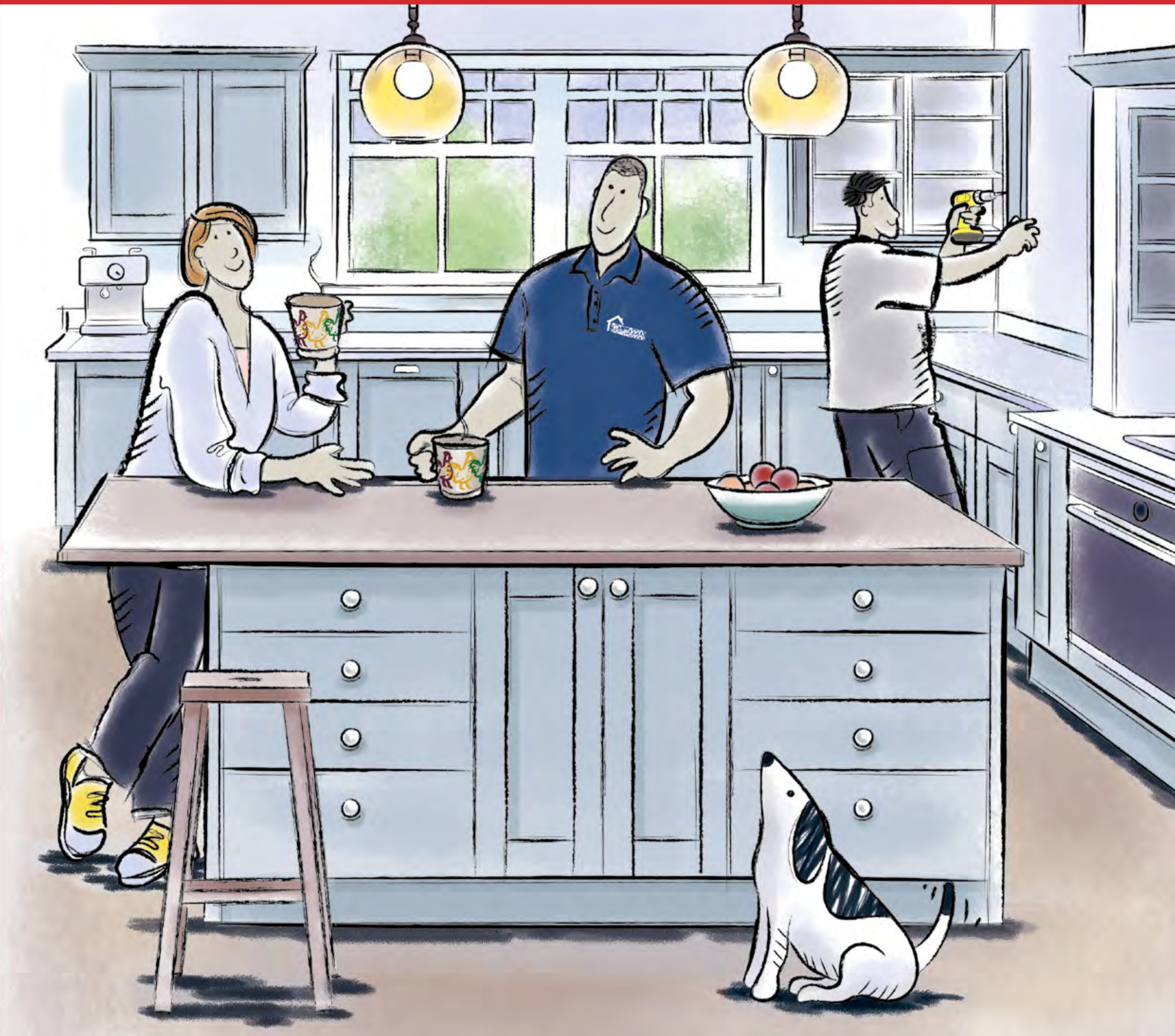
Annual Report and Accounts 2021

Howden Joinery Group Plc

HOWDENS



Available through the Trade only

HOWDENS

Howdens at a glance

The UK's largest trade kitchen supplier

1. 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

2. 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

3. We deliver excellent service across our nationwide local depot network

4. 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

5. We are worthwhile for all concerned

Outcomes

- Happy builders and end-users
- Sustainable profit growth 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

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.

Strategic report
Governance
Financial statements
Additional information

HOWDENS

Performance in 2021

Operational highlights

30 new UK depots

10 new depots in France

17 new kitchen ranges

Good progress on our ESG commitments

Making more product in our own factories

Continuing to strengthen our digital offering

"2021 was a very successful year for Howdens as we both delivered record financial results and progressed our strategic plans for the business.

Our performance demonstrates the strength of our trade-only, in-stock business model and our ability to meet heightened demand for our products."

Andrew Livingston - CEO

Financial highlights

£2.1bn
Revenue
(2020: £1.5bn)

£402m
Operating profit
(2020: £196m)

£390m
Profit before tax
(2020: £185m)

61.6%
Gross margin
(2020: 60.1%)

53.2p
Earnings per share
(2020: 24.9p)

19.5p
2021 full year dividend
(2020: 9.1p, plus special dividend of 9.1p)

£515m
Net cash at year end

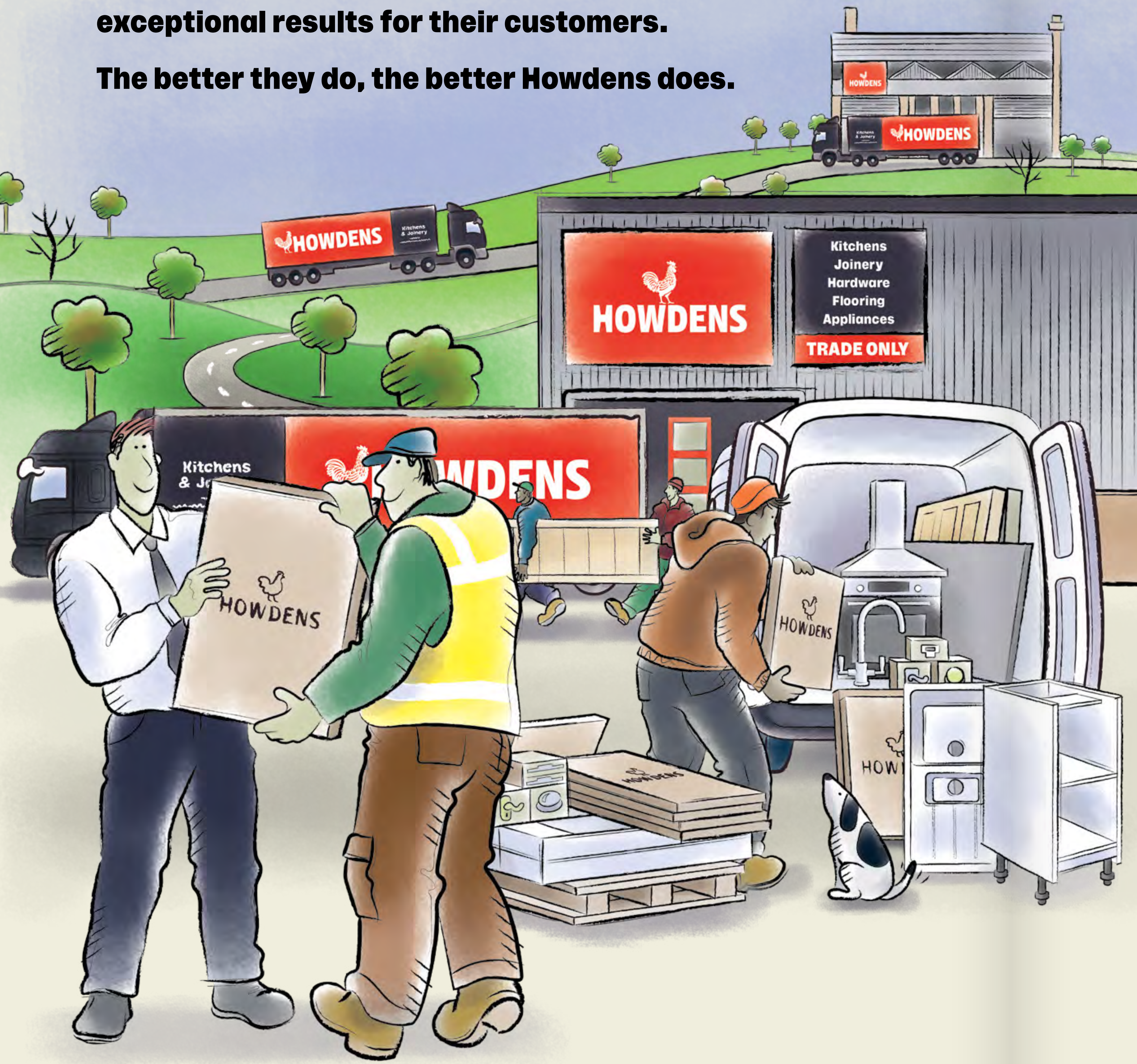
£134m
Dividends paid in year
(2020: £nil)

£50m
Shares bought back
(2020: £10m)

We make the builder's life simpler

We help our trade customers achieve exceptional results for their customers.

