive a salary supplement in lieu of pension in line with the maximum level of benefit they would have received if they had enrolled in the scheme. Company contributions for Executive Directors are aligned with those for the wider workforce[1]. The pension benefits of directors appointed before May 2019 are governed by earlier Remuneration Policies and their contracts of employment. However, the CEO, who was appointed to the Board in April 2018, has voluntarily agreed to reduce his current benefits to be in line with the wider workforce by May 2022, that being the next scheduled renewal by shareholders of this Policy. More detail on the tapering of their benefits is set out on page 106.	The Committee remains committed to providing competitive long-term savings opportunities provided they are aligned with the opportunities afforded to the wider workforce.

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.

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

Fixed Variable

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 shares held in trust under the SIP that were awarded to an Executive Director less than three years beforehand are not counted towards the shareholding requirement.

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

Non-Executive Directors

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

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

Remuneration Committee report continued

Directors' remuneration policy summary continued

Underlying principles

When determining the Remuneration Policy, the Committee were mindful of their obligations under Provision 40 of the Corporate Governance Code to ensure that the Policy and other remuneration practices were clear, simple, predictable, proportionate, safeguarded the reputation of the Company and were aligned to Company culture and strategy. Set out below are examples of how the Committee addressed these factors:

Clarity	Simplicity	Risk
Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.
The Company invited its principal shareholders and shareholder representative groups to consult on the updated Remuneration Policy and received good feedback. The level of pension benefit for new Executive Directors was reduced and the minimum percentage of variable pay linked to financial measures was increased following input from these meetings. All UK employees are awarded Free Shares in the Company through the Share Incentive Plan. More information on how the Company engages with its workforce can be found on pages 82 and 83.	The Remuneration Policy has received positive feedback from stakeholders in relation to its simplicity. When the Remuneration Policy was updated in 2019 the profit share element of the annual bonus was replaced due to the complexity of the calculation and lack of understanding of its operation. 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.	The Remuneration Committee have a track record of setting maximum levels of award for the PSP below the maximum allowed under the policy. This ensures that such awards do not become excessive due to share price volatility. 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.

Predictability	Proportionality	Alignment to culture
The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	Incentive schemes should drive behaviours consistent with company purpose, values and strategy.
The range of possible rewards for the Executive Directors is considered on page 119 and were communicated when the Remuneration Policy was approved by shareholders. The range in relation to the PSP reflects the reduced maximum award for 2021 rather than maximum allowed under the policy. 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.	In 2020 the profitability of the business was significantly impacted by the COVID-19 lockdown measures put in place by Government in H1 and as such both the 2020 annual bonus and 2018 PSP lapsed in full. Whilst the Committee was pleased with the performance of the Executive Directors throughout the year, particularly given the extraordinary trading environment, it concluded that this was appropriate given the broader stakeholder experience throughout the year. The Committee remains confident that the awards used to ensure continued delivery of strategy and long-term performance are working as intended.	The Committee remain 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.

Directors' remuneration report

Part 1: Company performance and stakeholder experience

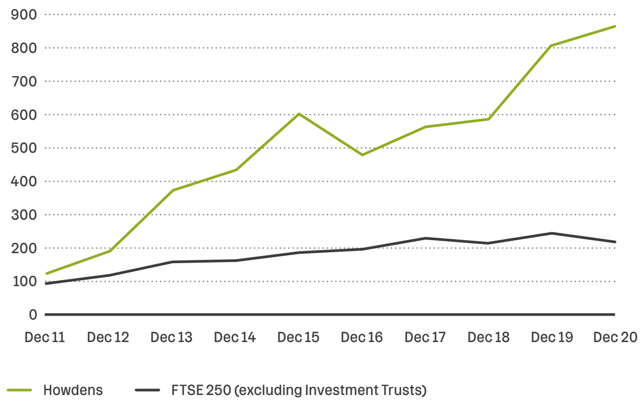
In this opening section of the Directors' remuneration report, we detail some of the considerations of which the Committee has regard when implementing the Remuneration Policy. Contained in this section are specific disclosures on Group performance, as well as comparative disclosures on the relative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

Group performance

Total shareholder return (TSR)

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

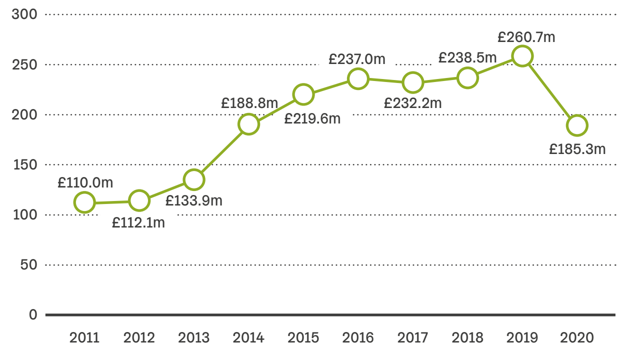
Howdens historic TSR



Profit before tax (PBT)

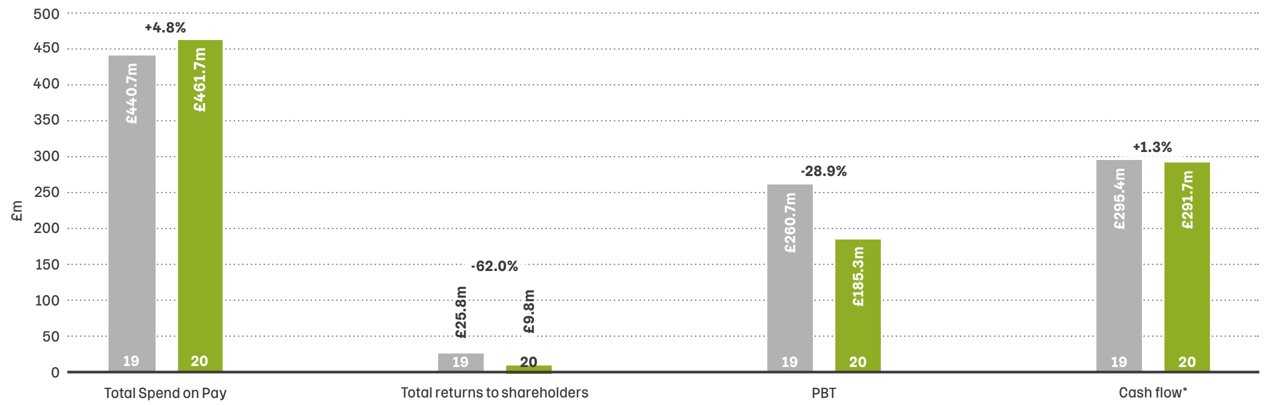
The graph below illustrates the Company's historic PBT performance.

Howdens historic PBT (£m)



Relative importance of spend on pay

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



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

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

Director pay

Our corporate performance and remuneration

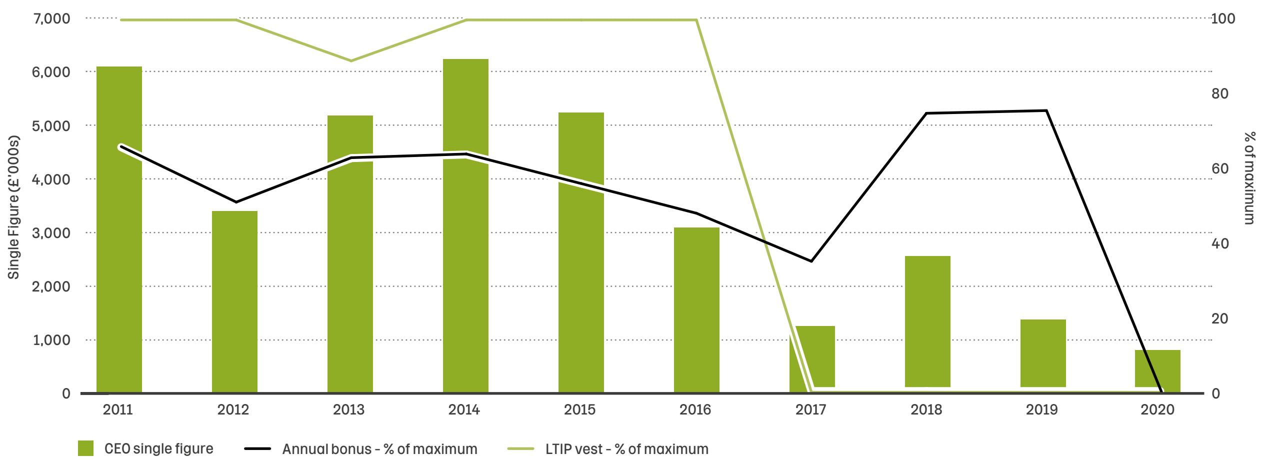
Historic single figure

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

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

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

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



CEO pay ratio table

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

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

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

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

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

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

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

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

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

Wider workforce considerations

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

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

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

Case study

The Remuneration Committee's response to COVID-19

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

Approach

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

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

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

2020 LTIP

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

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

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

Salary sacrifice

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

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

Strategic report
Governance
Financial statements
Additional information

Remuneration Committee report continued

Directors' remuneration report

Part 2: Application of policy in 2020

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

Single figure of remuneration (audited)

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

Total Executive Director fixed vs variable Pay

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

Notes to the single figure table

Non-Executive Directors

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

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

Fixed Variable

Executive Directors

Salary

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

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

Benefits

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

Pension

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

LTIP

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

Annual bonus (audited)

Targets for 2020

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

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

Outcomes for the year

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

Remuneration Committee Report continued

Directors' remuneration report

Part 2: Application of policy in 2020 continued

Performance Share Plan (PSP) (audited)

Targets for 2020

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

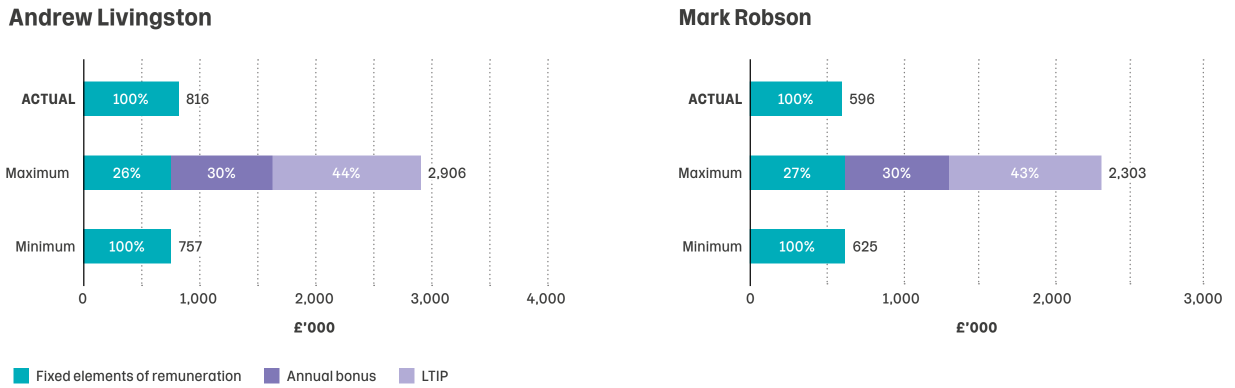
Outcomes for the year

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

2020 remuneration scenarios

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

Value of package



Fixed elements of remuneration consist of the annual salary that the Executive Director will received for 2020, alongside their 2020 pension entitlement.

Annual bonus was based on a maximum opportunity of 150% of salary and an on-target opportunity of 75% of salary.

LTIP was based on a maximum opportunity of 220% of salary in line with the 2020 grant (noting that the overall policy maximum is 270% of salary). Target opportunity was calculated as 50% of maximum (110% of salary).

Directors' remuneration report

Part 3: Implementation of policy in 2021

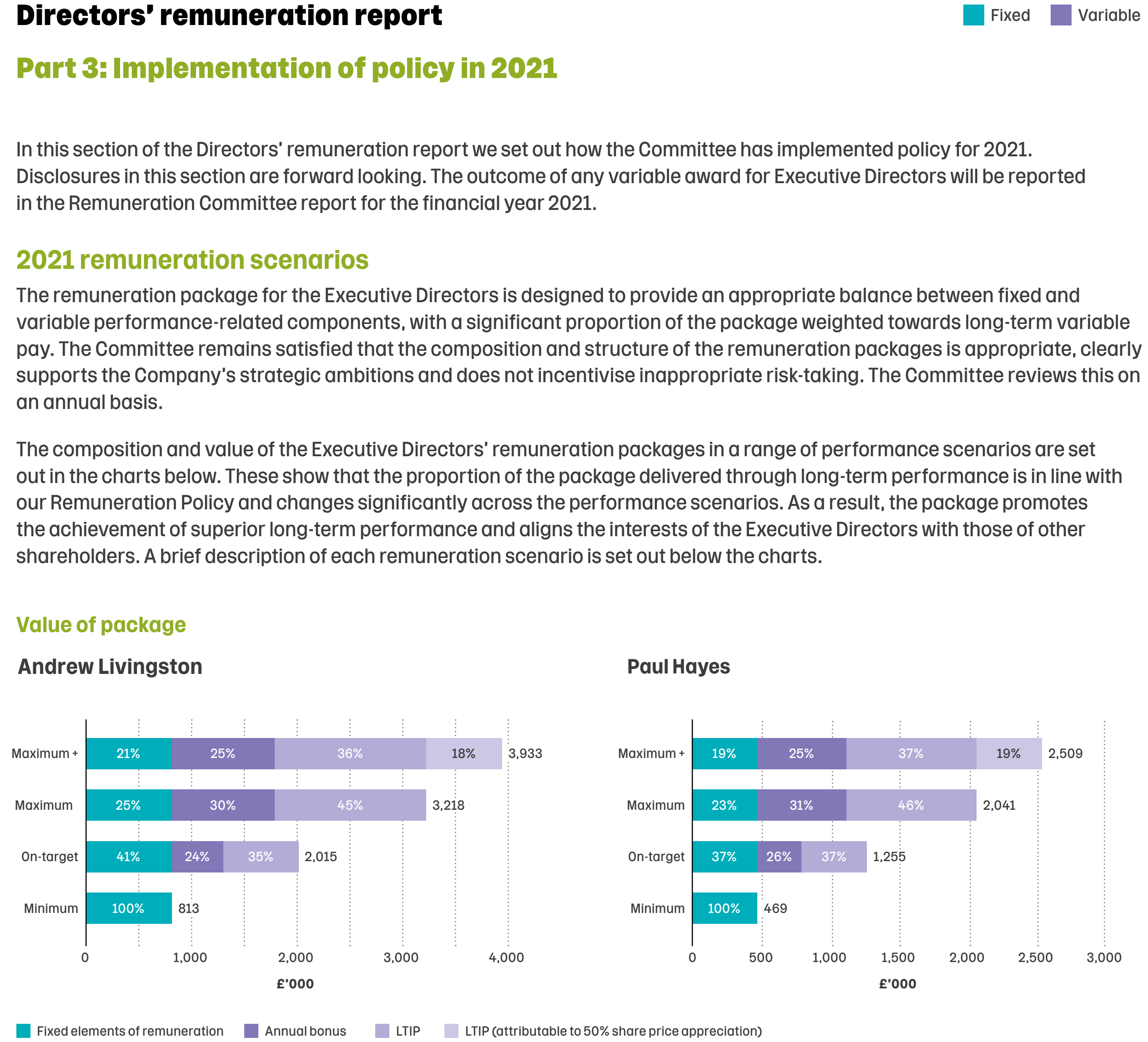
In this section of the Directors' remuneration report we set out how the Committee has implemented policy for 2021. Disclosures in this section are forward looking. The outcome of any variable award for Executive Directors will be reported in the Remuneration Committee report for the financial year 2021.

2021 remuneration scenarios

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

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

Value of package



Fixed elements of remuneration consist of the annual salary that the Executive Director will receive for 2021, alongside their 2021 pension entitlement, and actual benefits received in 2019/20 (as a proxy for 2021).

Annual bonus is based on a maximum opportunity of 150% of salary and an on-target opportunity of 75% of salary.

LTIP is based on a maximum opportunity of 220% of salary in line with the 2021 grant (noting that the overall policy maximum is 270% of salary). Target opportunity is calculated as 50% of maximum (110% of salary).

The 'maximum +' includes share price appreciation of 50%. This column is calculated on the same basis as the maximum column however includes an uplift of 50% total over three years for the performance share plan.

Remuneration Committee report continued

Directors' remuneration report

Part 3: Implementation of policy in 2021 continued

Non-Executive Director fees

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

1 The Chair of the Board of Directors does not receive the basic Non-Executive Director fee or an additional fee for chairing the Nominations Committee.