The better they do, the better Howdens does.



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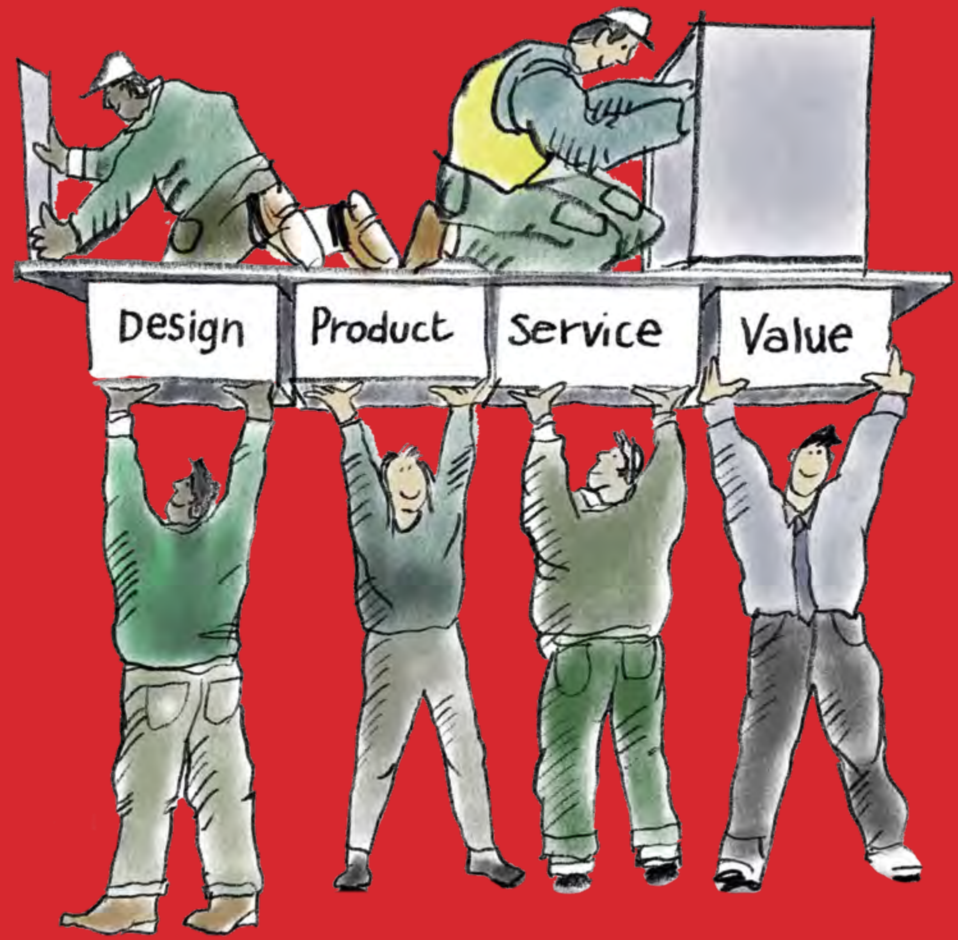
How we create value



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 10

Culture & values

Worthwhile for all concerned.

See page 11

Sustainability

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

See page 46

Governance

A clear governance framework. Operating with integrity.

See page 72

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 purpose drives our business model and shapes our strategic decisions

Strategy

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

See page 13

Business model

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

See page 14

We respond to external opportunities and mitigate threats

Markets

See page 12

Risks

See page 38

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 in 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 their kitchens.

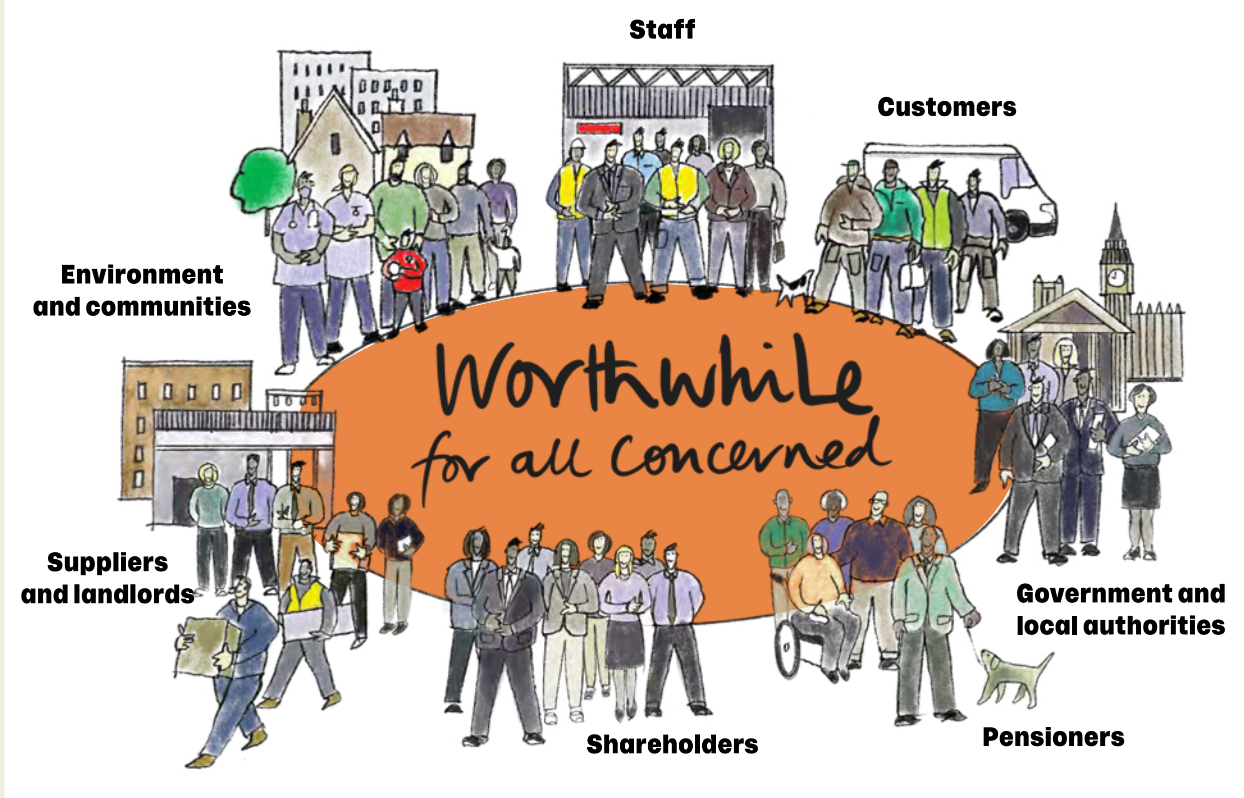
Product leadership

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 and 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 25 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 wage, plus local profit-sharing and incentives and excellent rewards and recognition for outstanding performance
- An entrepreneurial culture, with central support
- A growing company with opportunities to develop and progress. Structured career development programmes

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 with a growing dividend and return of surplus cash
- Helping end-users at each stage of their buying decision
- Important local employer and good neighbour in over 750 communities
- Giving back to local and national charities
- Responsible purchasing and environmental policies

Our market

The kitchen market

- 29 million homes in the UK. 18 million owned and 11 million rented
- The kitchen remains the heart of the home
- The market continues to shift from DIY to 'Do It For Me'
- Howdens sells to the Trade sector, who supply a broad range of markets, including owner-occupied homes, private rentals and social housing
- Our Contracts division supports the increasing demands of the new build market

Trusted by the trade

Highest Net Promoter Score® with the Trade for the past 3 years[1]

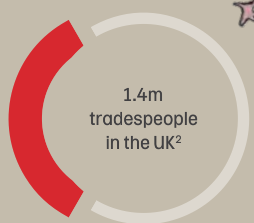
Universal Brand Awareness by the Trade[1]

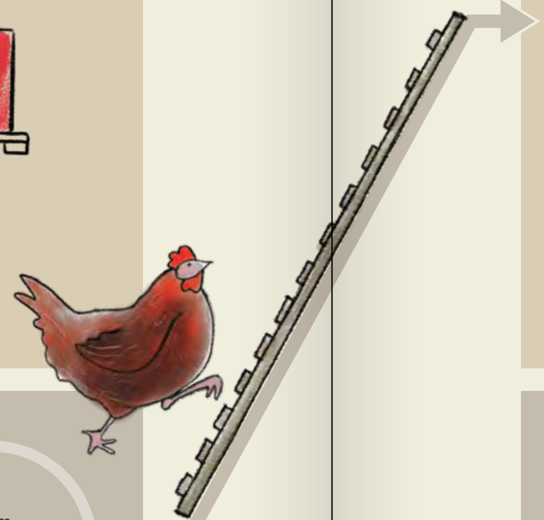
Market leaders in key metrics that are important to the Trade[1]

Growing our market

- Product to compete at all price points. Take more market share
- Continue excellent customer satisfaction with both builders and end-users
- Reach More Builders

With 450K+ customer accounts Howdens supply to 1 in 3 tradespeople. Opportunity to grow customer base further.





1 Source: Brand Tracker (Nov 2020)
2 Office of National Statistics

Our strategy

Our purpose

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

Achieved via:

Our long-term strategic objectives

Reach more builders

Grow market share. Increase trade convenience.

Operational excellence

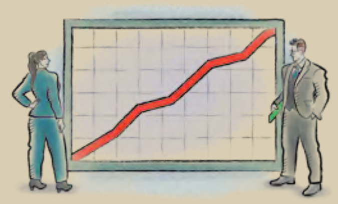
Increase customer service, efficiency, trade value and profitability.

Product innovation

The right amount of the best product, at the best price.

Prudent financial management

Giving us the tools to do the job.



Measured by:

KPIs

- Sales growth
- Profit before tax
- Cash
- Depot openings
- Health & Safety
- FSC® or PEFC certified raw materials
- Waste recycling

Underpinned by:

Our strategic initiatives

- Evolving our depot model
- Improving our product range and supply management
- Developing our digital platforms
- Expanding our international operations

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 of our own cabinets, over 4.5 million in 2021, 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 around the world, including appliances, joinery, flooring and hardware. We offer everything necessary to complete any kitchen.

Distribution

- Our in-house distribution operation delivers from our factories and central warehouses to our network of over 800 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 our 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 helping them choose, plan and design their dream kitchens.

The value we create

Customers

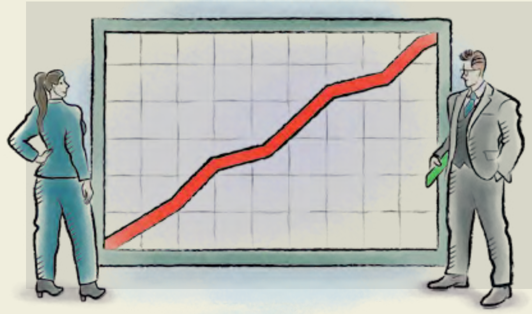
- Save time and money with Howdens. Trade quality, full product range for the complete kitchen, available from stock at competitive, confidential prices.
- Trusted personal relationships providing outstanding service, from kitchen design to delivery and aftersales support.
- Trade accounts allow the builder to finish their project and get paid by their customer before they need to pay us. Online account management and anytime ordering tools 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 profitable investment in the business and to support a growing dividend.
- Surplus cash after investment and dividends is returned to shareholders through share buybacks.

Communities and environment

- Employment opportunities and good neighbour in around 800 communities.
- Supporting local and national charities.
- Responsible ESG practices and policies.
- See our Sustainability report (page 46).

Chairman's statement

A year of significant progress and record results

"Howdens achieved exceptional financial results through satisfying unprecedented demand as the economy recovered from the lockdown phase of the pandemic."

"We maintained industry leading availability at a time when scarcity presented significant challenges to many people and businesses."

"This robust performance highlights the strength of our trade-only, in-stock, local business model, which enabled us to satisfy pent-up demand as people chose to spend more on their homes."

Richard Pennycook

Chairman

Demonstrating the strength and resilience of our business model

When a crisis strikes, people, systems and organisations are tested to the limit. The global pandemic has inflicted such tests on all of us over the past two years. For Howdens it has been a period which has highlighted the quality of our leadership team, the resilience of our business model, the strength of our balance sheet and the dedication of our colleagues. Or to put it more simply - the power of our culture. Despite the significant challenges of the pandemic, we have kept our trade customers operating and in turn they have been able to continue to provide critical services keeping millions of homes and businesses functioning. Our overriding priority has remained the health and safety of our colleagues and other stakeholders.

If 2020 was all about crisis management, 2021 was about positioning the business to be a long-term winner once recovery starts, whilst at the same time handling the ongoing challenges of COVID-19 restrictions. Your Board is pleased to report that the Company achieved exceptional financial results through satisfying unprecedented demand as the economy recovered from the lockdown phase of the pandemic. We maintained industry leading availability at a time when scarcity presented significant challenges to many people and businesses. This robust performance highlights the strength of our trade-only, in-stock, local business model, which enabled us to satisfy pent-up demand as people chose to spend more on their homes.

Financial performance and strategy

2021 was an outstanding year for Howdens with the Group achieving record financial results. Overall, 2021 revenue was up 35.3% compared with 2020, and 32.2% ahead of 2019, with gross margins 150 basis points ahead of 2020 at 61.6% (2020: 60.1%) but still 70 basis points behind 2019 (2019: 62.3%). This was an encouraging performance as we appropriately balanced mix with significantly higher overall volumes. We were particularly pleased with margin in the second half, when we were able to pass on the inflationary pressures seen in the supply chain and of course benefited from our vertical integration.

Profit before tax was £205.0m ahead of last year at £390.3m (2020: £185.3m; 2019: £260.7m). This exceptional performance reflected strong market demand and our excellent response to logistical and supply chain issues brought about by COVID-19 and Brexit, which caused product shortages elsewhere in the industry. Earnings for the year were 53.2p per ordinary share, an increase of 113.7% on the prior year and up 52.0% on 2019 (2020: 24.9p; 2019: 35.0p). Strong cash generation remains one of the great hallmarks of this business and we delivered another good performance despite investing in additional inventory to ensure high levels of stock availability for our customers. Further details of our operational performance can be found in Paul Hayes' Financial Review starting on page 32.

This year we have also remained firmly focused on executing our organic growth strategy at pace under the leadership of Andrew Livingston and his team. The pandemic has confirmed to your Board that our strategy is the right one and we continue to invest in deeper vertical integration, depot expansion in the UK and France, and product innovation. You can read more about our progress on many fronts this year in Andrew's statement, starting on page 20.

Capital allocation and returns to shareholders

Our approach to capital allocation has primarily focused on achieving sustainable profit growth by investing in and developing our vertically-integrated business. We also want to maintain and grow our ordinary dividend in line with earnings growth, to reward shareholders with an attractive ongoing revenue stream. Howdens has an appropriately prudent risk appetite towards balance sheet management, which was a significant strength as company balance sheets were placed under pressure during the early stages of the pandemic. After allowing for these uses of cash, we remain committed to returning any surplus capital to shareholders.

Within its definition of surplus capital, the Board believes it is appropriate for the Group to be able to operate through the annual working capital cycle without incurring bank debt. There is seasonality in working capital balances through the year, particularly in advance of our peak trading period in the second half. We also take into account that the Group has significant property lease exposure for the depot network, and a large pension scheme that has only recently moved into a surplus (on a technical provisions basis).

This prudent approach has been borne out over the past two years with the balance sheet being a source of great strength through the challenges of the pandemic. While in the crisis phase of COVID-19 the Board took decisive action to conserve capital, but as markets have recovered we have progressively reinstated our capital priorities including the return to paying dividends in 2021 and the return of surplus capital in the second half year. These returns were only made after having repaid all Government support received early in the pandemic.

The Board has reviewed its capital allocation policy considering the current economic environment to ensure it is clearly defined and retains a disciplined approach to enhance shareholder value. This prioritises our strategy of continuing to invest in depots, manufacturing and logistics capabilities and related strategic investments, while delivering a progressive dividend. Our policy will be that where year end cash is in excess of £250m we expect to return surplus cash to shareholders, which provides sufficient headroom to support organic growth, our working capital requirements and ongoing investment in our strategic priorities. At this level of cash, the balance sheet will remain strong with a leverage of approximately 0.7x EBITDA after taking into account lease liabilities.

HOWDENS

Chairman's statement continued

On this basis, we have announced a further £250m share buyback programme which we aim to complete over the next 12 months. This is in addition to the £50m share buyback programme announced with the half-year results and completed during the second half of 2021.

During 2020, no interim dividend was paid, but a final dividend of 9.1p per ordinary share and a special dividend of 9.1p per ordinary share were paid in June 2021 in respect of 2020. Taking into account the Group's continued excellent prospects and strong financial position, in July 2021 the Board declared an interim dividend of 4.3p per ordinary share. The Board is recommending a final dividend for 2021 of 15.2p per ordinary share, giving a total 2021 dividend of 19.5p per ordinary share. The final dividend will be paid on 20 May 2022 to shareholders on the register on 8 April 2022.