2 In recognition of the additional time requirement necessary to undertake the role of Non-Executive Director responsible for workforce engagement, the SID Fee was increased by £5,000.

Executive Director base salaries

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

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

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

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

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

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

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

Fixed Variable

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

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

Annual bonus measures

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

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

Performance Share Plan (PSP) measures

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

PSP measure	PBT growth
Measure weighting	67%

	PBT growth performance condition	Payout level
PBT component vesting schedule	15% 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 against comparator group	Payout level
Performance assessment	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 Remuneration Policy approved by shareholders at the 2019 AGM, the 2021 PSP awards will be subject to a two-year post-vesting holding period.

Remuneration Committee report continued

Directors' remuneration report

Part 4: Additional disclosures

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

Service contracts/Notice period

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

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

Loss of office payments or payments to past directors

Mark Robson stood down as a Director of the Company on 26 December 2020. He will continue to receive his base salary and benefits pursuant to his service contract until 31 May 2021, during which period he will remain at the Company's disposal. The value of Mark's base salary for the period to 31 May 2021 will be £189,048, the value of the payments received in lieu of pension will be £34,029 and his other benefits for the period will be £8,058[1]. Following the termination of his employment on 31 May 2021, Mark will receive a payment of £171,043 in lieu of basic salary in respect of his unserved notice period (paid in equal monthly instalments). He will also receive payment for any accrued but unused holiday up to a maximum of £1,745. Mark will not receive an annual bonus in respect of the period following 26 December 2020. In accordance with the Company's approved loss of office policy, unvested awards under the 2019 and 2020 Performance Share Plan will be pro-rated for the proportion of the performance period in which Mark was employed and will vest on their normal vesting dates of 2 May 2022 and 7 August 2023 respectively, subject to satisfaction of performance conditions. Provided that Mark provides evidence to the Company to demonstrate that he continues to satisfy the post-employment shareholding rule set out in section 6 of the Shareholding Policy for so long as that requirement is in force, these awards will not be subject to a post-vest holding period. Mark's share awards held in the Share Incentive Plan will be released to him following his termination date. Mark's deferred bonus shares awarded pursuant to his 2019 bonus entitlements will vest on the normal vesting date subject to the rules of the Deferred Bonus Plan. All payments to Mark will be subject to deductions for tax and national insurance contributions. Other than the amounts disclosed above, Mark will not be eligible for any other payments for loss of office.

External appointments

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

Total pension entitlements (audited)

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

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

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

Fixed Variable

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

Director shareholdings (audited)

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

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

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

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

2 Share Incentive Plan.

3 Performance Share Awards under the Long Term Incentive Plan.

Non-Executive Director shareholdings (audited)

There is no shareholding requirement for Non-Executive Directors.

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

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

Remuneration Committee report continued

Directors' remuneration report

Part 4: Additional disclosures continued

Scheme interests awarded during the financial year (audited)

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

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

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

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

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

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

Consideration by the Directors of matters relating to Directors' remuneration

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

Fixed Variable

Provision 33 dashboard template

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

Workforce Reward
- Salary
- Pensions
- Benefits
- Bonus
- Shares

Provision 40
- Clarity
- Simplicity
- Risk
- Predictability
- Proportionality
- Alignment to culture

External Ratios

CEO Ratio as at YE2019
25th percentile (vs prior year)
50th percentile (vs prior year)
75th percentile (vs prior year)

Gender Pay Gap

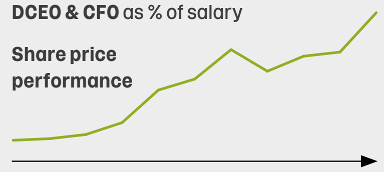
Group	Prior Year	Current
Mean pay gap		
Median pay gap		
Bonus mean gap		
Bonus median gap		

Shareholder Alignment

Executive Director shareholdings

CEO as % of salary
DCEO & CFO as % of salary

Share price performance



The Committee also considers the appropriateness of introducing a maximum cap on Executive reward for the coming year.

Advisors to the Committee

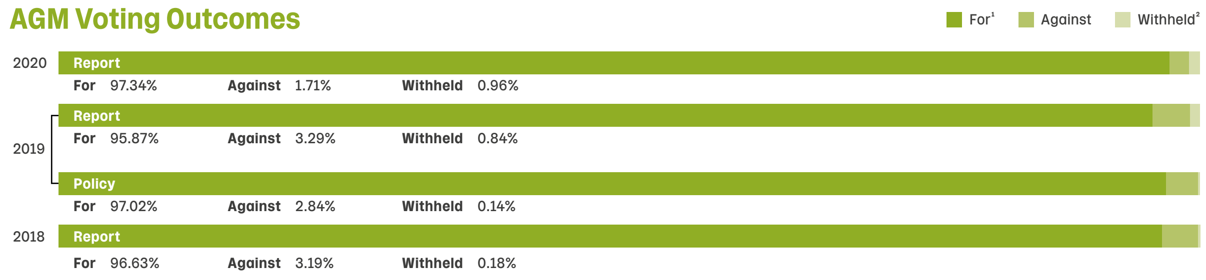
The Committee regularly consults with the CEO and the Group HR Director on matters concerning remuneration, although they are never present when their own reward is under discussion. The Company Chair attends the Remuneration Committee by invitation except when his own remuneration is determined. The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

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

Voting at the 2020 AGM

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

AGM Voting Outcomes



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

24 February 2021

Audit Committee report

Andrew Cripps Audit Committee Chair

Introduction from the Committee Chair

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

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

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

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

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

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

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

Audit Committee meeting attendance

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

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

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

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

Andrew Cripps
Audit Committee Chair

Key activities in the year ahead

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

2020 Audit Committee activity

February

Meeting

- IFRS 16 project update
- 2019 draft Annual Report and Accounts and Preliminary Announcement
- Audit Committee effectiveness
- External audit report
- Internal audit report
- External audit policies
- Effectiveness of the external auditor and audit processes
- External audit retendering (without external auditor present)
- Discussion with external auditors (without presence of management)

April

Meeting

- COVID-19 crisis governance
- External audit timetable
- Cyber security
- Internal audit report
- Discussion with Head of Internal Audit (without presence of management)

May

AGM

- Authority for the Directors to determine the auditor's remuneration and the reappointment of the external auditor were approved by shareholders

July

Meeting

- Update on COVID-19 governance and controls
- 2020 interim results, including going concern considerations
- External auditor half-year review
- Internal audit report
- Conflicts of interest review
- Discussion with external auditor (without presence of management)

September

Meeting

- Update on COVID-19 governance and controls
- Key controls update
- Update on COVID-19 governance
- Review of key Supply finance risks
- Internal audit report
- Discussion with Head of Internal Audit (without presence of management)

November

Meeting

- Update on COVID-19 governance and controls
- Key controls update
- 2020 external audit plan
- 2021 internal audit plan
- Terms of reference review
- 2021 Audit Committee calendar
- Discussion with external auditor (without presence of management)

2020

Audit Committee report continued

Financial reporting

Results review

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

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

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

Financial controls

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

Areas of significant financial judgement

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

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

Areas of significant financial judgement

Inventory obsolescence provisioning
Validity of the actuarial assumptions

■ Area of significant financial judgement in 2020 and 2019

Inventory obsolescence provisioning

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

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

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

Validity of the actuarial assumptions

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

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

IFRS 16, Leasing

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

Distributable reserves

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

Governance

Governance updates

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

Committee effectiveness

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

Policies and conflicts

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

Competition and Markets Authority (CMA) Order compliance

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

Committee membership

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

Committee Chair

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

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

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

Recent and relevant financial experience

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

Competence relevant to the sector

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

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

Audit Committee report continued

External auditor

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

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

External audit tender

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

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

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

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

External auditor independence

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

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

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

External auditor effectiveness

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

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

External auditor fees

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

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

Details of the fees paid during the year to Deloitte may be found in the table above and in note 5 to the consolidated financial statements (page 149).

Policy for Non-Audit Services Provided by the External Auditor

The main aims of this policy are to:

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

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

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

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

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

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

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

Performance expectations for the external auditor

Specific auditor responsibilities

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

Wider responsibilities

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

Independence

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

Audit Committee report continued

Controls and internal audit

Internal control framework

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

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

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

Internal audit

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

The Committee reviewed:

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

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

Fraud risk

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

Divisional controls

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

COVID-19 crisis governance

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

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

Independent assurance

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

Whistleblowing

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

Conflicts of interest

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

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

By order of the Board

Andrew Cripps
Audit Committee Chair

24 February 2021

Case study
Key controls

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

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

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

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

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

Directors' report

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 26 December 2020. Comparative figures relate to the 52 weeks ended 28 December 2019.

In order to make our Annual Report and Accounts more accessible a number of the sections traditionally found in this report can be found in other sections of this Annual Report and Accounts where it was deemed that the information would be presented in a more connected and accessible way. The Directors' report comprises the sections detailed below, including the statement on political donations and research and development ('R&D'). Any sections that have been moved have been cross-referenced below for ease of reference:

Located in the Sustainability report:

Greenhouse Gas Emissions: Details of the Group's greenhouse gas emissions, as required by Sch. 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2008 as amended by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, are set out on page 61.

Located in the Governance section:

2018 UK Corporate Governance Code (the 'Code'): Information on how the Company applied the Principles and complied with the Provisions of the Code may be found on pages 88 to 93. A copy of the Code can be accessed via www.frc.org.uk.

Internal control and risk management arrangements: Internal control arrangements information may be found in the Audit Committee report on page 132. Risk management arrangements information may be found on pages 74 and 92 and in the Principal risks and uncertainties section beginning on page 38.

Diversity policies: The Board and Group diversity policies are available on page 98 of the Nominations Committee report.

Stakeholder engagement: Details regarding the engagement with suppliers, customers, and others in business relationships with the Company, as required by Sch. 7 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), may be found on pages 82 to 87.

Employees: Information about the total number of employees and gender diversity statistics are located on page 97. The average number of employees and their remuneration are shown in note 6 on page 149. The methods of engaging with the workforce may be found on pages 82 and 83. All eligible UK employees have been invited to participate in a free share award under the Company's Share Incentive Plan (SIP) each year since 2015. Further details of the SIP may be found in note 25 on page 166.

Located in the Strategic report:

Principal Group activities, business review and results: The principal activities of Howden Joinery Group Plc and its subsidiaries can be found on pages 2 to 67.

Dividend: Dividend information can be found in the Chairman's statement on page 9 and the 'Financial review' on page 35.

Directors' statement of disclosure of information to the auditor: This statement may be found on page 67.

Located in the additional information section:

Annual General Meeting (AGM): Information about the AGM can be found on page 194. The recommendation to reappoint the Group's auditor, can be found on page 130.

Share capital, substantial shareholdings and acquisition of the Company's own shares: Information in this regard can be found on page 194.

Indemnity and Insurance: Details of Directors' Indemnity and Insurance is located on page 195.

Significant agreements: Details of any agreements that take effect, alter or terminate upon a change of control may be found page 195.

Political donations and R&D

The Group made no political donations during the current and previous financial year. Nor has it made any contributions to any non-EU political party during the current or previous financial year.

The Group has undertaken research and development activities during the financial year to further enhance the service proposition to our trade customers.

By order of the Board

Forbes McNaughton
Company Secretary

24 February 2021

Non-financial reporting

Non-financial measures are an important part of our business and we have recognised the importance of non-financial information in our annual reports for many years. The Board are committed to acting responsibly and working with our stakeholders to manage the social and ethical impact of our activities. We aim to treat all our stakeholders fairly and with integrity, as we explain in the introduction to our Sustainability report on page 51.

We have a number of Group policies to provide guidance to our employees. The policies are designed to be easily understood and they generally include examples of acceptable and unacceptable behaviours.

In order to consolidate our reporting requirements under sections 414CA and 414CB of the Companies Act 2006 in respect of non-financial reporting, the table below shows where in this Annual Report and Accounts to find each of the disclosure requirements.

Focus area	Policies and statements	More information and outcomes
Environmental matters	Sustainability and Corporate Social Responsibility Statement of Intent (see Group website).	• Greenhouse gas and emissions reporting (page 61). • Discussion of how the Company's ESG vision fits with the UN Sustainable Development Goals (pages 52 and 53). • KPI on production, reuse, recovery and recycling of warehouse waste and our target of 100% packaging used in manufacturing being made from recycled or certified sources (page 60). • KPI on use of certified timber in our manufacturing processes (page 31). • Discussions of our efforts to reduce waste and our responsible, energy-efficient operations (page 60).
Social matters	Sustainability and Corporate Social Responsibility Statement of Intent (see Group website).	• Our impact on our stakeholders (starting on page 54) and engagement with stakeholders (starting on page 82). • Our work with local and national charities (page 62).
Respect for human rights	Sustainability and Corporate Social Responsibility Statement of Intent, and Modern Slavery Statement (see Group website).	• Discussion of the UN Sustainable Development Goal 8 (Decent Work and Economic Growth) (page 52). • Our Modern Slavery Statement (see Group website) sets out how we actively monitor suppliers and train our procurement staff. • Internationally recognised labour standards form part of our contracts of employment.
Anti-bribery and corruption	Anti-Bribery and Corruption, Conflicts of interest, Corporate gifts and hospitality, Anti-money laundering, Anti-tax evasion and Competition law policies.	• The Board considers and approves the following Group policies: anti-bribery and corruption, anti-money laundering, anti-tax evasion, competition law policy, market abuse compliance and the modern slavery statement and whistleblowing. • We have a rolling programme of refresher training on Modern Slavery and Anti-Bribery for our compliance team and buyers. • Further information about our whistleblowing facility may be found on page 83.
Employees	Health & Safety Statement of Intent (see Group website), Market abuse compliance, Data Protection and Privacy, Whistleblowing.	• KPI on Health & Safety (page 31). • Discussion of Health & Safety performance and initiatives (pages 56 and 57). • Discussion of employee rewards and benefits, development opportunities (page 57). • Apprentice schemes (page 57 and 58). • Diversity policies and statistics (pages 97 and 98). • Directors' remuneration policy (see Group website for the full policy or pages 108 and 109 for a summary of the policy).

We outline our business model on pages 18 and 19. All of our non-financial KPIs are presented together on pages 31 and 32. A discussion of our principal and emerging risks, including those related to our business relationships, products and services, as well as a description of our risk management process, starts at page 38.

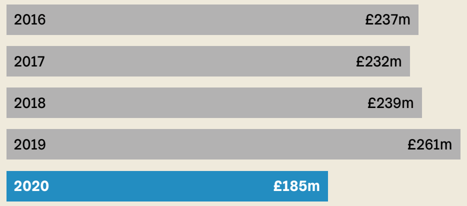
Revenue

£1,548m (2019: £1,584m)

UK revenue was 1.1% higher than 2019 in the first quarter and 55.9% lower in the second quarter. H2 UK sales showed strong growth of 15.8%. A 13.6% increase in European sales gave us full year revenue down 2.3%.

Profit before tax

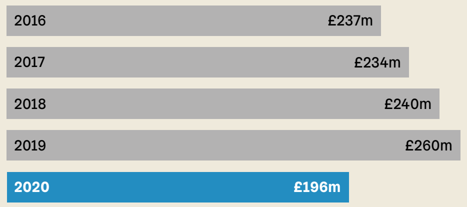
£185m (2019: £261m)



Profit before tax was £185m, down £76m from 2019.

Operating profit

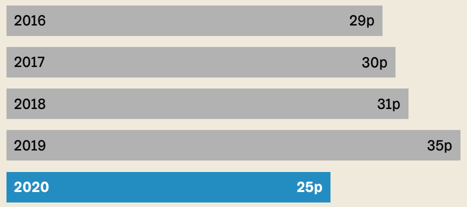
£196m (2019: £260m)



Operating profit reduced to £196m (2019: £260m), giving an operating profit margin of 12.6% (2019: 16.4%).

EPS

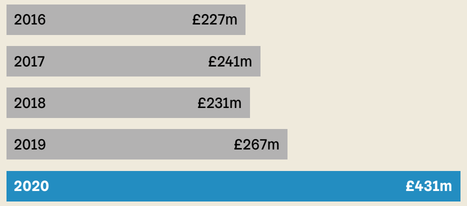
24.9p (2019: 35.0p)



Basic earnings per share were 24.9p (2019: 35.0p).