Governance

One of my key responsibilities as Non-Executive Chairman is to ensure good corporate governance for Howdens. The business 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 strong trading performance this year has been underpinned by governance practices which give the business the resilience to prosper even in challenging times and to preserve the value it creates. It would be easy to assume that this resilience was inherent within the business, given its healthy and strong culture, but that is not necessarily the case. There is no place for complacency in any business, and your Board focuses closely on clarity of accountabilities and reporting lines, careful planning, and relentless execution. While our meetings during 2021 inevitably focused on the impacts of the COVID-19 crisis and the health and wellbeing of our employees and customers, much of the Board discussion this year was also about ensuring resilience in many aspects of our business and the clarity of our long-term strategy. You can read about our progress in the Governance Report beginning on page 72.

Sustainability

In addition to COVID-19, an overarching theme for 2021 has been sustainability. Businesses and individuals have been challenged to consider the sustainability of their behaviours to try and prevent irreversible climate change and to address the social inequities that we face.

The opportunity to have a positive impact on our environment is a key component of our growth plans. The only way we can continue to grow in a way that supports our business, mitigates our risks and addresses the needs of our stakeholders, is to ensure our sustainable behaviour and attitude remains embedded in our business model. We describe Howdens as being 'worthwhile for all concerned' and 'creating the conditions for everyone to succeed' and this means our business needs to be worthwhile for our people, our customers, our suppliers, the environment and the communities we work in.

Following the Group's strategic review of its ESG priorities in 2020, good progress was made against our four key commitments during 2021. We are significantly ahead of our plan to eliminate waste to landfill and were pleased to be one of the first companies in the UK to achieve carbon neutrality in our manufacturing operations. We have also made significant progress toward full adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for the first time, one year ahead of requirement.

Each of our depots represents a place in a local community and our people are encouraged and empowered to participate in community life. In 2021, the Group donated around £2.0m to good causes.

You can read about our progress this year in our Sustainability report on starting on page 46.

"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 people

Howdens' strategy will only be successful if we continue to invest in and develop our people. We are committed to their development at all levels of the organisation and have an ambitious training and skills agenda commensurate with the social mobility we foster through our progressive and meritocratic working practices. Much of our training this year through necessity has taken place online due to COVID-19 but we rose to the challenge by delivering fives times more online training sessions than in 2020.

A key priority is developing the next generation of Howdens' people and we currently have over 570 apprentices working in a range of tailored programmes throughout all areas of our business. We recruited over 250 new apprentices in 2021 and we are pleased to celebrate the success of over 150 employees who successfully completed their training programmes this year. You can read more about our progress in the people section of the Sustainability report starting on page 46, and in Andrew's Statement.

Further reading

See my introduction to our Governance report	**Page 74**
See our Sustainability report	**Page 46**
See our Board of Directors	**Page 76**

Looking ahead

Howdens made excellent progress last year on many fronts despite considerable challenges. We have an attractive business model and a clear growth strategy which, coupled with a strong balance sheet, positions us well for sustainable growth in 2022. We recognise that for the time being uncertainty is likely to remain in some of our markets, but consider ourselves well placed to outperform in the years ahead.

We announced in February that I will retire as Chairman in September 2022, consequently this will be my last statement as Chairman of Howdens. This aligns with the Company's Board succession plan and good governance practice, including the UK Corporate Governance Code requirement for a Chair to step down after nine years on the Board.

It has been a privilege to serve this very fine Company, which represents everything that British business should be. I am extremely proud of our 11,000 people who have again stepped forward in often difficult personal circumstances to deliver these record financial results. On behalf of the Board, I would like to thank them for their passion, commitment and hard work - they are what makes Howdens special.

Richard Pennycook
Chairman

23 February 2022

Chief Executive's statement

2021 was a very successful year for Howdens as we both delivered record financial results and progressed our strategic plans for the business.

- **Our performance demonstrates the strength of our local, trade-only, in-stock business model and our ability to meet heightened demand for our products.**
- **We continue to invest in our depot network, market-leading products, in our manufacturing and supply chain and our digital capabilities, all of which improve service to our customers and will help us take advantage of market opportunities.**

Andrew Livingston
Chief Executive Officer

Perspectives on 2021 results

Howdens has delivered a very strong performance in 2021, reporting record sales and profits for the year during a period of exceptional trading conditions.

UK sales increased significantly on 2019 and more so versus 2020 when first half trading was materially impacted by the onset of the 'Spring Lockdown' at the start of the second quarter. The increase in sales versus 2019 trended upwards across the year and UK sales passed the milestone of £2 billion for the first time.

Our profitability improved, with Group profit before tax versus 2019 increasing at a higher rate than revenues and our gross margin exceeded that reported for 2020 as we mitigated input cost pressures with disciplined pricing.

We made good progress on our strategic plans both for the UK business and for our international operations, which delivered a strong performance.

We have moved our ESG agenda forward and I am pleased to report that our factories in Howden and Runcorn both achieved carbon neutral status in 2021. In respect of waste reduction, we achieved 99% depot waste avoiding landfill across all UK depots, versus 60% in 2019, having reached zero waste to landfill in our manufacturing and distribution facilities in 2020.

The business delivered strong cashflow and we continued to maintain a robust balance sheet. This has given us the flexibility both to invest in our growth plans for the business, and at the same time provide shareholders with enhanced cash returns in the form of an increased final dividend and a £250m share buyback programme.

Importance of our business model

These results demonstrate the strength of our local, trade-only, in-stock model, which has helped us to be there for our customers during a period of heightened demand.

A strong product line-up, high stock availability and a very engaged team together with the ongoing investments in our strategic initiatives, including digital, have all contributed to our record performance in 2021, as have the measures we took in 2020 to support our customers, who on average have spent more with us, and we ended the year with a record number of customer accounts.

We serviced heightened demand, without compromising overall service levels and benefited from the extended delivery times amongst our competitors.

We believe our customers have an even greater level of trust in our own capability to have the right product available as and when they need it. The feedback we are getting from our regular Builder Forums also cites many examples of how we are there for customers, not only on stock but also on service generally, which helps them run their businesses.

Feedback on the new features we added to our digital platform has been very positive. These features amongst other things help customers, who have been very busy this year, to save time and money.

We also increased prices, which helped us mitigate the significant rises in input costs which we have seen over the year. As well as protecting gross margin, we delivered a significant rise in volumes in the year.

In 2020, we flexed our traditional 'P11' sale period, when sales are typically more than double those of other periods, across both Periods 10 and 11 for the first time and we did so again in 2021. This approach helps builders book in more kitchen fits over a longer period, benefits supply chain management and helps our depot teams to service demand. Our teams in turn were incentivised for performance in each of P10 and P11 and for the periods combined.

Sales across Periods 10 and 11 exceeded those initially targeted by the business with both periods returning record results and relatively more sales accruing earlier in the two periods combined. In the final two periods of the year the business continued to perform very well against tough comparators and we have made an encouraging start to 2022.

In 2021 we successfully navigated the dual challenges of sharp rises in demand and the well-publicised stock shortages in many markets and our product categories.

I'm extremely grateful for the efforts of everyone across the business in 2021 and very proud of what the team has delivered, including the attitude and approach to health and safety which everyone has taken. In 2021 we moved and processed a record volume of goods, in no small part thanks to the efforts to keep safety awareness high.

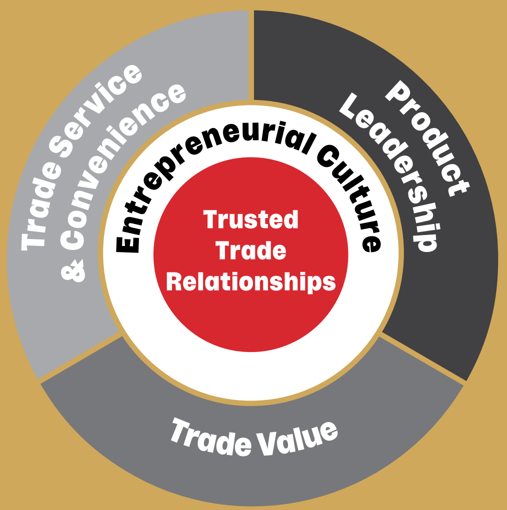
We are well positioned in the current marketplace and for the future and we have initiatives in place to further strengthen our market position.

Chief Executive's statement continued

Update on strategic initiatives

Fully aligned with our trade-only focus and entrepreneurial culture, and based around our core building blocks of Service & Convenience, Trade Value and Product Leadership, these are:

1) Evolving our depot model
2) Improving our product range and supply management
3) Developing our digital platforms
4) Expanding our international operations



1) Evolving our depot model

High service levels, including local proximity and immediate availability are very important to our customers and we have continued to extend our UK depot footprint in 2021.