Net cash

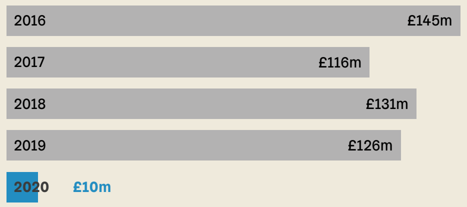
£431m (2019: £267m)



2020 year end net cash of £431m (2019: £267m).

Returns to shareholders

Suspended in 2020. To resume in 2021.



Share buybacks and dividends were suspended in 2020. The Board propose to resume dividends in 2021. £108m is proposed, including a special dividend equal to the cancelled 2019 final dividend.

Financial Statements

Consolidated income statement

	Notes	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Continuing operations:			
Revenue	4	1,547.5	1,583.6
Cost of sales		(617.5)	(597.4)
Gross profit		930.0	986.2
Selling & distribution costs		(636.7)	(621.7)
Administrative expenses		(97.6)	(104.5)
Operating profit	5	195.7	260.0
Finance income	7	0.6	1.1
Finance costs	8	(11.0)	(0.4)
Profit before tax		185.3	260.7
Tax on profit	9	(37.7)	(51.7)
Profit for the period attributable to the equity holders of the parent		147.6	209.0
Earnings per share:			
Basic earnings per 10p share	10	24.9p	35.0p
Diluted earnings per 10p share	10	24.8p	34.8p

Consolidated statement of comprehensive income

	Notes	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Profit for the period		147.6	209.0
Items of other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension scheme	20	(12.7)	(47.1)
Deferred tax on actuarial losses on defined benefit pension scheme	9	2.4	8.0
Change of tax rate on deferred tax		1.1	(0.7)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		0.5	(1.9)
Other comprehensive income for the period		(8.7)	(41.7)
Total comprehensive income for the period attributable to equity holders of the parent		138.9	167.3

NOTE: the figures for the 52 weeks to 26 December 2020 include lease depreciation and lease-related interest charges accounted for under IFRS 16, whereas the figures for the previous period account for leases under the previous leasing standard, IAS 17. This difference in treatment is because the Group has adopted IFRS 16 in the current period using the modified retrospective basis, which does not require restatement of prior periods. See note 28 for more detail on the effects of adopting IFRS 16, note 2 for our IFRS 16 accounting policies and note 14 for the effect of IFRS 16 on the current period financial statements.

Consolidated balance sheet

	Notes	26 December 2020 £m	28 December 2019 £m
Non-current assets			
Intangible assets	12	24.3	24.9
Property, plant and equipment	13	248.8	212.4
Lease right-of-use assets	14	544.2	-
Deferred tax asset	15	17.0	13.5
Long-term prepayments		0.6	0.9
		834.9	251.7
Current assets			
Inventories	16	255.0	231.8
Trade and other receivables	17	166.6	193.1
Cash and cash equivalents	23	430.7	267.4
		852.3	692.3
Total assets		1,687.2	944.0
Current liabilities			
Lease liabilities	14	(70.0)	-
Trade and other payables	18	(300.4)	(241.4)
Current tax liability		(22.2)	(20.3)
		(392.6)	(261.7)
Non-current liabilities			
Pension liability	20	(47.7)	(56.6)
Lease liabilities	14	(510.5)	-
Deferred tax liability	15	(1.7)	(1.5)
Provisions	21	(13.9)	(9.0)
		(573.8)	(67.1)
Total liabilities		(966.4)	(328.8)
Net assets		720.8	615.2
Equity			
Share capital	22	60.3	60.5
Capital redemption reserve		4.9	4.7
Share premium		87.5	87.5
ESOP reserve		(3.5)	(6.3)
Treasury shares		(28.2)	(29.3)
Retained profit		599.8	498.1
Total equity		720.8	615.2

NOTE: the figures as at 26 December 2020 include lease-related right-of-use assets and liabilities, accounted for under IFRS 16. The figures at the previous period end account for leases under the previous leasing standard, IAS 17. Under IAS 17, the Group's leases were treated as operating leases and not recognised on the balance sheet. This difference in treatment is because the Group has adopted IFRS 16 in the current period using the modified retrospective basis, which does not require restatement of prior periods. See note 28 for more detail on the effects of adopting IFRS 16, note 2 for our IFRS 16 accounting policies and note 14 for the effect of IFRS 16 on the current period financial statements.

The financial statements were approved by the Board and authorised for issue on 24 February 2021 and were signed on its behalf by

Paul Hayes

Chief Financial Officer

Consolidated statement of changes in equity

	Share capital £m	Capital redemption reserve £m	Share premium account £m	ESOP reserve £m	Treasury shares £m	Retained profit £m	Total £m
At 29 December 2018	61.5	-	87.5	(8.8)	(32.9)	459.8	567.1
Accumulated profit for the period	-	-	-	-	-	209.0	209.0
Other comprehensive income for the period	-	-	-	-	-	(41.7)	(41.7)
Total comprehensive income for the period	-	-	-	-	-	167.3	167.3
Current tax on share schemes	-	-	-	-	-	0.3	0.3
Deferred tax on share schemes	-	-	-	-	-	0.2	0.2
Movement in ESOP	-	-	-	6.1	-	-	6.1
Buyback and cancellation of shares [1]	(1.0)	4.7	-	-	-	(58.9)	(55.2)
Transfer of shares from treasury into share trust	-	-	-	(3.6)	3.6	-	-
Dividends	-	-	-	-	-	(70.6)	(70.6)
At 28 December 2019	60.5	4.7	87.5	(6.3)	(29.3)	498.1	615.2
Impact of adopting IFRS 16 - see note 28	-	-	-	-	-	(30.9)	(30.9)
Tax effect of adopting IFRS 16 - see note 28	-	-	-	-	-	3.6	3.6
Adjusted opening balance after adopting IFRS 16	60.5	4.7	87.5	(6.3)	(29.3)	470.8	587.9
Accumulated profit for the period	-	-	-	-	-	147.6	147.6
Other comprehensive losses for the period	-	-	-	-	-	(8.7)	(8.7)
Total comprehensive income for the period	-	-	-	-	-	138.9	138.9
Current tax on share schemes	-	-	-	-	-	0.1	0.1
Deferred tax on share schemes	-	-	-	-	-	(0.2)	(0.2)
Movement in ESOP	-	-	-	3.9	-	-	3.9
Buyback and cancellation of shares	(0.2)	0.2	-	-	-	(9.8)	(9.8)
Transfer of shares from treasury into share trust	-	-	-	(1.1)	1.1	-	-
At 26 December 2020	60.3	4.9	87.5	(3.5)	(28.2)	599.8	720.8

1 The line 'Buyback and cancellation of shares' for the prior period includes a re-presentation of the cancellation of shares to retained earnings and capital redemption reserve for the shares bought back and cancelled before 29 December 2018, under which retained earnings has been reduced by £3.7m and the capital redemption reserve has been increased by £3.7m. This line also records the shares bought back and cancelled in the period ended 28 December 2019, which had an aggregate nominal value of £1m and a cost of £55.2m.

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £35.9m (2019: £38.7m), which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes.

The item 'Movement in ESOP' consists of the share-based payment charge in the year, together with any receipts of cash from employees on exercise of share options.

At the current period end there were 5,775,230 ordinary shares held in treasury, each with a nominal value of 10p (2019: 6,015,580 shares).

Consolidated cash flow statement

	Notes	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Operating profit		195.7	260.0
Adjustments for:			
Depreciation and amortisation of owned assets		34.5	34.5
Depreciation of leased assets		79.5	-
Share-based payments charge		3.6	4.9
Loss on disposal of property, plant and equipment and intangible assets		-	1.4
Operating cash flows before movements in working capital		313.3	300.8
Movements in working capital and exceptional items			
Increase in inventories		(23.2)	(5.5)
Decrease/(increase) in trade and other receivables		2.3	(7.1)
Increase in trade and other payables and provisions		91.2	6.3
Difference between pensions operating charge and cash paid		(22.2)	(26.9)
		48.1	(33.2)
Cash generated from operations		361.4	267.6
Tax paid		(32.2)	(46.2)
Net cash flow from operating activities		329.2	221.4
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(69.7)	(61.1)
Receipts from sale of property, plant and equipment and intangible assets		-	0.3
Interest received		0.6	1.1
Net cash used in investing activities		(69.1)	(59.7)
Cash flows used in financing activities			
Payments to acquire own shares		(9.8)	(55.2)
Receipts from release of shares from share trust		0.3	1.1
Decrease/(increase) in long-term prepayments		0.3	(0.9)
Dividends paid to Group shareholders		-	(70.6)
Interest paid - including on lease liabilities		(10.4)	-
Repayment of principal on lease liabilities		(77.2)	-
Net cash used in financing activities		(96.8)	(125.6)
Net increase in cash and cash equivalents		163.3	36.1
Cash and cash equivalents at beginning of period		267.4	231.3
Cash and cash equivalents at end of period	23	430.7	267.4

NOTE: The Group has adopted IFRS 16 in the current period, using the modified retrospective method of adoption which does not require prior period figures to be restated. The main effects on the cash flow statement are: (i) current year operating cash flows add back amortisation of leased assets; (ii) changes in working capital are calculated using the opening asset and liability balances after adjustments on adopting IFRS 16, and (iii) cash flows used in financing activities in the current year include interest and principal payments on leased assets. See note 28 for more detail on the effects of adopting IFRS 16 - including adjustments to opening assets and liabilities, note 2 for our IFRS 16 accounting policies and note 14 for the effect of IFRS 16 on the current period financial statements.

Notes to the consolidated financial statements

1 General information

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The registered office address is 40 Portman Square, London, W1H 6LT. The nature of the Group's operations are set out in the Strategic Report, and the Group's principal activity is the sale of kitchens and joinery products, along with the associated manufacture, sourcing, and distribution of these products.

These financial statements are presented in UK pounds sterling, being the currency of the primary economic environment in which the Group operates.

Foreign operations are included in accordance with the policies set out in note 2.

2 Significant accounting policies

Accounting period

The Group's accounting period covers the 52 weeks to 26 December 2020. The comparative period covered the 52 weeks to 28 December 2019.

Statement of compliance and basis of preparation, including going concern

The group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared on the historical cost basis, modified for certain items carried at fair value, as stated in the accounting policies.

The financial statements are prepared on the going concern basis as the Directors have a reasonable expectation that the Company and Group will have adequate resources to continue in operational existence for the foreseeable future.

The Directors did not identify any material uncertainties leading to significant doubt about going concern status. The reasons for this, together with details of the Directors' assessment of principal risks and their review of trading results and various financial scenario models, are described in detail in the going concern statement.

Recognising the increased importance of the going concern statement to users of the Annual Report and its close relationship with the viability statement, and wanting to give them due prominence, the Group presents both statements together in the Strategic Report, beginning on page 63. The auditor's conclusion on going concern, together with details of the work they performed, can be found in the audit opinion beginning on page 177.

The principal accounting policies are set out below.

Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards, amendments to standards, and interpretations, were in issue but not yet effective for the Group in these financial statements:

IFRS 17: Insurance Contracts.

Amendments to References to the Conceptual Framework in IFRS Standards.

Amendment to IFRS 3: Business Combinations.

Amendments to IAS 1 and IAS 8: Definition of Material.

Amendments to IFRS 9, IAS 39, and IFRS 7 - Interest rate Benchmark Reform.

Amendments to IAS 1 - Classification of liabilities as Current or Non-Current.

Amendments to IFRS 16: COVID-related rent concessions.

Amendments to IAS 4: Insurance Contracts.

Annual Improvements 2018-2020 cycle.

Amendments to IAS 37: Costs of fulfilling an onerous contract.

Amendments to IAS 16: Property, Plant and Equipment

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies.

Amendments to IAS 8: Definition of Accounting Estimates.

The Directors anticipate that the adoption of the standards and interpretations mentioned above will have no significant impact on the Group's financial statements when the relevant standards come into effect.

Adoption of IFRS 16: Leases in the current period

We have adopted IFRS 16 in the current period, using the modified retrospective basis of adoption. The effect of adoption is shown at note 28, the revised lease accounting policies are shown below in this note and disclosure of the effect of IFRS on the current period is shown at note 14.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. 'Control' is defined in this case as the power to govern financial and operating policies so as to obtain benefits from the subsidiaries' activities. Subsidiaries are fully consolidated from the date on which control is established until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Further details of all subsidiaries are given in the 'Additional information' section at the back of this Annual Report.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, based on despatch of goods or services provided to customers outside the Group, excluding sales taxes and discounts. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Accounting policy for income from Government grants

In the first half of the current year, the Group recognised amounts due from government-sponsored COVID-related employee furlough schemes as a credit against the related staff costs and not as an item of other income. These amounts were repaid in the second half of the year and those entries were then reversed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes an attributable proportion of manufacturing overheads based on budgeted levels of activity. Cost is calculated using a standard cost which is regularly updated to reflect average actual costs. Provision is made for obsolete, slow-moving, or defective items where appropriate.

Property, plant and equipment

On adopting IFRS, the Group adopted the transitional provisions of IFRS 1 to use previous revaluations of freehold properties as the new deemed cost at the date of transition to IFRSs.

All property, plant and equipment is stated at cost (or deemed cost, as applicable) less accumulated depreciation, and less any provision for impairment.

Depreciation of property, plant and equipment is provided to write off the difference between their cost and their residual value over their estimated lives on a straight-line basis. The current range of useful lives is as follows:

Freehold property	50 years
Leasehold property improvements & fittings	the period of the lease, or the individual asset's life, if shorter.
Plant, machinery & vehicles	3-20 years
Fixtures & fittings	2-15 years

Capital work-in-progress and freehold land are not depreciated.

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Intangible assets

Our intangible assets represent computer software. Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use. These costs are amortised over their expected useful lives, which are reviewed annually. The expected useful lives range between three and seven years, depending on the nature of the software.

Impairment of assets

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

Apart from in the case of trade and other receivables, and inventories, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For trade and other receivables and inventories which are considered to be impaired, the carrying amount is reduced through the use of an allowance for estimated irrecoverable amounts. Changes in the carrying value of this allowance are recognised in the income statement.

Current tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Notes to the consolidated financial statements continued

Deferred tax

Deferred tax is provided in full using the balance sheet liability method. It is the tax expected to be payable or recoverable on the temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets and liabilities other than in a business combination that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Foreign currencies

Foreign currency transactions

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the date. Foreign exchange gains and losses are recognised in the income statement.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, where applicable, are translated into sterling at foreign exchange rates ruling at the balance sheet date. The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries are taken to equity via the statement of comprehensive income.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount required to settle the obligation.

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect is material.

Pensions

Payments to defined contribution retirement benefit schemes are charged to the income statement as they fall due.

The Group operates a defined benefit pension scheme. The Group's net obligation in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate used is selected so as to closely approximate the yield at the balance sheet date on AA-rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and assets. Actuarial gains and losses are recognised immediately through the remeasurement of the defined benefit liability and are taken through the statement of comprehensive income.

Lease assets and liabilities

We assess whether a lease exists at the inception of the related contract. If a lease exists, we recognise a right-of-use asset and a corresponding lease liability with effect from the date the lease commences.

The lease liability

The lease liability is initially measured at the present value of the lease payments due. As the discount rate inherent in our leases is not readily determinable, we use the Group's incremental borrowing rate to discount the payments and arrive at net present value.

The Group does not have a history of borrowing, and therefore it does not have a credit agency rating. Therefore, we derive the incremental borrowing rate by a process of:

- discussion with our bankers to estimate a reasonable proxy credit rating for the Group;
- using an independent third-party borrowing rate curve, giving indicative costs of borrowing for companies with a comparable credit rating over various durations, and
- selecting borrowing rates from the appropriate points on that curve to best match the duration of our lease portfolios.

Our leases are on relatively simple terms. Lease payments included in the measurement of the lease liability comprise fixed lease payments, less any lease incentives. We do not have variable lease payments which depend on an index, residual value guarantees, purchase options or termination penalties.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

We remeasure the lease liability (and make a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments have changed as a result of a change in an index, or, as is common with property leases, to reflect changes in market rental rates. In these cases, the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

In any cases other than those described immediately above, where a lease contract is modified and the lease modification is not accounted for as a separate lease, the lease liability is remeasured by discounting the revised remaining lease payments using a revised discount rate.

The lease liability is presented as a separate item in the balance sheet and is split between current and non-current portions.

The lease right-of-use asset

The lease right-of-use asset comprises the initial measurement of the corresponding lease liability and any initial direct costs of obtaining the lease. It is subsequently measured at cost less accumulated depreciation and any impairment losses.

Whenever we incur an obligation for costs to restore a leased asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Right-of-use assets are depreciated over the lease term as this is always shorter than the useful life of the underlying asset. Depreciation starts at the commencement date of the lease. We do not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented as a separate line item in the balance sheet.

Property leases treated as short-term leases when in the process of being renewed

From time to time when renewing a property lease, the new lease may not be formally signed before the end date of the previous lease. In these circumstances, although both we and the landlord will have agreed our willingness to renew the lease in principle, and we may also have protection under property law which grants us the right to renew the lease, our interpretation of IFRS 16 is that there is no enforceable right to renew the lease until the new lease is formally signed.

Therefore, we treat any lease payments made in this period between expiry and renewal as short-term lease payments under IFRS 16 and we expense them, taking advantage of the IFRS 16 short-term lease exemption.

Amounts treated as variable lease payments - rent reviews

It is common for property leases to contain a clause whereby the rent is reviewed every five years and adjusted in line with prevailing market rates. The process of agreeing rent reviews can sometimes be a lengthy one, and some reviews are not agreed until after their effective date.

In these cases we will continue to pay rent at the old rate until the rent review is agreed and neither the lease asset nor the lease liability is remeasured. If the new rent is agreed at a higher rate than the old rent, there will be a one-off payment to the lessor, covering the increase in rent for the period between the date from which the rent review was effective and the date on which the rent review was agreed.

This payment is treated as a variable lease payment and is not included in the measurement of the lease liability.

The lease asset and liability are remeasured from the rent review agreement date, based on the future agreed cashflows.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred. In the case of prepaid loan facility fees, they are capitalised and set against the related borrowings, and then amortised over the life of the related loan facility.

Other payables

Other payables are stated at their fair value.

Notes to the consolidated financial statements continued

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at the date of the Group's transition to IFRS.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts. Such allowances are raised based on an assessment of debtor ageing, past experience, or known customer circumstances.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand together with any overdrafts repayable on demand, and any short-term investments with a maturity date of less than three months from the balance sheet date.

Short-term investments

From time to time, the Group uses short-term investments in UK Gilts as part of its cash management activities. The Group reviews these investments before entering into them, and, after establishing that the Group has both the intention and the ability to hold these investments to maturity, they are classified as held-to-maturity and are initially recognised at cost, including any transaction fees.

Subsequent to initial recognition, these investments are carried at amortised cost using the effective interest method. Income from these investments is recognised in the income statement on an effective yield basis. They form part of our cash and cash equivalents for balance sheet and cash flow purposes.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

3 Significant accounting judgements and major sources of estimation uncertainty

The Group makes some judgements when applying its accounting policies which can have a significant effect on the amounts recognised in these financial statements. The Group also makes assumptions concerning the future and other major sources of estimation uncertainty that can result in a material adjustment to the carrying amounts of assets and liabilities within the next financial period. We discuss these below.

Actuarial assumptions underlying the value of pension liabilities - judgement and estimation uncertainty.

The Group operates a defined benefit scheme for its employees. There is significant judgement involved in selecting appropriate measurement bases for the actuarial assumptions used to measure the pension deficit.

There is also estimation uncertainty which means that reasonable alternative assumptions could have led to measurement at a materially different amount.

The key assumptions within this calculation are discount rate, inflation rates and mortality rates. These are set out in note 20, together with sensitivity analysis that shows the effect that these estimates can have on the carrying value of the pension deficit.

Allowances against the carrying values of inventories - estimation uncertainty.

In order to achieve the accounting objective that inventories are stated at the lower of cost and net realisable value, the Group carries an allowance against products which it estimates may not sell at a price above cost, or where we may be holding levels of product in excess of estimated future demand. The Group bases these estimates on a regular review of product lifecycles and selling prices achieved in the market, and in particular on historical sales profiles of products after they have been discontinued. These estimates are regularly reviewed against actual experience, and revised to reflect any differences, but the accuracy of the estimates at any point in time can be affected by the extent to which current products may not follow historical patterns.

Both the gross inventory balance and the amount of the allowance against carrying value are material items and we would expect this to remain the case as the Group grows in size, and as consumer demand for regular introductions of new product continues. Details of inventories and of the allowance against their carrying amount for the current and prior period end are shown in note 16.

We derive our allowance against carrying value based on specific kitchen ranges and stock items where a decision has been made to discontinue future sales or where our monitoring of current sales indicates that the rate of sales is in decline. As such, the allowance is specific in nature and does not lend itself to meaningful sensitivity analysis in the same way as a figure which is derived by a general formula.

Once a decision is made to discontinue future sales of a product, it will still be available for sale in depots for a set standard period of time, after which any remaining units of that product will be removed from sale. Our stock allowance is calculated so that the carrying value of any unsold units is progressively written down to nil over the period in which they are available for sale. The rate at which the units are written down to nil is based on actual historical experience of realised selling prices for previous similar products, and recognises that higher selling prices are typically achievable at the beginning of the period than at the end of the period.

4 Segmental reporting

(a) Basis of segmentation, and other general information

Information reported to the Group's Executive Committee is focused on one operating segment, Howden Joinery. Thus, the information required in respect of profit or loss, assets and liabilities, can all be found in the relevant primary statements and notes to these consolidated financial statements.

The Howden Joinery business derives its revenue from the sale of kitchens and joinery products.

(b) Other information

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Capital additions	67.0	63.6
Depreciation and amortisation	(34.5)	(34.5)

(c) Geographical information

The Group's operations are mainly located in the UK, with a small presence in France and Belgium. The Group has depots in each of these three countries. The number of depots in each location at the current and prior period ends is shown in the five year record which is located towards the back of this Annual Report. The Group's manufacturing and sourcing operations are located in the UK.

The following table analyses the Group's revenues from external customers by geographical market, irrespective of the origin of the goods:

Revenues from external customers

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
UK	1,509.6	1,550.3
Continental Europe	37.9	33.3
	1,547.5	1,583.6

The following is an analysis of the carrying amount of assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

N.B. 2020 figures for carrying amount of total assets and non-current assets (excluding deferred tax assets) include IFRS 16 right-of-use assets of £14.9m in Continental Europe and £529.3m in the UK. No such assets were recognised in 2019, as is explained in the note at the foot of the Group balance sheet.

Notes to the consolidated financial statements continued

Carrying amount of total assets

	26 December 2020 £m	28 December 2019 £m
UK	1,638.2	916.8
Continental Europe	49.0	27.2
	1,687.2	944.0

Non-current assets (excluding deferred tax assets)

	26 December 2020 £m	28 December 2019 £m
UK	795.1	233.8
Continental Europe	22.8	4.4
	817.9	238.2

Additions to property plant and equipment and intangible assets

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
UK	63.1	61.0
Continental Europe	3.9	2.6
	67.0	63.6

5 Operating profit

Operating profit has been arrived at after (charging)/crediting:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Net foreign exchange gain/(loss)	0.4	(2.5)
Depreciation of property plant and equipment	(28.7)	(28.0)
Amortisation of intangible assets	(5.8)	(6.5)
Depreciation of lease right-of-use assets	(79.5)	-
Lease payments under operating leases	-	(85.1)
Cost of inventories recognised as an expense	(611.0)	(586.5)
Write down of inventories	(6.8)	(8.4)
Loss on disposal of fixed assets	-	(1.4)
Increase in allowance for doubtful debts	(1.5)	(0.1)
Staff costs	(461.7)	(440.7)
Auditor's remuneration for audit services	(0.6)	(0.6)

All of the items above relate to continuing operations.

A more detailed analysis of auditor's total remuneration is given below:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Audit services:		
Fees paid to the Company's auditor for the audit of the Company's annual financial statements	(0.2)	(0.2)
Fees paid to the Company's auditor and their associates for other services to the Group:		
- the audit of the subsidiary companies pursuant to legislation	(0.4)	(0.4)
Total audit fees	(0.6)	(0.6)
Other services:		
Audit related assurance services (review of the half-year results)	(0.1)	(0.1)
Total non-audit fees	(0.1)	(0.1)

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier, and how the auditor's independence and objectivity were safeguarded, are set out in the Corporate Governance Report. No services were provided pursuant to contingent fee arrangements.

6 Staff costs

The aggregate payroll costs of employees, including executive directors, were:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Wages and salaries	(388.6)	(375.0)
Social security costs	(35.8)	(35.2)
Pension operating costs (note 20)	(37.3)	(30.5)
	(461.7)	(440.7)

Wages and salaries includes a charge in respect of share-based payments of £3.6m (2019: £4.9m). In the first half of the current year, the Group recognised £21.5m due from government-sponsored COVID-related employee furlough schemes as a credit against the related staff costs. These amounts were repaid in the second half of the year and those accounting entries were then reversed in full.

Directors remuneration is shown in detail in the Remuneration Committee Report.

The average monthly number of persons (full time equivalent, including Executive Directors) employed by the Group during the period was as follows:

	52 weeks to 26 December 2020 No.	52 weeks to 28 December 2019 No.
	10,004	9,903

Notes to the consolidated financial statements continued

7 Finance income

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Bank interest receivable	0.6	1.1

8 Finance costs

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Interest expense on lease liabilities	(10.3)	-
Other finance expense - pensions	(0.6)	(0.4)
Other interest	(0.1)	-
Total finance costs	(11.0)	(0.4)

9 Tax

(a) Tax in the income statement

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Current tax:		
Current year	33.6	47.9
Adjustments in respect of previous periods	0.6	(1.3)
Total current tax	34.2	46.6
Deferred tax:		
Current year	4.8	5.3
Adjustments in respect of previous periods	(1.3)	(0.2)
Total deferred tax	3.5	5.1
Total tax charged in the income statement	37.7	51.7

UK Corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the period. Tax for other countries is calculated at the rates prevailing in the respective jurisdictions.

(b) Tax relating to items of other comprehensive income or changes in equity

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Deferred tax credit to other comprehensive income on actuarial loss on pension scheme	(2.4)	(8.0)
Change of rate effect on deferred tax	(1.1)	0.7
Deferred tax charge/(credit) to equity on share schemes	0.2	(0.2)
Current tax credit to equity on share schemes	(0.1)	(0.3)
Total credit to other comprehensive income or changes in equity	(3.4)	(7.8)

(c) Reconciliation of the total tax charge

The total tax charge for the period can be reconciled to the result per the income statement as follows:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Profit before tax	185.3	260.7
Tax at the UK corporation tax rate of 19% (2019: 19%)	35.2	49.5
IFRS2 share scheme charge	0.2	0.2
Expenses not deductible for tax purposes	0.5	1.9
Overseas losses not utilised	1.4	0.4
Non-qualifying depreciation	1.1	1.2
Other tax adjustments in respect of previous years	(0.7)	(1.5)
Total tax charged in the income statement	37.7	51.7

The Group's effective rate of tax is 20.3% (2019: 19.8%).

10 Earnings per share

	52 weeks to 26 December 2020			52 weeks to 28 December 2019		
From continuing operations	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
Basic earnings per share	147.6	592.3	24.9	209.0	596.9	35.0
Effect of dilutive share options	-	2.7	(0.1)	-	3.0	(0.2)
Diluted earnings per share	147.6	595.0	24.8	209.0	599.9	34.8

11 Dividends

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the 52 weeks to 28 December 2019 - 3.9p/share	-	23.2
Final dividend for the 52 weeks to 29 December 2018 - 7.9p/share	-	47.4
	-	70.6

	52 weeks to 26 December 2020 £m
Dividend proposed at the end of the period (but not recognised in the period):	
Proposed final dividend for the 52 weeks to 26 December 2020 - (9.1p/share)	53.9
Proposed special dividend - (9.1p/share)	53.9
	107.7

The Directors propose a final dividend in respect of the 52 weeks to 26 December 2020 of 9.1p per share, payable to ordinary shareholders who are on the register of shareholders at 21 May 2021, and payable on 18 June 2021.

Notes to the consolidated financial statements continued

The Directors also declare a special dividend of 9.1p per share, in lieu of the cancelled final dividend for 2019, payable to ordinary shareholders who are on the register of shareholders at 21 May 2021, and payable on 18 June 2021.

The proposed final dividend for the current period is subject to the approval of the shareholders at the 2021 Annual General Meeting.

Dividends have been waived indefinitely on all shares held by the Group's employee share trusts which have not yet been awarded to employees.

12 Intangible assets

The intangible assets shown below all relate to software, as detailed further in the accounting policies note.

	Intangible assets in use £m	Intangible assets under construction £m	TOTAL £m
Cost			
At 29 December 2018	39.6	2.9	42.5
Exchange adjustments	(0.1)	-	(0.1)
Additions	6.2	2.3	8.5
Disposals	(1.3)	(0.1)	(1.4)
Reclassifications	1.3	(1.3)	-
At 28 December 2019	45.7	3.8	49.5
Exchange adjustments	0.1	-	0.1
Additions	1.7	3.5	5.2
Disposals	(1.3)	-	(1.3)
Reclassifications	4.4	(4.4)	-
At 26 December 2020	50.6	2.9	53.5
Accumulated amortisation			
At 29 December 2018	(19.4)	-	(19.4)
Exchange adjustments	0.1	-	0.1
Charge for the period	(6.5)	-	(6.5)
Disposals	1.2	-	1.2
At 28 December 2019	(24.6)	-	(24.6)
Exchange adjustments	(0.1)	-	(0.1)
Charge for the period	(5.8)	-	(5.8)
Disposals	1.3	-	1.3
At 26 December 2020	(29.2)	-	(29.2)
Net book value at 26 December 2020	21.4	2.9	24.3
Net book value at 28 December 2019	22.4	2.5	24.9

13 Property, plant and equipment

	Freehold property £m	Leasehold property improvements £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	TOTAL £m
Cost						
At 29 December 2018	38.6	71.7	178.7	133.8	10.5	433.3
Exchange adjustments	-	-	(0.1)	(0.3)	-	(0.4)
Additions	0.6	5.2	8.1	15.9	25.3	55.1
Disposals	-	(0.6)	(11.3)	(2.4)	(0.1)	(14.4)
Reclassifications	0.2	5.2	3.6	0.1	(9.1)	-
At 28 December 2019	39.4	81.5	179.0	147.1	26.6	473.6
Adjustment on adopting IFRS 16 (note 28)	-	(16.6)	-	-	-	(16.6)
At 28 December 2019 after adopting IFRS 16	39.4	64.9	179.0	147.1	26.6	457.0
Exchange adjustments	-	-	0.1	0.3	-	0.4
Additions	3.1	11.1	6.5	27.5	13.6	61.8
Disposals	-	-	(8.0)	(0.4)	-	(8.4)
Reclassifications	0.4	15.9	7.1	7.6	(18.7)	12.3
At 26 December 2020	42.9	91.9	184.7	182.1	21.5	523.1
Accumulated depreciation						
At 29 December 2018	(5.4)	(30.3)	(120.0)	(90.5)	-	(246.2)
Exchange adjustments	-	-	0.1	0.1	-	0.2
Charge for the period	(1.2)	(5.4)	(12.1)	(9.3)	-	(28.0)
Disposals	-	0.5	11.1	1.2	-	12.8
At 28 December 2019	(6.6)	(35.2)	(120.9)	(98.5)	-	(261.2)
Adjustment on adopting IFRS 16 (note 28)	-	7.4	-	-	-	7.4
At 28 December 2019 after adopting IFRS 16	(6.6)	(27.8)	(120.9)	(98.5)	-	(253.8)
Exchange adjustments	-	-	(0.1)	(0.1)	-	(0.2)
Charge for the period	(1.2)	(4.4)	(12.0)	(11.1)	-	(28.7)
Disposals	-	-	8.0	0.4	-	8.4
At 26 December 2020	(7.8)	(32.2)	(125.0)	(109.3)	-	(274.3)
Net book value at 26 December 2020	35.1	59.7	59.7	72.8	21.5	248.8
Net book value at 28 December 2019	32.8	46.3	58.1	48.6	26.6	212.4

Notes to the consolidated financial statements continued

14 Lease right-of-use assets and lease liabilities

We present a description of nature of the Group's leasing activities in note 28, which also shows the effect of adopting IFRS 16 in the current year and discusses practical expedients and judgements on adoption.

We have set out the Group's lease accounting policies in note 2.