We are opening all new depots in our updated format which is designed to provide the best environment in which to do business and to make space utilisation and productivity gains in a cost-effective way, by using vertical racking in the warehouse section of the depot.

In 2021, we opened 31 new depots, up from the 16 opened in 2020. We now believe there is potential for at least 950 depots in the UK, including c.25 in Northern Ireland, and we plan to open around 25 new depots in 2022.

We have also continued with our revamp programme for existing depots, concentrating on our older estate where the largest incremental sales uplifts are expected. The programme is delivering additional sales and has received very positive feedback from depots and customers.

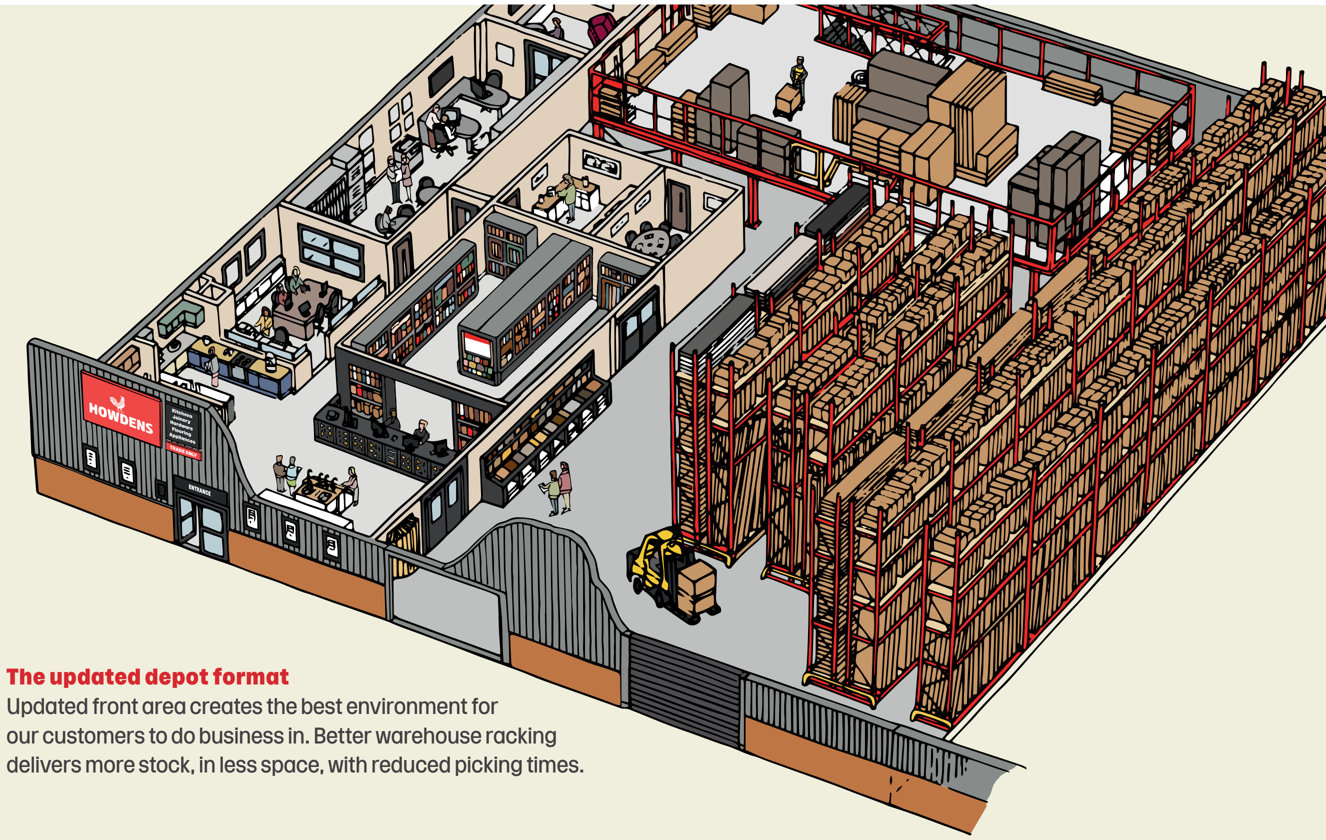
During the year, including relocations, we reformatted a total of 62 depots, taking the total number of revamped depots to 103 at the year-end.

The scale and scope of the revamps has been refined, with an average cost per depot of circa £225,000 going forward with an average payback of less than 4 years.

Including relocations, we plan to reformat around 70 more depots in 2022 and to re-rack the warehouses of a further 35 sites without other modifications at that time.

At the end of 2021, we had 210 UK depots trading in the updated format and we expect to end 2022 with around 305, having also re-racked the warehouses of a further 133 depots without other modifications. By the end of 2022, such depots, in aggregate, will represent around 55% of our UK estate.

"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"



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) Improving product range and supply management

Range management

As product lifecycles shorten, managing the number of kitchen ranges efficiently is crucial for both our customers, who want best availability, and for profitability.

We are managing range introductions and clearances so that our 2022 current range count is around 80, organised in nine families. New products for 2021 featured 17 new kitchen ranges with total sales well ahead of 2020 and 2019.

We are now placing greater emphasis on building out our share of higher priced kitchens where we have been historically under-represented. Such kitchens contributed more to our kitchen mix by volume in 2021, in a year in which sales and volumes across all price bands increased. feature in our new kitchen line-up for 2022 and we have been able to bring these more proven new kitchen styles to market more quickly.

New product for 2022 features 20 new kitchens.

Features of our 2022 new product introductions will include:

- launching new products across entry level kitchen ranges, which have traditionally been our strongest performers, by adding new ranges in both modern and shaker styles including the introduction of our new entry priced smooth shaker kitchen family Witney, which is available in three matt colours;
- introducing more higher-priced kitchens, including adding new colours for our timber shaker families introduced last year; and launching a new builder-friendly 'in-frame' solution, a look often associated with high street independents; and
- refreshing our most successful families with new market leading colours.

Chief Executive's statement continued

Update on strategic initiatives continued

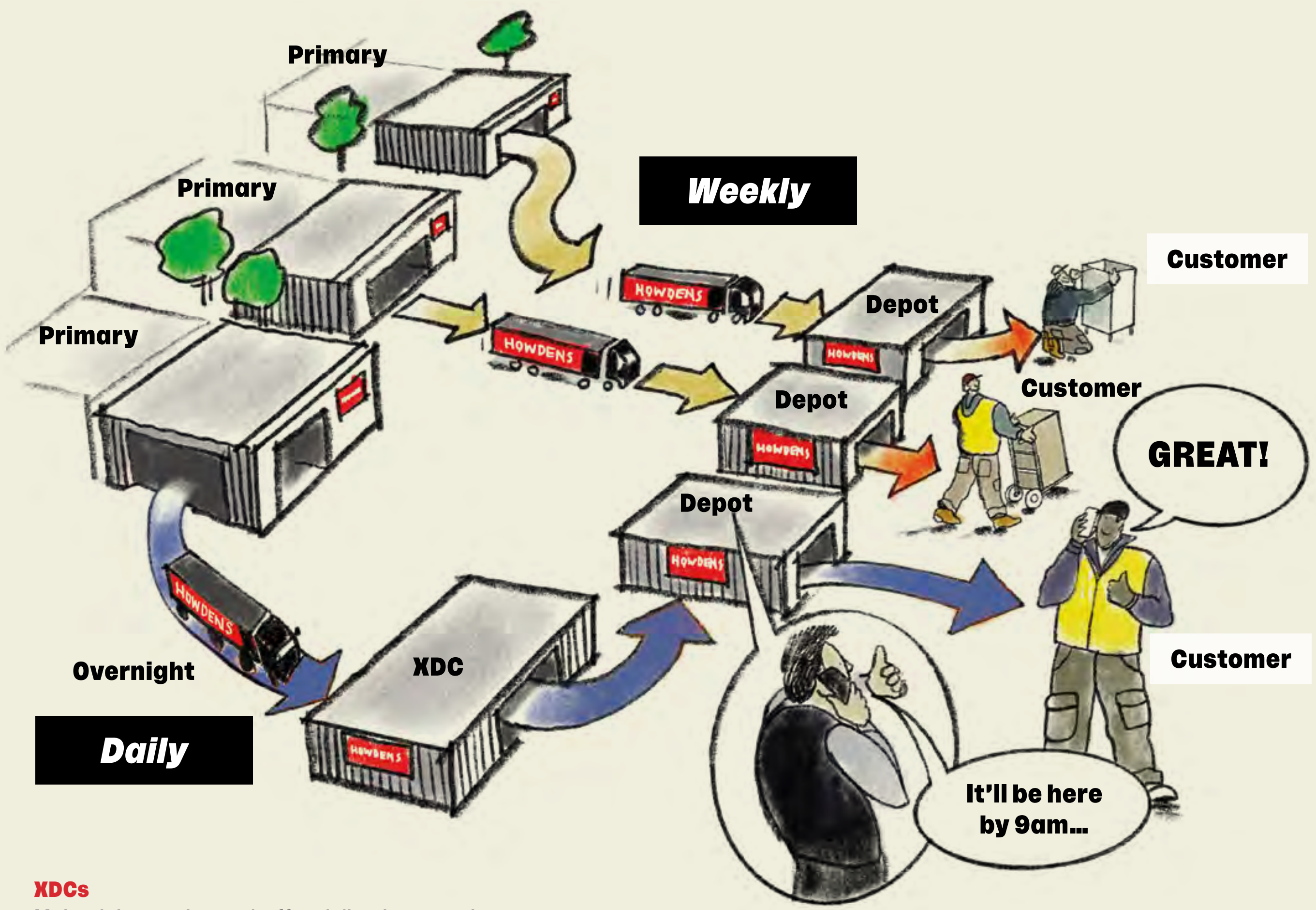
Regional cross-docking centres ('XDCs')