Amounts recognised in the balance sheet

	26 December 2020 £m
Right-of-use assets	
Property	495.8
Vehicles, plant & machinery	48.4
	544.2
Additions to right-of-use assets in the period	86.5

	26 December 2020 £m
Lease liabilities	
Current	(70.0)
Non-current	(510.5)
	(580.5)

Amounts recognised in the income statement

	52 weeks to 26 December 2020 £m
Included in net operating expenses	
Depreciation of right-of-use assets:	
- property	62.9
- vehicles, plant & machinery	14.7
Impairment	1.9
Total - recognised in net operating costs	79.5
Expense relating to short-term leases	2.9
Variable lease payments, not included in the measurement of lease liabilities	1.1
Included in finance costs	
Interest expense on lease liabilities	10.3

Cash flows and maturity analysis of lease liabilities

	52 weeks to 26 December 2020 £m
Total cash outflow for leases	87.5

	26 December 2020 £m
Maturity analysis of lease liabilities	
Contractual undiscounted cashflows due	
- within 1 year	74.8
- 1 to 5 years	228.8
- more than 5 years	345.5
	649.1

Sublettings

From time to time the Group has leases on properties which it no longer requires. The Group will sublease any such properties wherever possible.

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Sublease income recognised in the period	3.6	4.6

15 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements on them during the current and prior reporting periods:

	Retirement benefit obligations £m	Accelerated capital allowances £m	Company share schemes £m	Leasing £m	Other temporary differences £m	Total £m
At 29 December 2018	6.8	1.2	0.6	-	1.1	9.7
(Charge)/credit to income statement	(4.5)	(0.7)	0.1	-	-	(5.1)
Credit outside the income statement- change of rate	(0.7)	-	0.1	-	-	(0.6)
Credit/(charge) outside income statement	8.0	-	-	-	-	8.0
At 28 December 2019	9.6	0.5	0.8	-	1.1	12.0
On adoption of IFRS 16 (note 28)				3.6		3.6
Adjusted opening balance after adopting IFRS 16	9.6	0.5	0.8	3.6	1.1	15.6
(Charge)/credit to income statement	(4.0)	0.8	(0.3)	(0.5)	0.4	(3.6)
Credit outside the income statement- change of rate	1.1	-	-	-	-	1.1
Credit/(charge) outside the income statement	2.4	-	(0.2)	-	-	2.2
At 26 December 2020	9.1	1.3	0.3	3.1	1.5	15.3

Deferred tax arising from accelerated capital allowances can be further analysed as a £3.0m asset and a £1.7m liability (2019: £2.0m asset and £1.5m liability).

Notes to the consolidated financial statements continued

The presentation in the balance sheet is as follows:

	26 December 2020 £m	28 December 2019 £m
Deferred tax assets	17.0	13.5
Deferred tax liabilities	(1.7)	(1.5)
	15.3	12.0

At the balance sheet date the Group had unused tax losses as disclosed below. These losses are carried forward by particular Group companies and may only be offset against profits of that particular company. Deferred tax assets are not recognised in relation to these losses as it is not considered probable that suitable future taxable profits will be available in the relevant company against which the unused losses can be utilised. Specifically, in the case of the trading and non-trading losses this is due to the unpredictability of future profit streams in the relevant entities, while for the capital losses it is due to the future capital gains not currently being forecast to arise. All unrecognised losses may be carried forward indefinitely and have been valued in GBP at the year end closing exchange rate.

The analysis below does not include any tax losses attributable to our former subsidiaries in The Netherlands and Germany, which have now ceased to trade.

	26 December 2020 £m	28 December 2019 £m
Trading losses	53	41
Non-trading losses	20	20
Capital losses	86	86
Total losses	159	147

16 Inventories

	26 December 2020 £m	28 December 2019 £m
Raw materials	10.2	8.7
Work in progress	4.8	5.7
Finished goods and goods for resale	274.1	255.3
Allowance against carrying value of inventories	(34.1)	(37.9)
	255.0	231.8

In the event that the Group were to use its bank facility, it has pledged its inventories as security for any borrowing under the facility. More details are given in note 19.

17 Other financial assets

Trade and other receivables

	26 December 2020 £m	28 December 2019 £m
Trade receivables (net of allowance)	132.4	148.3
Prepayments	29.0	42.1
Other receivables	5.2	2.7
	166.6	193.1

Trade and other receivables are not interest-bearing, and are on commercial terms. Their carrying value approximates to their fair value.

An analysis of the Group's allowance for doubtful receivables is as follows:

	26 December 2020 £m	28 December 2019 £m
Balance at start of period	11.4	11.3
Increase in allowance recognised in the income statement	1.5	0.1
Balance at end of period	12.9	11.4

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 27. We have no significant concentration of credit risk, as our exposure is spread over a large number of customers. We charge interest at appropriate market rates on balances which are in litigation.

Before accepting any new credit customer, we obtain a credit check from an external agency to assess the potential customer's credit quality, and then we set credit limits on a customer-by-customer basis. We review credit limits regularly, and adjust them if circumstances change. In the case of one-off customers, our policy is to require immediate payment at the point of sale, and not to offer credit terms.

The historical level of customer default is low, and as a result we consider the 'credit quality' of period end trade receivables to be high. We regularly review trade receivables which are past due but not impaired, and we consider, based on past experience, whether the credit quality of these amounts at the balance sheet date has deteriorated since the transaction was entered into and therefore whether the amounts are recoverable. We maintain regular contact with all such customers and, where necessary, we take legal action to recover the receivable.

We make an allowance for impairment for any specific amounts which we consider to be irrecoverable or only partly recoverable. We also have a separate general allowance, which is calculated as a percentage of sales and is based on historical default rates. At the period end, the total allowance for bad debts of £12.9m (2019: £11.4m) consists of a specific allowance of £4.7m (2019: £4.6m) which has been made against specific debts with a gross carrying value of £6.0m (2019: £5.8m), and a general allowance of £8.2m (2019: £6.8m). To the extent that recoverable amounts are estimated to be less than their associated carrying values, we have recorded impairment charges in the consolidated income statement and have written carrying values down to their estimated recoverable amounts.

We wrote off £4.4m of debts in the period (2019: £6.9m). Included within our aggregate trade receivables balance are specific debtor balances with customers totalling £29.0m before bad debt provision (2019: £27.7m before provision) which are past due as at the reporting date. We have assessed these balances for recoverability and we believe that their credit quality remains intact.

Notes to the consolidated financial statements continued

An ageing analysis of these past due trade receivables is as follows:

	26 December 2020 £m	28 December 2019 £m
1-30 days past due	14.9	13.2
31-60 days past due	2.9	3.2
61-90 days past due	1.6	2.2
90+ days past due	9.6	9.1
Total overdue amounts, excluding allowance for doubtful receivables	29.0	27.7

There were no trade receivables which would have been impaired at either period end were it not for the fact that their credit terms were renegotiated. The Group does not renegotiate credit terms.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand together with demand deposits, and other short-term investments (see below). Cash at bank is either in current accounts, or is placed on short-term deposit, and is available on demand. Interest on short-term deposits is paid at prevailing money market rates. The carrying amount of these assets approximates to their fair value.

Short-term investments

Short-term investments included in cash and cash equivalents at the end of 2020 comprised investments in short-term UK Gilts. They had maturity dates ranging between 1 and 3 months from the balance sheet date. They returned a fixed rate of interest and the weighted average effective interest rate on the Gilts held at the balance sheet date was (0.04)% pa.

These investments were classified as held-to-maturity, and held at amortised cost. The directors estimated that the fair value of these investments at the period end was equal to their carrying value.

Assets pledged as security

In the event that the Group were to use its bank facility, it has pledged its trade receivables as security for any borrowing under the facility. More details are given in note 19.

18 Other financial liabilities

Trade and other payables

	26 December 2020 £m	28 December 2019 £m
Current liabilities		
Trade payables	161.0	96.4
Other tax and social security	72.5	71.1
Other payables	17.1	11.3
Accruals	49.8	62.6
	300.4	241.4

Trade payables, other payables, and accruals principally comprise amounts due in respect of trade purchases and ongoing costs. Their carrying value in both periods approximates to their fair value.

The ratio of average credit taken for trade purchases during the period, based on total operations, was 55 days (2019: 42 days). Our payment terms have not changed during the year, and we have continued to pay our suppliers promptly, in line with their agreed credit terms. However the rise in trade creditors at year end, which was due principally to a high level of stock receipts and which we have already seen reversing in the first quarter of 2021, has caused a rise in the calculated ratio.

The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier, and to abide by those terms on the timely submission of satisfactory invoices.

19 Borrowing facility

At the period end date, the Group had a £140m committed borrowing facility, due to expire in December 2023. The Group did not use the facility in the year.

The facility is secured on the trade receivables and stock of the Group. The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £140m. There were no borrowings under the facility at either the current or previous year end. As at 26 December 2020, the Group had available £138m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (28 December 2019: £138m), in addition to the Group's cash and short-term investments as shown on the Balance Sheet.

If the Group were to use the facility, it would carry interest at a rate of LIBOR plus a margin of 125 basis points. Under the terms of the facility, none of the Group's principal subsidiary companies can sign up to additional secured borrowings, other than those expressly permitted within the terms of the facility. The facility permits (i) normal trade credit granted in the ordinary course of business; (ii) up to £10m of additional secured borrowings, and (iii) vehicle and equipment hire purchase transactions of up to a total of £20m.

20 Retirement benefit obligations

(a) Overview of all retirement benefit arrangements

Defined contribution: auto-enrolment plan

The Group operates an auto-enrolment defined contribution plan for employees. Employees make contributions out of their salaries, and the Group also makes additional contributions. The plan's assets are held separately from those of the Group.

The total cost charged to income in respect of this plan in the current period of £12.2m (2019: £9.3m) represents the Group's contributions due and payable in respect of the period.

Defined contribution: other plan

The Group operates another defined contribution plan for its employees. Employees make contributions out of their salaries, and the Group also makes additional contributions. The plan's assets are held separately from those of the Group.

The total cost charged to income in respect of this plan in the current period of £1.3m (2019: £1.2m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plan

Characteristics and risks of the plan

The Group operates a funded pension plan which provides benefits based on the career average pensionable pay of participating employees. This plan was closed to new entrants from April 2013. 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 to future accrual. The outcome of the consultation was that the plan would be closed to future accrual from 31 March 2021.

The assets of the plan are held separately from those of the Group, being held in a trustee-administered pension plan and invested with independent fund managers. The trustee directors of the plan comprise three member-elected trustees, two independent trustees, and three Group-appointed trustees. All trustees are required to act in the best interests of the plan beneficiaries.

The plan exposes the Group to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk.

Accounting and actuarial valuation

Contributions are charged to the consolidated income statement so as to spread the cost of pensions over the employees' working lives with the Group. The present value of the defined benefit obligation, the related current service cost, and past service cost are determined by a qualified actuary using the projected unit method. The most recent completed actuarial valuation was carried out at April 2017 by the plan actuary. The April 2020 actuarial valuation has begun, but has not been finalised at the date of approving these financial statements. The actuary advising the Group has subsequently rolled forward the results of the April 2017 valuation to 26 December 2020. This roll-forward exercise involves updating all the assumptions which are market-based (i.e. inflation, discount rate, rate of increase in pensions and rate of CARE revaluation) to values as at 26 December 2020. We are using CMI 2019 mortality tables, being the most recent tables available.

Notes to the consolidated financial statements continued

Funding and estimated contributions

The Group has an agreement with the pension plan trustees to make additional deficit contributions to the plan, over and above the normal level of contributions, of £30m per year until June 2023. The Group's estimated total cash contributions to the defined benefit plan in the 52 weeks ending 25 December 2021 are £36m.

Differences between the defined benefit pension deficit on an IAS 19 basis and on a funding basis

As is mandatory under International Financial Reporting Standards, the Group values its pension deficit in these accounts on an IAS 19 basis. As shown below, the IAS 19 deficit at the current period end is £47.7m. On a funding basis (also known as a 'Technical Provisions basis', being the basis on which the triennial actuarial valuations are carried out), the funding deficit at the current period end is estimated at £163.5m, this estimate being based on an approximate roll-forward of the 2017 triennial funding valuation, updated for market conditions.

(b) Total amounts charged in respect of pensions in the period

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Charged to the income statement:		
Defined benefit plan - current service cost	20.8	17.2
Defined benefit plan - past service cost	0.3	-
Defined benefit plan - administration costs	2.7	2.8
Defined benefit plan - total operating charge	23.8	20.0
Defined benefit plan - net finance charge	0.6	0.4
Defined contribution plans - total operating charge	13.5	10.5
Total net amount charged to profit before tax	37.9	30.9
Charged to equity:		
Defined benefit plan - actuarial losses	12.7	47.1
Total charge	50.6	78.0

(c) Other information - defined benefit pension plan

Key assumptions used in the valuation of the plan	52 weeks to 26 December 2020	52 weeks to 28 December 2019
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.45%	2.40%
Rate of CARE revaluation capped at lower of RPI and 3%	2.35%	2.50%
Rate of increase of pensions in payment:		
- pensions with increases capped at lower of CPI and 5%	2.45%	2.40%
- pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.35%	3.35%
- pensions with increases capped at the lower of LPI and 2.5%	2.10%	2.20%
Rate of increase in salaries	3.95%	4.20%
Inflation assumption - RPI	2.95%	3.20%
Inflation assumption - CPI	2.45%	2.40%
Discount rate	1.30%	1.95%
Life expectancy (years): pensioner aged 65		
- male	86.5	86.5
- female	88.3	88.1
Life expectancy (years): non-pensioner aged 45		
- male	87.8	87.6
- female	90.5	90.3

Sensitivities

If there was a decrease in the discount rate of 0.25%, there would be a corresponding increase in the scheme liabilities of around 6%, or £93m, an increase in the operating charge of around £1.6m and an increase in pensions finance charge of around £0.7m.

An increase of 0.25% to the inflation rate would increase scheme liabilities by around 2.7%, or £45m, increase the operating charge by around £0.6m and increase the pensions finance charge by around £0.6m.

The effect of increasing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 3.5%, or £57m, to increase the operating charge by around £0.7m and to increase the pensions finance charge by around £0.8m.

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period, and the projected total service cost for 2021. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide a reasonable approximation. The same amount of movement in the opposite direction would produce a broadly equal and opposite effect.

Analysis of plan assets

	26 December 2020		28 December 2019	
	Quoted market price in an active market £m	No quoted market price in an active market £m	Quoted market price in an active market £m	No quoted market price in an active market £m
Government bonds	423.0	-	505.5	-
Equities				
- passive equities	141.3	-	138.6	-
Private equity	-	2.6	-	4.1
Alternative growth assets				
- fund of hedge funds	-	137.8	-	94.2
- absolute return fund	85.0	-	80.6	-
Insurance-linked securities	-	71.6	-	64.0
Corporate bonds	237.5	-	170.4	-
Commercial property fund	103.0	117.7	36.9	65.7
Other secure income	-	128.7	-	89.6
Asset-backed securities	104.9	-	126.1	-
Cash and cash equivalents	40.2	-	53.0	-
Total	1,134.9	458.4	1,111.1	317.6

The plan assets do not include any of the Group's own financial instruments nor any property occupied by, or other assets used by, the Group.

Asset allocation

The following text explaining the plan trustees' asset allocation strategy is taken from the plan's 2020 Annual Report and Accounts, published in September 2020:

The investment strategy currently in place has a 60% allocation to 'return-seeking' assets and a 40% allocation to 'risk-reducing' assets.

'Return-seeking' assets are generally higher risk instruments that over the longer term would be expected to produce a return in excess of the Plan's liabilities. The Trustee has made the decision that the Plan's allocation to 'return-seeking' assets be split between quoted equities, secure income assets and absolute return funds at 31 March 2020.

'Risk-reducing' assets are generally considered as lower risk and would typically be expected to move in a broadly similar fashion to the Plan's liabilities, due to changes in both interest rates and inflation. Within the 'risk-reducing' portfolio, the Trustee has made the decision to invest in fixed and inflation linked government bonds as well as corporate bonds.