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

In 2020 we initiated a programme to make an improvement to stock replenishment via XDCs. We know that our customers value our high levels of stock availability and XDCs improve stock replenishment by supplementing depots' core weekly deliveries with a daily top-up service. This improves the service levels they can deliver to customers and frees up more time and resources to focus on sales and service reducing the need for inter-depot stock transfers.

This year we have significantly increased the number of depots serviced by XDCs and feedback from depots and customers using the service has been very positive. By rebalancing where we hold stock and changing the delivery pattern of some lines to depots, depots can allocate more warehouse space to faster selling lines and can reduce stocks of slower moving lines while providing a high level of service across the product range.

By the year end, we had 6 XDCs operating in the UK with the service available to around 400 depots, up from 120 at the end of 2020. We plan to roll out the XDC service to all our depots during 2022, taking the number of XDCs to 12 in total.



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

"We keep under review what we believe it is best to make or buy, balancing cost and overall supply chain availability, resilience and flexibility"

Manufacturing and supply chain

Our dedicated manufacturing and supply chain is critical to the success of our in-stock offer.

We supply all product, whether manufactured or sourced, to all depots, each of which have individual and changing day to day requirements.

In 2021 we continued to hold 'safety' stock as a contingency against unexpected demand patterns and interruptions to supply and we are utilising multi-modal freight routes to ship in-bound goods and materials where appropriate.

Last year we broadened the range of products we protect in this way and increased the number of weeks cover we have on some lines.

In 2022, we will continue with our policies on safety stocks to support our customers.

We keep under review what we believe it is best to make or buy, balancing cost and overall supply chain availability, resilience and flexibility.

In 2019, investment in manufacturing technology enabled us to make the kitchen frontals for our popular Hockley kitchen ranges. We then committed to further investment to make frontals for more of our kitchen ranges, at the same quality as we can source externally but at a lower cost and at a reduced lead time to delivery.

We expect the new frontal lines located at our Howdens site to be operational in the second half of 2022. Our second architrave and skirting line is scheduled to be completed in July 2022, enabling us to service in-house more of the substantial increase in demand we have seen for these products.

We are also upgrading our bespoke solid surface worktop capabilities, which is a growing segment of the market, supporting our aim of increasing our share of the higher-priced segment of the kitchen market.

We first partnered with three fabrication companies to develop a design, template and fit capability and then acquired the assets of a solid surface fabricator which we branded as Howdens Work Surfaces ('HWS').

We have subsequently been investing in expanding HWS's capacity and, to support this further, in February we acquired Sheridan Fabrications Ltd, a leading industry specialist for the manufacture, fabrication, laser templating and installation of premium worksurfaces.

The acquisition increases our manufacturing capacity and will lead to lower installation costs, with associated margin benefits. The business is based in Normanton, West Yorkshire and employs around 200 people.

We intend increasing the scale and scope of our manufacturing operations at Howden and plan to reconfigure the site so that it is dedicated primarily to manufacturing.

To support continued growth plans we have acquired 5 acres of land and, subject to detailed planning, we are committed to acquire an additional 20 acres of land to extend our factory at Howden, East Yorkshire.

In particular, we will increase the manufacturing capacity for cabinets with new panel machining and rigid assembly lines and a new machining line for shaker doors.

With this investment, we plan to have the capability to manufacture kitchen doors for most of our ranges and we expect that the new lines will be operating by early 2025. At the same time, we will retain the benefits of sourcing from external suppliers, who will continue to provide around half of our kitchen frontals.

We also plan to invest in a new, purpose-built warehouse and distribution near the Howden site and once built, both the picking and dispatch will migrate there. This will enable the Howden site to be dedicated primarily to manufacturing, allowing it to flow and operate more efficiently, with room for further expansion if needed.

Chief Executive's statement continued

Update on strategic initiatives continued

3) Developing our digital platforms

Our digital strategy reinforces our model of strong local relationships between depots and their customers by raising brand awareness, and further supports the business model with new services and ways to trade.

It also frees up time for depot staff and customers to use more productively.

In 2021 we have seen increased activity on our web platform and growth in our social media presence.

'Impressions' were present in 28% more organic search results a month with site visits at 24 million, 11% ahead of last year. The time users spent looking at pages increased by 20% and the number of pages viewed per session was up 11%.

Across our social media sites our follower base was c.400,000, up 49%, with our monthly reach up 34% and 1.3m users actively engaging monthly.

Take-up and usage of online account facilities which enable our trade customers to manage their accounts and make payments at any time, continues to increase.

New account registrations exceeded 100,000 for the year and the service is being used across the week, both in and out of hours on average twice weekly per account. Payments made per account increased 70%.

In February 2021, 'Anytime Ordering' was launched, providing efficiencies for depots and customers alike.

Developed with input from customers, features of the service include enabling account holders to see their confidential prices, order product and quote for individual jobs out of hours. There is also a scheduler for customers to select a collection depot and pick-up time of their choosing and we have seen average weekly logins on our trade platform increase by 160%.

In Autumn 2021, we launched new search functionality on www.howdens.com to help our customers with both improved product search and extended search results to connect to documents and other features.

We have also invested in capabilities which help end users interact with Howdens online at each stage of their buying decision.

For example, at the turn of the year, we launched 'Real Kitchens' which utilises user generated content to showcase Howdens' kitchens in peoples' homes. Image views were 17.2 million in 2021 and this content is being used both by consumers and our designers to streamline the buying and design process.

"We have made an encouraging start to 2022 and we are confident in our resilient business model across changing market conditions"

4) Expanding our international operations

In 2019 we refocused onto a city-based approach in France serving solely trade customers. The business' performance has been encouraging and has given us confidence to accelerate our investment in more depots in this region.

Revenues of €58.4m were 37% ahead of 2020 and 54% ahead of 2019.

We believe appreciation of the advantages of our trade-only, in-stock model with our high service levels and competitive pricing is growing and our account base grew by 37% in 2021.

We opened 10 depots in France in 2021, ending the year with a total of 40 in France and Belgium and we plan to expand our footprint to 60 depots by the end of 2022, 40 being located in the Paris area.

In 2022, we will also be opening for business in the Republic of Ireland.

As in France we will be using a 'city-based' approach which fits the population distribution of the region.

Initially we will test the model with 5 depots around Dublin, and we expect all of these to be open by June 2022.

The depot teams will be supported by our UK infrastructure and the Group's digital platform.

Prospects for 2022

We are well planned on our strategic initiatives which are aimed at increasing our market share profitably.

High stock availability was a major contributor to our performance in 2021 and in 2022 we will continue with our policies on safety stocks across the board, including heightened emphasis on stock manufactured at Howdens.

20 new Kitchen ranges will be on sale by mid-June, and we have a programme of 'Rooster' promotions in place to keep Howdens front of mind.

Howdens Work Surfaces will be rolled-out to all regions, backed by recent investment.

We will continue to invest in key capabilities including in **improvements to service and availability** by utilising XDCs and we are increasing the range of services and functionality we offer online.

We will be **manufacturing more in the UK**, as our investments in our new kitchen door and skirting capabilities come on stream and Howdens Work Surfaces is rolled out.

During 2022, we plan to open circa **25 depots in the UK and refurbish around another 70** existing depots to the updated format.

In France we plan to have around 60 depots trading by the end of 2022, **and we are opening for business in the Republic of Ireland.**

Chief Executive's statement continued

We have made an encouraging start to 2022 and we are confident in our resilient business model across changing market conditions.

We are currently offsetting inflationary pressures through price management and cost control, underpinned by our service-led business model and the scale of our manufacturing and sourcing operations. Sales in our first two periods have continued to advance versus comparable periods in 2021.