Notes to the consolidated financial statements continued

Analysis of plan members, scheme liability split and duration

	2020[1]		
	No. of members	% of total liability	Duration (yrs)
Active members	1,342		
Deferred members	5,440		
Total members	6,782	66%	25
Pensioners	3,871	34%	14
Total No./average duration	10,653	100%	22

1 The figures are on an IAS 19 basis and are as at 31 March 2020, the date of the latest agreed pension plan accounts.

	2019[2]		
	No. of members	% of total liability	Duration (yrs)
Active members	1,448		
Deferred members	5,677		
Subtotal	7,125	72%	25
Pensioners	3,652	28%	15
Total No./average duration	10,777	100%	22

2 The figures are on an IAS 19 basis and are as at 31 March 2019, from the pension plan accounts.

Balance sheet

The amount included in the balance sheet arising from the Group's obligations in respect of defined benefit retirement plan is as follows:

	26 December 2020 £m	28 December 2019 £m
Present value of defined benefit obligations	(1,641.0)	(1,485.3)
Fair value of scheme assets	1,593.3	1,428.7
Deficit in the scheme, recognised in the balance sheet	(47.7)	(56.6)

Movements in the present value of defined benefit obligations were as follows:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Present value at start of period	1,485.3	1,281.7
Current service cost	20.8	17.2
Past service cost	0.3	-
Administration cost	2.7	2.8
Interest on obligation	28.3	35.8
Actuarial losses/(gains):		
- changes in financial and demographic assumptions	165.8	203.5
- experience	(19.9)	(6.6)
Benefits paid, including expenses	(42.3)	(49.1)
Present value at end of period	1,641.0	1,485.3

Movements in the fair value of the plan's assets is as follows:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Fair value at start of period	1,428.7	1,245.7
Interest income on plan assets	27.7	35.4
Contributions from the Group	46.0	46.9
Actuarial gains	133.2	149.8
Benefits paid, including expenses	(42.3)	(49.1)
Fair value at end of period	1,593.3	1,428.7

Movements in the deficit during the period are as follows:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Deficit at start of period	(56.6)	(36.0)
Current service cost	(20.8)	(17.2)
Past service cost	(0.3)	-
Administration cost	(2.7)	(2.8)
Employer contributions	46.0	46.9
Other finance charge	(0.6)	(0.4)
Actuarial losses gross of deferred tax	(12.7)	(47.1)
Deficit at end of period	(47.7)	(56.6)

Income statement

Amounts recognised in the income statement arising from the Group's obligations in respect of the defined benefit plan are shown below.

Amount charged to operating profit:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Current service cost	20.8	17.2
Past service cost	0.3	-
Administration cost	2.7	2.8
Total operating charge	23.8	20.0

The total operating charge is included in the financial statements heading 'Staff costs'.

Notes to the consolidated financial statements continued

Amount credited to other finance charges:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Interest income on plan assets	(27.7)	(35.4)
Interest cost on defined benefit obligation	28.3	35.8
Net charge	0.6	0.4

The actual return on plan assets was £160.9m (52 weeks to 28 December 2019: £185.2m).

Statement of comprehensive income

Amounts taken to equity via the statement of comprehensive income in respect of the Group's defined benefit plan are shown below:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Actuarial gain on plan assets	133.2	149.8
Actuarial loss on plan liabilities	(145.9)	(196.9)
Net actuarial loss, before associated deferred tax	(12.7)	(47.1)

21 Provisions

	Property £m	Warranty £m	Closure costs £m	French post-employment benefits £m	Total £m
At 29 December 2018	3.4	3.6	-	0.3	7.3
Additional provision in the period	3.1	5.3	5.5	-	13.9
Provision released in the period	(0.9)	-	-	-	(0.9)
Utilisation of provision in the period	(2.2)	(3.8)	(5.3)	-	(11.3)
At 28 December 2019	3.4	5.1	0.2	0.3	9.0
Transferred to lease right-of-use assets on adoption of IFRS 16	(0.2)	-	-	-	(0.2)
Additional provision in the period	3.6	6.9	-	-	10.5
Provision released in the period	(0.3)	-	-	-	(0.3)
Utilisation of provision in the period	(0.9)	(4.0)	(0.2)	-	(5.1)
At 26 December 2020	5.6	8.0	-	0.3	13.9

Effect of adopting IFRS 16 on the property provision

On adopting IFRS 16, the Group took advantage of the transitional provision to treat existing onerous lease provisions as lease impairments and therefore transferred them out of Provisions on the balance sheet and set them against the lease assets.

Property provision

The property provision at December 2020 covers obligations to make dilapidations payments to landlords of leased properties.

The timing of outflows from the provision is variable, and is dependent on the timing of dilapidations assessments and works.

Warranty provision

The warranty provision relates to amounts due in respect of product warranties. As products are sold, the Group makes provision for claims under warranties. As claims are made, the Group utilises the provision and then uses this historical data to periodically revise the basis on which it makes further provision.

French post-employment benefits provision

This provision relates to a benefit which is payable to employees in our French subsidiary under French law on retirement. It is a lump sum payable on retirement, not a recurring pension. It will only be payable if any of the eligible employees are employed by our French subsidiaries immediately before their retirement.

The provision represents our best estimate of the potential liability and it is calculated based on several factors, mainly the age profile and salary details of the current workforce in France, and the current rate of staff turnover.

Closure costs

This relates to the costs of closing our trial operations in Germany and The Netherlands, which was completed in the current year.

22 Share capital

Ordinary shares of 10p each:	52 weeks to 26 December 2020 No.	52 weeks to 28 December 2019 No.	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	604,663,861	615,436,307	60.5	61.5
Bought back and cancelled during the period	(1,800,000)	(10,772,446)	(0.2)	(1.0)
Balance at the end of the period	602,863,861	604,663,861	60.3	60.5

23 Notes to the cash flow statement

Analysis of cash and cash equivalents	Cash at bank and in hand £m	Short-term investments £m	Cash and cash equivalents £m
At 28 December 2019	218.5	48.9	267.4
Cash flow	182.2	(18.9)	163.3
At 26 December 2020	400.7	30.0	430.7

The short-term investments had a maturity of less than three months, and as such were considered to be cash equivalents for the purposes of the cash flow statement. More details are given at note 2 and note 19.

24 Financial commitments

Capital commitments

	26 December 2020 £m	28 December 2019 £m
Contracted for, but not provided for in the financial statements:		
- Tangible assets	13.8	17.8
- Intangible assets	0.7	0.3
	14.5	18.1

Notes to the consolidated financial statements continued

25 Share-based payments

1) Details of each scheme

The Group recognised a charge of £3.6m (2019: charge of £4.9m) in respect of share-based payments during the period. The Group has various share-based payment schemes, which are all equity-settled. The main details of all schemes which existed during the period are given below.

Freeshares

This is a UK tax-advantaged 'all-employee' Share Incentive Plan where eligible UK employees receive an award of free shares in the Company. If participants are still employed by a UK Howdens Group company on the third anniversary of the date the shares were granted, the shares will vest. There are no other performance conditions attached to these awards. Dividends are payable on the free shares during the vesting period.

Howden Joinery Group long-term incentive plan ('LTIP')

This is a discretionary employee share plan under which the Company may grant different types of award including options, conditional awards and restricted share awards. With the exception of (iv) below, neither dividends nor dividend equivalents are payable during the vesting period. The different types of awards are as follows:

(i) **Conditional share awards**, the vesting period for which is three years commencing on the date of grant and subject to continued employment. The shares are not subject to any other performance conditions.

(ii) **Market value options,** the vesting period for which is three years commencing from the date of grant with an exercise period of seven years (i.e. a total life of ten years). The vesting conditions for these options are as follows:

Date of award	2011	2012	2013
Vesting based on growth in profits - from year ended December	2010	2011	2012
- to year ended December	2013	2014	2015
Award vests at 25% if profits over the vesting period grow by	6%	6%	6%
Award vests at 100% if profits over the vesting period grow by	12%	12%	12%

Date of award	2014
Vesting based on growth in profits - from year ended December	2013
- to year ended December	2016
Award vests at 15% if profits over the vesting period grow by	8%
Award vests at 100% if profits over the vesting period grow by	20%

If profits grow by a figure between the upper and lower thresholds for each year, the award vests on a sliding scale.

(iii) **Performance share plan**, the vesting period for which is three years commencing from the date of grant. The awards are subject to the following performance conditions:

Date of award	2017	2018	2019
Vesting based on growth in profits - from year ended December	2016	2017	2018
- to year ended December	2019	2020	2021
Award vests at 15% if profits over the vesting period grow by	3%	5%	5%
Award vests at 100% if profits over the vesting period grow by	15%	15%	15%

Date of award	2020
Performance period - from year ended December	2019
- to year ended December	2022
Performance Conditions:	
Total shareholder return (the 'TSR tranche') represents the following proportion of the Award	67%
- TSR tranche vests at 15% if the Company is ranked compared to comparators at	Median
- TSR tranche vests at 100% if the Company is ranked compared to comparators in the	Upper quartile
Growth in pre-exceptional profit before tax (the 'PBT tranche') represents the following proportion of the Award	33%
- PBT tranche vests at 15% if profits over the performance period grow by	5%
- PBT tranche vests at 100% if profits over the performance period grow by	15%

If profits grow by a figure between the upper and lower thresholds for each year, the award vests on a sliding scale.

(iv) **Restricted share awards**, where the participant receives beneficial entitlement to shares upon grant of the award. The legal interest however is not transferred to the participant until the forfeiture provisions and restrictions applicable to the awards cease to apply. The shares are not subject to any performance conditions other than continued employment. Dividends are payable during the vesting period.

Recruitment plan

This is a discretionary employee share plan under which the Company may grant an eligible employee conditional rights to acquire shares subject to certain conditions. The shares are not subject to any performance conditions other than continued employment. Neither dividends nor dividend equivalents are payable during the vesting period. The awards granted under this plan may only be satisfied with existing shares.

Notes to the consolidated financial statements continued

2) Movements in the period

52 weeks to 26 December 2020	Freeshares Number	LTIP (i) Number	LTIP (iii) Number	LTIP (iv) Number
In issue at start of period	2,778,447	22,900	4,731,277	111,327
Granted in period	456,274	-	1,245,483	-
Lapsed in period	(140,200)	(3,700)	(1,541,943)	-
Exercised in period	(409,394)	(9,200)	(230,819)	(46,385)
In issue at end of period	2,685,127	10,000	4,203,998	64,942
Exercisable at end of period	811,357	-	32	-
Number of options in the closing balance granted before 7 November 2002	19,890	-	-	-
Weighted average share price for options exercised during the period (£)	5.74	5.03	5.05	5.01
Weighted average life remaining for options outstanding at the period end (years)	1.1	0.3	1.4	0.5
Weighted average fair value of options granted during the period (£)	5.36	N/A	3.11	N/A
Exercise price for all options (£)	0.00	0.00	0.00	0.00

	LTIP (ii)		Recruitment
	Number	WAEP (£)	Plan Number
In issue at beginning of period	531,082	3.22	48,294
Granted in period	-	N/A	-
Lapsed in period	(2,521)	2.38	-
Exercised in period	(115,599)	3.16	(48,294)
In issue at end of period	412,962	3.25	-
Exercisable at end of period	412,962	3.25	-
Number of options in the closing balance granted before 7 November 2002	-		-
Weighted average share price for options exercised during the period (£)	6.19		6.41
Weighted average life remaining for options outstanding at the period end (years)	-		N/A
Weighted average fair value of options granted during the period (£)	N/A		N/A
Exercise price for all options (£)	1.09 to 3.79		0.00

52 weeks to 28 December 2019	Freeshares Number	LTIP (i) Number	LTIP (iii) Number	LTIP (iv) Number
In issue at start of period	2,496,344	42,500	4,840,735	-
Granted in period	944,100	-	1,589,842	111,327
Lapsed in period	(208,500)	(11,500)	(1,690,324)	-
Exercised in period	(453,497)	(8,100)	(8,976)	-
In issue at end of period	2,778,447	22,900	4,731,277	111,327
Exercisable at end of period	530,847	-	-	-
Number of options in the closing balance granted before 7 November 2002	23,456	-	-	-
Weighted average share price for options exercised during the period (£)	5.34	5.22	5.07	N/A
Weighted average life remaining for options outstanding at the period end (years)	1.37	0.79	1.37	0.96
Weighted average fair value of options granted during the period (£)	5.17	N/A	4.65	5.60
Exercise price for all options (£)	0.00	0.00	0.00	0.00

	LTIP (ii)		Recruitment
	Number	WAEP (£)	Plan Number
In issue at beginning of period	927,176	2.94	117,691
Granted in period	-	N/A	-
Lapsed in period	-	N/A	-
Exercised in period	(396,094)	2.56	(69,397)
In issue at end of period	531,082	3.22	48,294
Exercisable at end of period	531,082	3.22	-
Number of options in the closing balance granted before 7 November 2002	-		-
Weighted average share price for options exercised during the period (£)	5.52		4.86
Weighted average life remaining for options outstanding at the period end (years)	0.00		0.18
Weighted average fair value of options granted during the period (£)	N/A		N/A
Exercise price for all options (£)	1.09 to 3.79		0.00

3) Fair value of options granted

The fair value of awards granted is estimated on the date of grant using a binomial or a Monte Carlo option valuation model, as appropriate for the type of award granted.

The key assumptions used in the model were:

	52 weeks to 26 December 2020	52 weeks to 28 December 2019
Dividend yield (%)	2.2	2.2 to 2.6
Expected life of options (years)	3.0	0.6 to 3.0
Expected share price volatility (%)	30.9	N/A

Notes to the consolidated financial statements continued

26 Related party transactions

Companies which are related parties

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. All transactions between the Group and the Group's pension schemes have been disclosed in note 20.

Remuneration of key management personnel

Key management personnel comprise the Board of Directors (including Non-Executive Directors) and the Executive Committee. Details of the aggregate remuneration to these personnel is set out below. The figure disclosed for share-based payments represents the gain realised on the exercise of share options in the year, albeit that those options will have been granted in previous periods. All figures include any related employer's National Insurance.

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Short-term employment benefits	9.6	8.4
Termination benefits	0.6	-
Share-based payments	0.6	0.4
	10.8	8.8

Other transactions with key management personnel

There were no other transactions with key management personnel.

27 Financial risk management

(a) Capital risk management

The Group manages its capital structure to maximise shareholder returns through its debt and equity balance, trading-off the benefits of financial leverage with the expected future costs of financial distress.

The capital structure of the Group consists of cash and short-term investments, the committed borrowing facility discussed further in note 19 - if needed - and equity attributable to equity holders of the parent (including issued share capital and reserves as disclosed in the Consolidated Statement of Changes in Equity, and in note 22).

The Board of Directors reviews the capital structure regularly, including at the time of preparing annual budgets, preparing three-year corporate plans, and considering corporate transactions. As part of this review, the Board reviews the costs and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buybacks, taking on or issuing new debt or repaying any existing debt.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are in note 2 to the financial statements.

(c) Categories of financial instruments

	26 December 2020 £m	28 December 2019 £m
Financial assets (current and non-current)		
Trade receivables	132.4	148.3
Cash and cash equivalents	430.7	267.4
Financial liabilities (current and non-current)		
Trade payables	161.0	96.4

(d) Financial risk management

General

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures. The types of risk exposure, the way in which these exposures are managed, and the quantification of the level of exposure in the balance sheet is shown below (subcategorised into credit risk, liquidity risk and market risk). The Group is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Group's financial performance.

The principles, practices and procedures governing the Group-wide financial risk management process have been approved by the Board and are overseen by the Executive Committee. In turn, the Executive Committee delegates authority to a central treasury function ('Group Treasury') for the practical implementation of the financial risk management process across the Group and for ensuring that the Group's entities adhere to specified financial risk management policies. Group Treasury regularly reassesses and reports on the financial risk environment, identifying and evaluating financial risks. The Group does not take positions on derivative contracts and only enters into contractual bank deposit or lending arrangements with counterparties that have appropriate credit ratings, as detailed in section (e) below.

Cash and cash equivalents

Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents, which is the term used in the cash flow statement, comprises cash at bank and in hand, as defined immediately above, together with any current asset investments.

Arrangements are in place to ensure that cash is utilised most efficiently for the ongoing working capital needs of the Group's operating units and to ensure that the Group earns the most advantageous rates of interest available. The prime consideration in the investment of cash balances is the security of the asset, followed by liquidity and then yield.

Current asset investments consist of UK Government Treasury Bills with an initial term to maturity of up to three months. These investments are held to maturity and, whilst of lower liquidity than cash, will ensure that the primary Group policy objective of asset security is met.

Management of trade receivables is discussed in note 17.

Notes to the consolidated financial statements continued

(e) Credit risk

The Group's principal financial assets are cash, investments, and trade and other receivables. Our main credit risk is the risk of trade customers defaulting their debts. We have a policy of only dealing with creditworthy counterparties in order to mitigate the risk of defaults.

We describe our policy on dealing with trade customers in note 17 and note 2. Trade receivables are spread over a large number of customers, and we do not have a significant exposure to any single counterparty.

We limit our exposure to credit risk on liquid funds and investments through adherence to a policy of minimum short-term counterparty credit ratings assigned by international credit-rating agencies (Standard & Poor's A-1 and Moody's P-1). However, when accounts are opened in new territories there may be instances where there is no appropriate partner which meets the Group's credit rating conditions. In such circumstances, arrangements with a counterparty which does not meet the Group's credit rating criteria can be made only at the specific approval of the Board and is subject to a maximum cash holding limit.