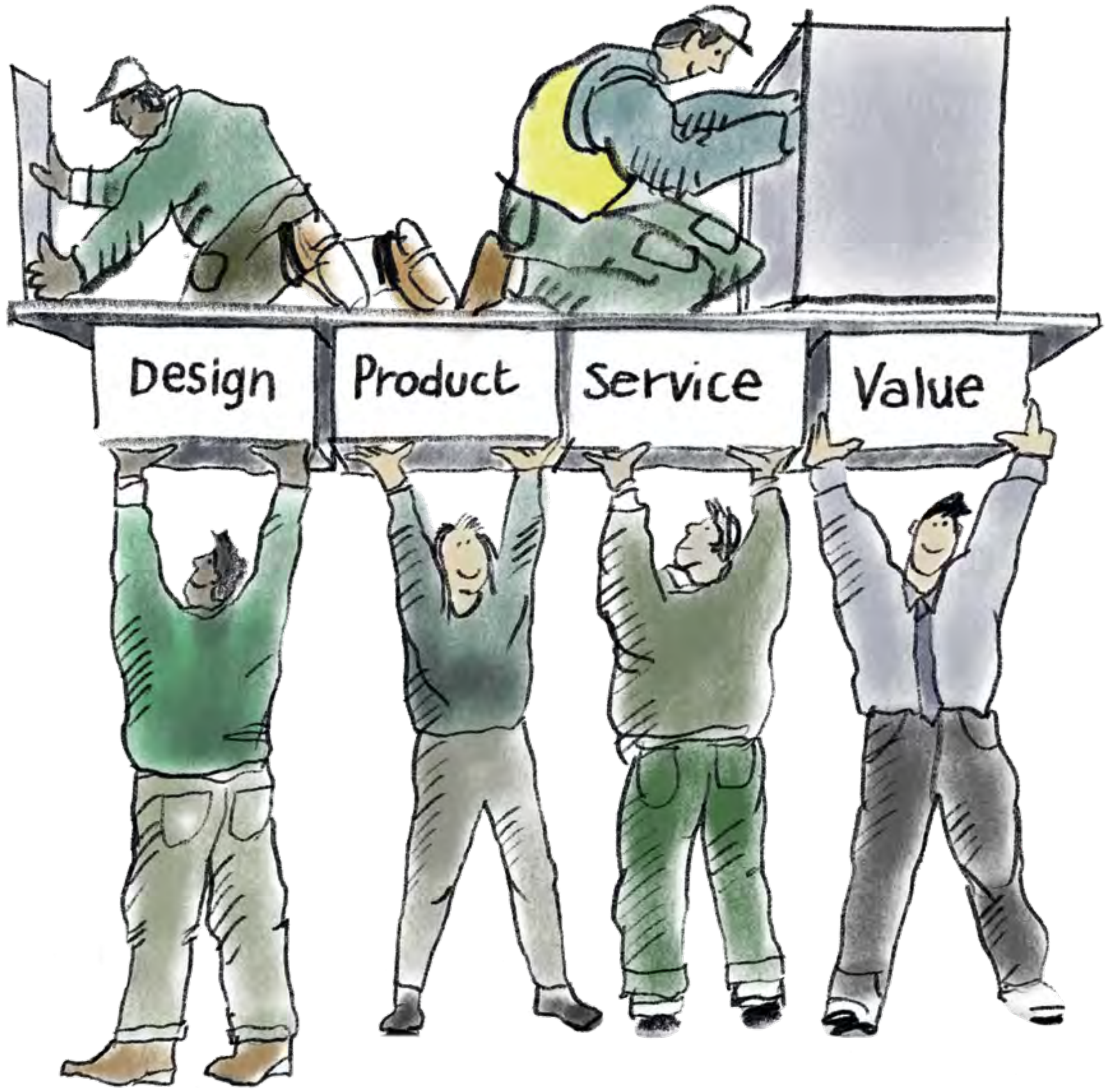
The number of surveys we are doing, and the value of our lead bank suggest our customers remain busy at present.

We are expecting further significant rises in input costs and are mindful of the challenges these, together with general inflationary pressures and macro-economic uncertainties may present to our sales volumes and profitability as the year progresses and we are up against record comparators, including for our peak trading periods, following a year of heightened demand for our products in a market characterised by shortages and extended lead times to delivery amongst our competitors.

However, we have, at present, the momentum for another successful year in 2022 and the plans in place to deliver one.

Andrew Livingston
Chief Executive Officer

23 February 2022



Key performance indicators

Links to:

Strategy | Risk | Remuneration

Financial

Sales growth

Why we measure it

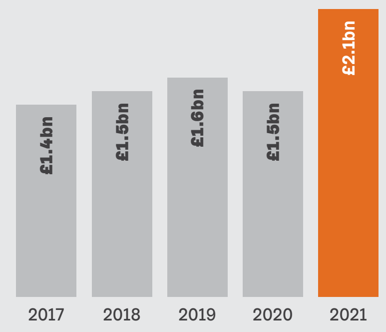
We believe that there are considerable opportunities to grow sales. As sales grow, we believe there are economies of scale which will also allow us to grow long-term profitability.

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

We have made good progress, and were pleased to see total Group sales of £2.1bn in 2021, up 35.3%.



Profit before tax

Why we measure it

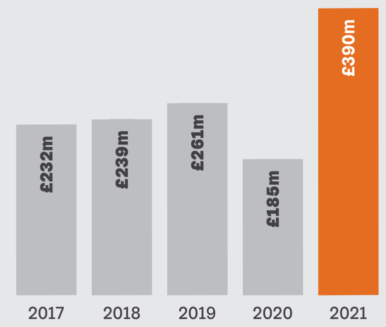
Profit before tax is a simple and widely understood measure. We consider that it gives a complete picture of our performance as it includes all of our operating, selling and distribution, admin and financing expenses.

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

Profit before tax increased by 110.6% in 2021 to £390m, representing good progress.



Cash

Why we measure it

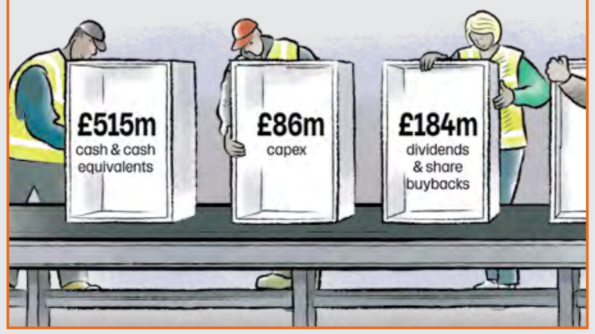
We aim to cover our investment needs, to retain at least one year's working capital requirement, to pay a progressive dividend and to return surplus cash to shareholders (see page 34 for more details).

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

We are pleased with our progress. We have continued to invest for future growth and have also returned £184m in dividends and buybacks.



Key performance indicators continued

Links to:

Strategy Risk Remuneration

Non-Financial

Depot openings

Why we measure it

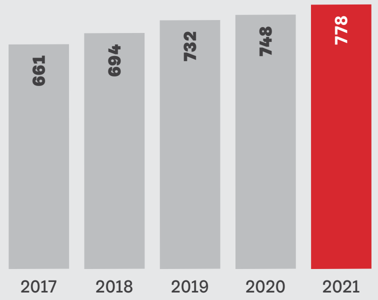
We believe that there is some way to go before the UK market is saturated. We continue to identify possible sites for new depots whilst at the same time keeping our model flexible, and allowing us to take account of economic conditions and phase the speed of our growth accordingly. We plan to expand our depot network in France and will be opening in the Republic of Ireland in 2022.

Links to strategy, risks and remuneration

Reach more builders. Failure to maximise growth potential. Deterioration of model & culture.

Progress

We ended 2021 with 30 more depots in the UK and 10 more in France, in line with our plans. We plan to continue to expand our network in 2022.



Health & Safety

Why we measure it

We have around 11,000 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

Regrettably our rate of RIDDOR-reportable injuries increased from 2020 to 2021. We are taking actions to address this. See page 60 for more detail.

Use of FSC® or PEFC certified materials

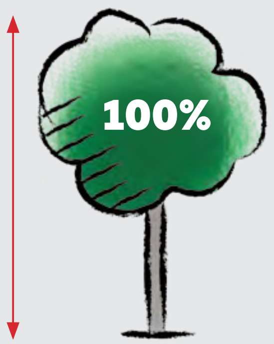
Why we measure it

We use almost a third of a million cubic metres of chipboard and MDF in our factories. FSC® and PEFC are the two main certification bodies. Ensuring that all our MDF and chipboard is certified by them gives us assurance over their provenance. See page 62 for more details.

Links to strategy, risks and remuneration

Product innovation. Product relevance. Continuity of supply.