In addition, the Group Treasury function monitors counterparty risk through regular assessments which take account of counterparties' key financial ratios, corporate bond and equity prices together with agency credit ratings.

Our maximum exposure to credit risk is presented in the following table:

	26 December 2020 £m	28 December 2019 £m
Trade receivables (net of allowance)	132.4	148.3
Cash	400.7	218.5
Current asset investments	30.0	48.9
Total credit risk exposure	563.1	415.7

(f) Liquidity risk

Liquidity risk is the risk that the we could experience difficulties in meeting our commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient cash and investment reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 19 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Strategic Review contains a section describing the interaction of liquidity risk and the going concern review.

Maturity profile of outstanding financial liabilities

Our only outstanding financial liabilities are our trade creditors. These are capital liabilities, with no associated interest, and are payable within one year.

(g) Market risk

This is the risk that financial instrument fair values will fluctuate owing to changes in market prices. The significant market risks to which we are exposed are foreign exchange risk, and interest rate risk. These are discussed further below:

Foreign exchange risk

We are exposed to foreign exchange risk, principally as a result of operating costs incurred in foreign currencies, and to a lesser extent, from non-sterling revenues. Our policy is generally not to hedge such exposures. The exposure of our financial assets and liabilities to currency risk is as follows:

	26 December 2020 £m	28 December 2019 £m
Euro		
Trade receivables	5.5	4.5
Other receivables	2.7	2.4
Cash and cash equivalents	14.8	13.5
Trade payables	(32.9)	(18.8)
Other payables	(5.2)	(3.1)
	(15.1)	(1.5)
US Dollar		
Cash and cash equivalents	0.5	0.1
Trade payables	(0.2)	(0.1)
	0.3	-
TOTAL	(14.8)	(1.5)

Interest rate risk

The Group does not have any significant exposure to interest rate risk.

(h) Financial instrument sensitivities

Financial instruments affected by market risk include deposits, trade receivables and trade payables. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's financial instruments as at its year end to changes in market variables, being exchange rates and interest rates. The sensitivity analysis has been prepared on the basis that the components of net cash and the proportion of financial instruments in foreign currencies are all constant. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the year end date was outstanding for the whole year. As a consequence, this sensitivity analysis relates to the position as at the balance sheet date. The following assumptions were made in calculating the sensitivity analysis:

- Deposits are carried at amortised cost and therefore carrying value does not change as interest rates move.
- No sensitivity is provided for accrued interest as accruals are based on pre-agreed interest rates and therefore are not susceptible to further rate movements.
- Finance lease interest payments are fixed at the inception of the contract and are not subject to repricing. They have therefore been excluded from this analysis.
- Translation of foreign subsidiaries and operations into the Group's presentation currency have been excluded from the sensitivity.

Using the above assumptions, the following analyses show the illustrative effect on the income statement and equity that would result from reasonably possible changes in the relevant foreign currency or interest rates:

Notes to the consolidated financial statements continued

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate non-derivative instruments at the balance sheet date. The Group holds no derivative financial instruments. Fixed rate liabilities are not susceptible to changes in interest rates, and are omitted from the analysis below. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points increase is used as this represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's net profit and profit and loss reserve would increase by £1.3m (2019: increase by £0.4m).

For a decrease of 50 basis points, the current year figures would decrease by £1.3m (2019: decrease by £0.4m).

Foreign exchange sensitivity

As noted above, the Group is mainly exposed to movements in Euro and US dollar exchange rates. The following information details our sensitivity to a 10% weakening or strengthening in Sterling against the Euro and the US Dollar. These percentages are the rates used by management when assessing sensitivities internally and represent management's assessment of the possible change in foreign currency rates. The sensitivity analysis of our exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the end of the financial period, and based on the outstanding foreign currency balances at the period end. It shows their impact on the income statement.

	26 December 2020 £m	28 December 2019 £m
10% weakening of Sterling to Euro	(1.7)	(0.2)
10% strengthening of Sterling to Euro	1.4	0.1
10% weakening of Sterling to US dollar	-	-
10% strengthening of Sterling to US dollar	(0.0)	-

28 Effect of adopting IFRS 16 in the current year

The Group has adopted IFRS 16 Leases for the first time in the current period, with a transition date of 29 December 2019. This has replaced the previous lease accounting standard, IAS 17. The previous period has not been restated and is presented under IAS 17.

The nature of the Group's leasing activities, and how their accounting has been affected by IFRS 16

We lease our depot, warehouse, factory and office properties, as well as other assets such as fork lift trucks, lorries, vans and cars. Under IAS 17 these leases were all classified as operating leases and therefore were not recognised on the balance sheet. Rent payments under IAS 17 were charged to income on a straight-line basis. The Group did not have any leases which were classified as finance leases under IAS 17.

The effect of IFRS 16

Under IFRS 16 we now recognise these leases on the balance sheet, causing both our gross assets and gross liabilities to increase. The addition to gross assets represents our right to use the leased asset, and the addition to gross liabilities reflects the present value of our obligation to make future lease payments.

IFRS 16 also has a timing effect on the annual lease expense, which is no longer equal to the rent payable for that year. The total income statement charge under IFRS 16 consists of an operating charge, representing straight line depreciation on the leased asset, plus an interest charge, which will vary over the life of the lease. More interest is charged in the early periods of each lease and less interest is charged in the later periods as the outstanding balance reduces, as with interest on a loan.

Rent-free periods and cash lease incentives are recognised under IFRS 16 as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

In the cash flow statement under IFRS 16 the Group separates the total amount of cash paid for leases into principal and interest elements, both of which are presented within financing activities. Under IAS 17 operating lease payments were presented as operating cash outflows.

Adoption and transition

We have adopted IFRS 16 using the modified retrospective approach. Consequently, we have not restated the 2019 comparative figures on adoption, and we have discounted our leases using incremental borrowing rates as at the transition date.

For all our property leases and some of our vehicle leases - representing approximately 90% of our total lease commitments on adoption by value - we measured the leases on adoption as if IFRS 16 had always been applied since the lease commencement date. The remaining leases are measured as if the lease had started on the transition date.

We have elected to use the following permitted practical expedients on transition for some leases, where applicable:

- to apply the portfolio approach, using a single discount rate for a group of leases which have similar characteristics
- to use hindsight when determining the lease term
- to use the existing onerous lease provision on transition to reduce the right-of-use asset, rather than conducting an impairment review
- to exclude initial direct costs from measurement of the right-of-use asset
- to use the definition of a lease which existed under the previous accounting standard when determining if a contract contains a lease under IFRS 16
- to treat property leases as short term leases, and to expense their payments, if there is a short period between the old lease ending and the lease renewal being signed. This is explained in more detail in the accounting policy at note 2

We have not elected to use the practical expedient to not recognise low value leases on transition.

Incremental borrowing rate

Our weighted average incremental borrowing rate on adoption was 1.74%. The range of rates used for individual leases varied from 1.2% to 2.5%.

Reconciliation of IAS 17 lease commitments at 28 December 2019 to opening IFRS 16 lease liability

	£m
Non-cancellable operating lease commitments at 28 December 2019 under IAS 17	586
Cancellable commitments, excluded under IAS 17 but included under IFRS 16[1]	65
Total lease commitments on an IFRS 16 basis - before discounting	651
Effect of discounting	(83)
Opening lease liability at 29 December 2019 under IFRS 16	568

1 IAS 17 required us to analyse 'non-cancellable' lease commitments. This meant that we only included property lease commitments until the time of the first break clause in the lease. IFRS 16 requires us to include all payments where we think that we are reasonably likely not to exercise a break clause. Our default position on measurement of leases under IFRS 16, based on both our past experience and our current intentions, is to assume that we will not exercise break clauses.

Notes to the consolidated financial statements continued

Analysis of opening balance sheet adjustment

In order to help users better understand the effect of adopting IFRS 16, the following analysis shows its effect on the opening balance sheet and reserves.

		Recognise:	Derecognise:			Transfer:	
	28 Dec 2019 Under IAS 17 £m	IFRS 16 assets and liabilities £m	Prepaid rents £m	Rent-free periods and lease incentives £m	Initial direct costs £m	Property provision to lease assets £m	29 Dec 2019 Under IFRS 16 £m
Non-current assets							
Property, plant & equipment	212.4	-	-	-	(9.2)	-	203.2
Lease right-of-use assets	-	548.8	-	-	-	(0.2)	548.6
Current assets							
Trade and other receivables	193.1	-	(15.0)	(9.2)	-	-	168.9
Non-current liabilities							
Lease liabilities	-	(74.1)	-	-	-	-	(74.1)
Provisions	(9.0)	-	-	-	-	0.2	(8.8)
Current liabilities							
Lease liabilities	-	(494.1)	-	-	-	-	(494.1)
Trade and other payables	(241.4)	-	-	21.9	-	-	(219.5)
Reserves							
Dr/(Cr) to opening reserves - before deferred tax	-	19.4	15.0	(12.7)	9.2	-	30.9

In addition to the amounts shown above, the Group recognised a deferred tax asset of £3.6m on adoption of IFRS 16, and a corresponding credit to reserves.

Judgements on adopting IFRS 16

We do not consider any of the judgements applied in the adoption of IFRS 16 to be significant.

For some companies, there is significant judgement in deciding how to treat extension options and break clauses in leases, and therefore how to determine the most likely lease term at the inception of the lease.

We do not have extension options in any of our leases. We typically have break clauses in property leases, but our best assessment at the inception of a lease is that we are virtually certain not to exercise any break clauses and that the lease will run to its maximum term. We do not feel that this involves significant judgement, and this is borne out by us having no significant history of exercising break clauses in the normal course of business.

Some companies consider that there is significant judgement involved in arriving at a suitable incremental borrowing rate. We do not consider that to be the case for us as we feel that our process - which we describe as part of the accounting policy for lease liabilities at note 2 - is based on objective third-party data.

Independent auditor's report

to the members of Howden Joinery Group Plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Howden Joinery Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 26 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and company balance sheets;
- the consolidated and company statements of changes in equity;
- the consolidated cash flow statement; and
- the related Group Notes 1 to 28 and Company Notes 1 to 6.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework'.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 5 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • valuation of the UK inventory obsolescence provision; and • appropriateness of the actuarial assumptions underlying the valuation of pension liabilities Within this report, key audit matters are identified as follows: ◀▶ Similar level of risk
Materiality	The materiality that we used for the Group financial statements was £11.0 million which was determined on the basis of considering a number of different metrics used by investors and other readers of the Financial Statements. These consisted of profit before tax and revenue.
Scoping	Full audit procedures were performed over the Group's UK trading and corporate entities, consistent with 2019.
Significant changes in our approach	The basis for determining materiality was changed from profit before tax to a number of different metrics used by investors and other readers of the Financial Statements to reflect the volatility in the results of the Group arising from the impact of the coronavirus pandemic.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- testing of the mechanical accuracy of the model used to prepare the Group's going concern forecast;
- evaluating the consistency of management's forecasts with other areas of the audit;
- challenging the key assumptions within the going concern assessment including in relation to future sales projections and specifically the Period 11 peak trading period;
- obtaining an understanding of the base and reasonable worst case scenarios together with the financing facilities available to the Group, including the associated financial covenants;
- assessing the impact of reverse stress testing on the Group's cash position and covenant calculations, including the appropriateness of coronavirus and Brexit assumptions;
- evaluating the mitigating actions available to management, should these be required to offset the impact of the forecast performance not being achieved;
- challenging the sufficiency of the Group's disclosures over the going concern basis of preparation by reference to FRC guidance and the requirements of IAS 1 Presentation of Financial Statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the UK inventory obsolescence provision ◀▶

Key audit matter description	At the year end, the gross inventory balance is £289.1 million (2019: £269.6 million), of which there is a £34.1 million (2019: £37.9 million) allowance against the carrying value. Whilst the Group has retained extra stock levels to mitigate against any impact of the coronavirus pandemic and Brexit, these stock lines relate to faster moving items which under the Group's policy do not attract a provision. The scale of the Group's product range means there is significant Management judgement involved in determining the adequacy of the inventory obsolescence provision, in particular the provision percentages applied to those discontinued and slow moving inventory lines. Given the high level of Management judgement involved, we deemed this a potential fraud risk for our audit. The Audit Committee report on page 128 also refers to inventory provisioning as one of the significant issues and judgements. Further information is included in note 3 and note 16.
How the scope of our audit responded to the key audit matter	Our audit procedures included: • obtaining an understanding of relevant controls over the inventory obsolescence provision; • considering the appropriateness of the methodology used to calculate the inventory provision; • challenging the level of provision applied by Management to discontinued items by independently recalculating the provision percentages; • assessing the integrity of the underlying calculation by evaluating the accuracy of the ageing of the discontinued inventory items; • evaluating the appropriateness of the provisioning methodology by comparing the brought forward provision to utilisation in the year to assess Management's ability to forecast accurately; and • determining the completeness of the provision by assessing a sample of current stock lines for slow moving items or sales below cost to evaluate whether additional provisioning is required.
Key observations	On the basis of our testing, we are satisfied the overall provision is appropriate and is prepared on a basis consistent with the prior period.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

5.2. Appropriateness of the actuarial assumptions underlying the valuation of pension liabilities

Key audit matter description	There is a significant Management judgement involved in the assessment of the actuarial assumptions used to measure the defined benefit pension deficit of £47.7 million (2019: £56.6 million), particularly in respect of the discount rate, inflation and mortality rates applied. The valuation of gross pension liabilities of £1,641.0 million (2019: £1,485.3 million) is materially sensitive to changes in these underlying assumptions. Management has highlighted defined pension arrangements as a critical accounting judgement and key source of estimation in note 3 to the financial statements. Further information in respect of the pension scheme is included in note 20. The Audit Committee report on page 128 also refers to the valuation of the defined benefit deficit as one of the significant judgements considered by the Committee.
How the scope of our audit responded to the key audit matter	Our audit procedures included: • obtaining an understanding of relevant controls over the key assumptions used to determine the pension liability; • with the involvement of our pension specialists, reviewing the valuation report prepared by the Group's external actuaries and assessing each of the key assumptions, being the discount rate, inflation rate and mortality. We did this through comparison to available market data, our own benchmarks and by reference to the Company's accounting policies. We also assessed the appropriateness of the methodology used by the Group's actuaries to calculate the liabilities of the pension scheme. In addition, we benchmarked the key assumptions against a population of other companies as at December 2020. • considering whether, individually and in aggregate, the assumptions are appropriate. • assessing the competence, capabilities and objectivity of the Group's external actuaries, to evaluate whether they have sufficient and appropriate experience and are members of the Institute and Faculty of Actuaries. • assessing the pension disclosures in the financial statements and considered their compliance with the requirements of IAS 19 Employee Benefits.
Key observations	We are satisfied that, individually and in aggregate, the actuarial assumptions applied in respect of the scheme's liabilities are appropriate.

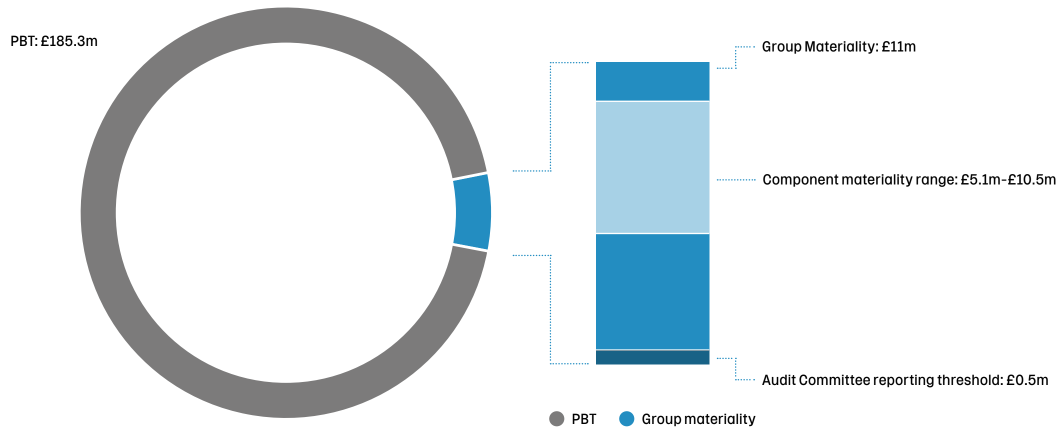
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£11.0 million (2019: £12.5 million)	£5.1 million (2019: £5.0 million)
Basis for determining materiality	We considered the following metrics: • profit before tax; and • revenue. Using professional judgment we determined materiality to be £11 million. In the prior year, materiality was determined on the basis of 5% of statutory profit before tax.	0.4% (2019: 0.5%) of net assets
Rationale for the benchmark applied	In determining our benchmark for materiality we considered a number of different metrics used by investors and other users of the Financial Statements. This approach is a change from the prior year to reflect the volatility in the results of the Group arising from the impact of the coronavirus pandemic.	The Company does not trade so materiality has been determined using net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	65% (2019: 70%) of Group materiality	70% (2019: 70%) of Company materiality
Basis and rationale for determining performance materiality	Group • our risk assessment, including our assessment of the Group's overall control environment together with the changes implemented in response to the coronavirus pandemic; and • history of prior period errors of which there were a low number of corrected and uncorrected misstatements. Company • our risk assessment and the fact the company is a non-trading investment holding company; • history of prior period errors of which there were a low number of corrected and uncorrected misstatements.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £500,000 (2019: £625,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our audit scope on the UK trading and corporate entities. All of these were subject to a full audit.

Our audit work for the UK trading and corporate entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged between £5.1 million and £10.5 million. These locations represent the principal business units and account for 97% (2019: 98%) of the Group's net assets, 98% (2019: 98%) of Group revenue and 96% (2019: 98%) of Group profit before tax for the 52 weeks ended 26 December 2020. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The UK trading and corporate entities account for 98% (2019: 98%) of Group revenue and were audited by the Group team.

At Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

7.2. Our consideration of the control environment

We have obtained an understanding of relevant controls over the key business cycles, including financial reporting, revenue, inventory, fixed assets, expenditure and pensions. In addition, we have tested relevant controls over stock existence and revenue.

Together with our IT specialists we tested controls over the revenue, inventory and financial reporting systems. We performed testing on access security, change management and network operations.

As noted on page 133 in the Audit Committee Report, the Group has commenced a key controls project to focus and further strengthen its overall control framework in light of the increasing size of the Group and increased public interest in internal control systems following the Kingman and Brydon reviews.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, in-house legal counsel and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of its policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following valuation of the UK inventory obsolescence provision. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included occupational health and safety regulations and employment legislation.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the UK inventory obsolescence provision as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and both in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 63;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 65;
- the directors' statement on fair, balanced and understandable set out on page 67;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 65;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 134; and
- the section describing the work of the audit committee set out on page 126.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the members at the Annual General meeting held on 21 June 2002 to audit the financial statements for the year ending 28 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including renewals and reappointments of the firm is 19 years, covering the years ending 28 December 2002 to 26 December 2020.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Claire Faulkner FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

London, England
24 February 2021

Company balance sheet

	Notes	26 December 2020 £m	28 December 2019 £m
Non-current assets			
Investments in subsidiaries	3	699.0	699.0
Long-term prepayments		0.6	0.9
		699.6	699.9
Current assets			
Debtors	4	44.1	2.9
Cash and cash equivalents		413.1	256.0
		457.2	258.9
Current liabilities			
Creditors: amounts falling due within one year	5	-	(27.0)
Net current assets		457.2	231.9
Total assets less current liabilities		1,156.8	931.8
Net assets		1,156.8	931.8
Equity			
Share capital	6	60.3	60.5
Capital redemption reserve		4.9	4.7
Share premium		87.5	87.5
Treasury shares		(28.2)	(29.3)
Retained earnings		1,032.3	808.4
Total equity		1,156.8	931.8

The Company profit after tax for the 52 weeks to 26 December 2020 was £233.7m (52 weeks to 28 December 2019: profit after tax of £220.4m).

These financial statements were approved by the Board on 24 February 2021 and were signed on its behalf by

Paul Hayes

Chief Financial Officer

For and on behalf of Howden Joinery Group Plc, registered number 02128710

Company statement of changes in equity

	Share capital £m	Capital redemption reserve £m	Share premium account £m	Treasury shares £m	Retained earnings £m	Total £m
At 29 December 2018	61.5	-	87.5	(32.9)	717.5	833.6
Retained profit for the period	-	-	-	-	220.4	220.4
Buyback and cancellation of shares[1]	(1.0)	4.7	-	-	(58.9)	(55.2)
Transfer of shares from treasury into share trust	-	-	-	3.6	-	3.6
Dividends declared and paid	-	-	-	-	(70.6)	(70.6)
At 28 December 2019	60.5	4.7	87.5	(29.3)	808.4	931.8
Retained profit for the period	-	-	-	-	233.7	233.7
Buyback and cancellation of shares	(0.2)	0.2	-	-	(9.8)	(9.8)
Transfer of shares from treasury into share trust	-	-	-	1.1	-	1.1
Dividends declared and paid	-	-	-	-	-	-
At 26 December 2020	60.3	4.9	87.5	(28.2)	1,032.3	1,156.8

1 The line 'Buyback and cancellation of shares' for the prior period includes a re-presentation of the cancellation of shares to retained earnings and capital redemption reserve for the shares bought back and cancelled before 29 December 2018, under which retained earnings has been reduced by £3.7m and the capital redemption reserve has been increased by £3.7m. This line also records the shares bought back and cancelled in the period ended 28 December 2019, which had an aggregate nominal value of £1m and a cost of £55.2m.

The Company's distributable reserves at period end are:

	26 December 2020 £m
Retained earnings	1,032.3
Treasury shares	(28.2)
Distributable reserves	1,004.1

Notes to the Company financial statements

1 Significant Company accounting policies

General information

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The Company's principal activity is being the parent company of the Howden Joinery Group. More information about the Group structure is given at page 192. The Company is registered in England and the Company's registered address is 40 Portman Square, London W1H 6LT.

Basis of presentation

The Company's accounting period covers the 52 weeks to 26 December 2020. The comparative period covered the 52 weeks to 28 December 2019.

Basis of accounting

These financial statements have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and the UK Companies Act.

The accounts are prepared under the historical cost convention. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement or statement of comprehensive income.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Statement of Cash Flows and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- an additional statement of financial position for the beginning of the earliest comparative period as required by IFRS 1 First-time Adoption of International Financial Reporting Standards;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of Key Management Personnel.

As the Group Financial Statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 101 available in respect of IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instruments.

Investments in subsidiaries

These investments are shown at cost less any provision for impairment.

2 Profit and loss account information

The Company has no employees (2019: none), did not pay directors' emoluments (2019: £nil), and the fees payable to the Company's auditor for the audit of the Company's annual accounts were £10,000 in both current and prior periods.

Notes to the Company financial statements continued

3 Investments in subsidiaries

	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Total £m
Cost and carrying value:			
At 28 December 2019 and 26 December 2020	262.1	436.9	699.0

Details of principal subsidiary undertakings are given on page 192.

4 Debtors

	26 December 2020 £m	28 December 2019 £m
Other debtors	0.3	0.3
Amounts owed by subsidiary undertakings	36.7	-
Other tax and social security	7.1	2.6
	44.1	2.9

5 Creditors: amounts falling due within one year

	26 December 2020 £m	28 December 2019 £m
Owed to subsidiaries	-	(27.0)
	-	(27.0)

6 Share capital

	52 weeks to 26 December 2020 No.	52 weeks to 28 December 2019 No.	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Ordinary shares of 10p each:				
Balance at the beginning of the period	604,663,861	615,436,307	60.5	61.5
Bought back and cancelled during the period	(1,800,000)	(10,772,446)	(0.2)	(1.0)
Balance at the end of the period	602,863,861	604,663,861	60.3	60.5

Additional information

Parent company and all subsidiary undertakings

as at 26 December 2020

	Country of registration or incorporation	Registered office
Parent company		
Howden Joinery Group Plc	England and Wales	40 Portman Square, London, W1H 6LT
All subsidiary undertakings		
Intermediate Holding Companies:		
Howden Joinery Holdings Limited	England and Wales	40 Portman Square, London, W1H 6LT
Howden Joinery International Holdings Limited	England and Wales	40 Portman Square, London, W1H 6LT
Trading:		
Howden Joinery Limited	England and Wales	40 Portman Square, London, W1H 6LT
Houdan Cuisines SAS	France	1 Rue Calmette, ZA Du Bois Rigault Nord, 62880 Vendin-Le-Vieil
Houdan Cuisines SPRL	Belgium	Rue Des Emailleries 4, 6041 Gosselies
Property Management:		
Howden Joinery Properties Limited	England and Wales	40 Portman Square, London, W1H 6LT
Howden Kitchens Properties Limited	England and Wales	40 Portman Square, London, W1H 6LT
Administration And Employee Services:		
Howden Joinery Corporate Services Limited	England and Wales	40 Portman Square, London, W1H 6LT
Howden Joinery People Services Limited	England and Wales	40 Portman Square, London, W1H 6LT
Dormant:		
Howden Kitchens Limited	England and Wales	40 Portman Square, London, W1H 6LT
Galiform Limited	England and Wales	40 Portman Square, London, W1H 6LT
Foreign Company Registrations:		
Howden Joinery Limited	Isle of Man	6th Floor, Victory House, Prospect Hill, Douglas, IM1 1EQ
Howden Joinery Properties Limited	Isle of Man	6th Floor, Victory House, Prospect Hill, Douglas, IM1 1EQ

The Company ultimately owns 100% of the ordinary share capital of all of the companies listed above.

Five year record

	Dec 2020 52 weeks £m	Dec 2019 52 weeks £m	Dec 2018 52 weeks £m	Dec 2017 53 weeks £m	Dec 2016 52 weeks £m
Summarised Income Statement					
Revenue	1,547.5	1,583.6	1,511.3	1,403.8	1,307.3
Operating Profit	195.7	260.0	240.1	234.4	237.2
Profit before tax	185.3	260.7	238.5	232.2	237.0
Full year dividend per share (pence) Note 1	18.2	3.90	11.6	11.1	10.7
Basic EPS (pence)	24.9	35.0	31.3	29.9	29.5
Summarised Balance Sheet					
Non-current assets excluding leases	290.7	251.7	221.4	221.3	201.6
Non-current lease right-of-use assets	544.2	-	-	-	-
Inventories	255.0	231.8	226.3	208.3	183.7
Receivables	166.6	193.1	186.0	137.8	135.9
Payables and provisions	(338.2)	(272.2)	(261.9)	(245.0)	(244.8)
Pension liability	(47.7)	(56.6)	(36.0)	(109.3)	(106.0)
Total lease liabilities	(580.5)	-	-	-	-
	(544.8)	96.1	114.4	(8.2)	(31.2)
Net cash & short term investments	430.7	267.4	231.3	241.1	226.6
Total net assets	720.8	615.2	567.1	454.2	397.0
Number of depots at end of year					
UK	748	732	694	661	642
France	28	25	20	20	20
Belgium	2	2	2	2	2
Netherlands	0	0	1	1	1
Germany	0	0	1	1	1
TOTAL	778	759	718	685	666
Capital expenditure	70	61	44	49	64

Note 1 - Dividends. In 2019, an interim dividend of 3.9p/share and a final dividend of 9.1p/share were declared, making a total of 13.0p/share. However, following the disruption caused by the outbreak of COVID in early 2020, the 2019 final dividend of 9.1p/share was not paid. In 2020 there was no interim dividend declared, but (see note 11 of these financial statements), there is a 2020 final dividend of 9.1p/share and also a special dividend of 9.1p/share, making a total of 18.2p/share.

Shareholder and share capital information

Annual General Meeting

The 2021 Annual General Meeting ('AGM') will be held at UBS, 5 Broadgate, London, EC2M 2QS on 6 May 2021 at 11:00am. Shareholders will have the opportunity to discuss Howdens' progress and operations directly with the Board at the AGM.

The notice of the AGM will be sent to shareholders at least 21 clear days before the meeting and will detail the resolutions to be voted on.

Share Capital

Issued share classes	Ordinary only (fully paid)
Voting rights at general meetings	One vote per share
Fixed income rights	None
Individual special rights of control	None
Holding size restrictions[1]	None
Transfer restrictions[1]	None

The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

Treasury shares

The Company held 5,775,230 ordinary shares in Treasury at the end of the period (26 December 2020). Shares held in Treasury have no voting rights and are used solely for the satisfaction of employee share awards.

Employee share awards

Details of employee share schemes are set out in note 25 to the Financial Statements. Shares held by the Howden Joinery Group Plc Employee Share Trust abstain from voting at the Company's general meetings.

Acquisition of the Company's own shares

During 2020, the Board responded quickly to COVID-19 by suspending shareholder returns. As a consequence, only £9.8m of shares were purchased as part of the outstanding £50m 2019 share repurchase programme. 1.8 million ordinary shares (representing a nominal value of £180,000) were repurchased in total during the year, which equated to 0.3% of the called up share capital of the Company at the beginning of the period (excluding Treasury shares). All of the shares repurchased during 2020 were cancelled.

At the AGM on 7 May 2020, the Directors were granted authority by shareholders to purchase up to 59,784,828 of the Company's ordinary shares through the market[2]. The authority expires at the conclusion of the 2021 AGM or within 15 months from the date of passing the resolution (whichever is earlier).

Substantial shareholdings

As at 24 February 2021, the Company had been notified, in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company:

Substantial Shareholder	% of total voting rights	Date of last notification
BlackRock, Inc	5.37%	December 2020

The percentage interest is as stated by the shareholder at the time of notification and current interests may vary.

1 Governed by the general provisions of the Articles of Association (which may be amended by special resolution of the shareholders) and prevailing legislation.

2 At prices ranging between 10p and the higher of (a) 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

Significant agreements

There are a number of agreements that take effect, alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these which is considered to be significant in terms of likely impact on the business of the Group as a whole is the bank facility (as described in note 19), which requires majority lender consent for any change of control.

If the lender were not prepared to consent to a change of control, a mandatory repayment of the entire facility would be triggered. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Provision for indemnity against liability incurred by a Director

The Company has provided indemnities to the Directors (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office. Neither the indemnity nor any insurance provides cover in the event that the Director is proven to have acted dishonestly or fraudulently.

Shareholder ranges as at 26 December 2020

	Number of holders	Number of shares	Percentage of holders	Percentage of shares
Corporate holders				
0 to 1,000	148	60,048	1.69	0.01
1,001 to 5,000	157	369,970	1.79	0.06
5,001 to 10,000	68	506,401	0.78	0.08
10,001 to 50,000	153	4,013,370	1.75	0.66
50,001 to 100,000	68	5,025,206	0.78	0.83
100,001 to 250,000	100	16,500,547	1.14	2.73
Over 250,000	215	569,902,492	2.45	94.25
	909	596,378,034	10.37	98.63
Individual holders				
0 to 1,000	6,551	2,259,130	74.71	0.37
1,001 to 5,000	1,106	2,600,440	12.62	0.43
5,001 to 10,000	130	947,171	1.48	0.16
10,001 to 50,000	65	1,347,745	0.74	0.22
50,001 to 100,000	4	311,989	0.05	0.05
100,001 to 250,000	1	127,352	0.01	0.02
Over 250,000	2	693,000	0.02	0.11
	7,859	8,286,827	89.63	1.37
Total	8,768	604,664,861	100.00	100.00

Corporate timetable

2021	
Trading update	29 April
Annual General Meeting	6 May
Half-Yearly Report	22 July
Trading update	4 November
End of financial year	25 December

Advisors and registered office

Principal Banker
Lloyds
25 Gresham Street
London
EC2V 7HN

Joint Financial Advisors and Stockbrokers
Numis Securities Ltd
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

UBS LTD
5 Broadgate
London
EC2M 2QS

Solicitors
Freshfields Bruckhaus Deringer LLP
100 Bishopsgate
London
EC2P 2SR

Auditor
Deloitte LLP
1 New St Square
London
EC4A 3HQ

Registrar
Equiniti Ltd
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Registered Office
40 Portman Square
London
W1H 6LT

BY APPOINTMENT TO HER MAJESTY THE QUEEN SUPPLIER OF FITTED KITCHENS HOWDEN JOINERY LTD LONDON

FSC www.fsc.org MIX Paper from responsible sources FSC® C008198

WORLD LAND TRUST™
www.carbonbalancedpaper.com
CBP006123

This document is printed on FSC® Certified Paper.
Pulps used are chlorine-free and acid-free.

FSC® – Forest Stewardship Council®. This product is made of material from well-managed, FSC®-certified forests and other controlled sources which ensures there is an audited chain of custody from beginning to end.

Designed and produced by emperor
Visit us at emperor.works

HOWDENS

Made by us. Supplied and fitted by the trade