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



Non-Financial

Production waste recycling

Why we measure it

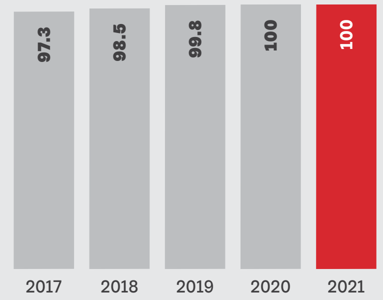
One of the pillars of our business model is our efficient production, which gives us a significant cost advantage. Recycling as much of our waste as we can benefits stakeholders as it reduces our emissions and our costs.

Links to strategy, risks and remuneration

Operational excellence. Prudent financial management.

Progress

We are pleased to maintain the result that 100% of our production waste was reused recovered or recycled. See page 64 for more details.



Financial review

- Good progress on strategic initiatives
- Record growth in revenue and operating profit
- Strong cashflow with investments in inventory
- 19.5p 2021 full year dividend and £250m share buyback programme announced

Paul Hayes

Chief Financial Officer

Financial results for 2021[1]

Revenue

Total Group revenue of £2,093.7m was ahead by 35.3% (2020: 1,547.5m; 2019: £1,583.6m). UK depot revenue grew 35.4% to £2,043.4m (2020: £1,509.6m; 2019: £1,550.3m). UK revenue increased by 33.7% on a same depot basis[2] to £2,017.7m (2020: £1,508.8m); this excludes the additional revenue from depots opened in 2021 and 2020 of £25.6m (2020: £0.8m).

Depot revenue in Continental Europe was £50.4m (2020: £37.9m; 2019: £33.3m). On a local currency basis, revenue at our depots in France and Belgium increased by 37.3% and by 32.5%, respectively on a same depot basis[2].

Gross profit

Gross profit was £1,289.0m (2020: £930.0m; 2019: £986.2m). The £359m increase compared with 2020 reflected a positive volume and mix impact of £282m and higher pricing of £107m. There were also £30m of cost pressures reflecting the net impact of higher commodities, freight costs and foreign exchange. These factors contributed to an increase in gross margins of 150 basis points versus the prior year to 61.6% (2020: 60.1%; 2019 62.3%) as we appropriately balanced mix with higher overall volumes.

The £303m increase in gross profit compared with 2019 reflected growth in sales volumes of £254m and changes in price of £91m partly offset by £42m of product cost pressures. This included the net impact of significant increases in input costs including commodities, freight and transportation partially offset by initiatives to reduce costs.

Operating profit

Operating profit was strongly ahead of last year and 2019 at £401.7m (2020: £195.7m; 2019: £260.0m on a pre IFRS 16 basis) and the operating profit margin was 19.2% (2020: 12.6%; 2019 16.4%).

Selling and distribution costs and administrative expenses (SD&A) increased by 20.8% to £887.3m (2020: £734.3m; 2019: £726.2m). As expected, costs increased due to continued investments in areas across the business. Compared to 2020 this included £11m on UK depots opened in 2020 and 2021 and £13m on French depots in the period.

1 The information presented relates to the 52 weeks to 25 December 2021 and the 52 weeks to 26 December 2020 unless otherwise stated.

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

Revenue[1] £m	2021	No. of depots	2020
Group:	2,093.7		1,547.5
Howden Joinery UK depots - same depot basis[2]	2,017.7	731	1,508.8
UK depots opened in previous two years	25.6	47	0.8
Howden Joinery UK depots - total sales	2,043.3	778	1,509.6
Howden Joinery Continental European depots	50.4		37.9
Revenue €m			
France and Belgium - same depot basis[2]	55.3	26	41.7
Depots opened in previous two years	3.1	14	0.9
France and Belgium - total sales	58.4	40	42.6

1 The information presented relates to the 52 weeks to 25 December 2021 and the 52 weeks to 26 December 2020 unless otherwise stated.

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

We also invested £28m in warehouse and transportation initiatives which included the investment in regional XDCs and £10m in promotional sales and marketing costs and digital platforms. £70m of additional costs were also incurred in the existing depot network as a result of the significant increase in volumes and there was also a £21m increase in other operating costs.

SD&A costs increased in 2021 compared with 2019 by £161.1m. Investment in executing our strategy included £33m on new depots in the UK opened since 2019, and £17m on new depots in France. Other growth initiatives included logistics investments of £38m (including XDCs) and £13m of marketing and digital investment. This was partly offset by £17m of the non-repeat benefit of depot closure costs in Germany and the Netherlands, and lease amortisation charges consequent upon adopting IFRS 16. Between 2019 and 2021 the increase in revenue in the older UK depots resulted in £50m of additional costs.

Profit before and after tax

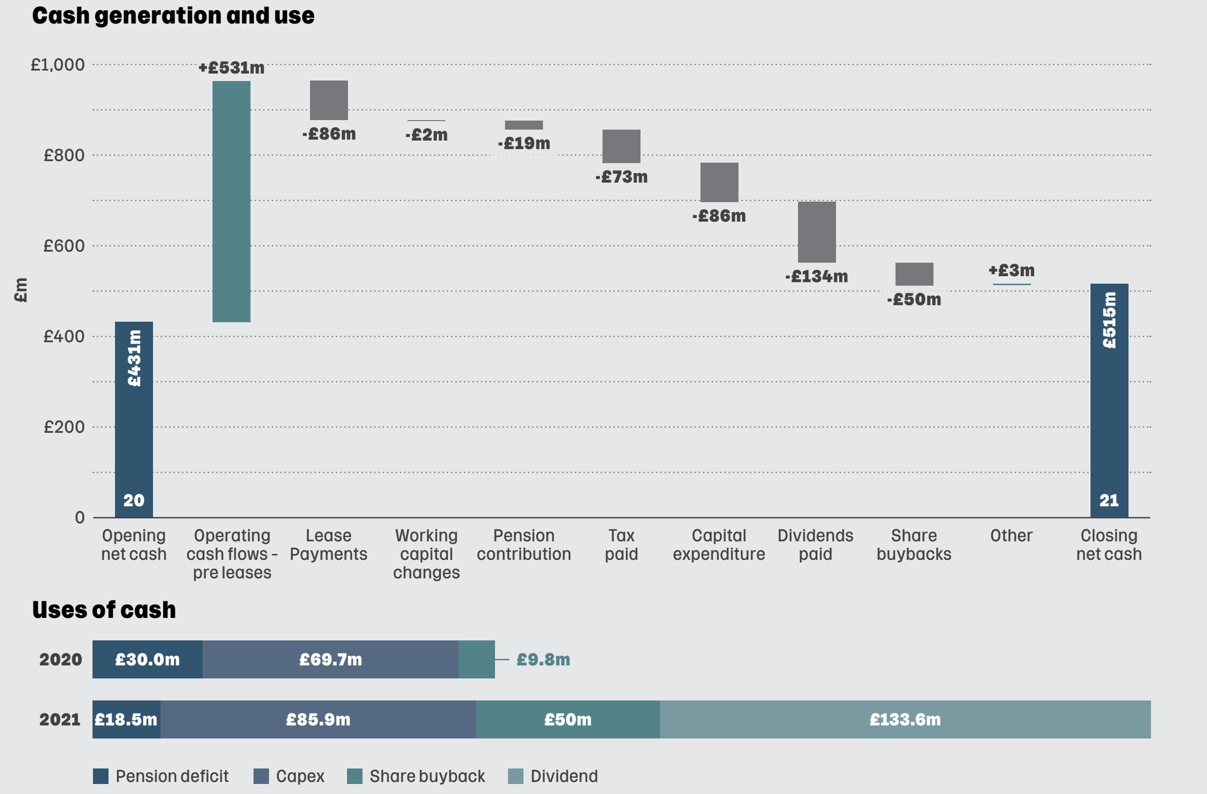
The net interest charge was £11.4m (2020: £10.4m; 2019: £0.7m credit, on a pre IFRS 16 basis) principally reflecting the additional interest expense on our lease liabilities. Profit before tax of £390.3m was strongly ahead of the prior year (2020: £185.3m; 2019: £260.7m).

The tax charge on profit before tax was £75.8m (2020: £37.7m; 2019: £51.7m) as a result of the higher operating profit and represented an effective tax rate of 19.4% (2020: 20.3%; 2019: 19.8%). As a result, profit after tax was £314.5m (2020: £147.6m; 2019: £209.0m). Reflecting the above and the reduced share count following share buy backs, basic earnings per share were 53.2p (2020: 24.9p; 2019 35.0p).

During 2020 we were granted a patent on a new plastic leg design which we have incorporated into our cabinets. We applied for the patent in 2017 and there is a potential to claim tax relief under HMRC patent box rules. We will review the potential scale of any claim with our advisers before deciding whether to make a claim under these rules.

Financial review continued

How we make cash and how we spend it



Cash

The net cash inflow from operating activities was £437.4m (2020: £329.2m). Net working capital increased by £1.7m due to higher levels of business activity. Debtors at the end of the period were £39m higher than at the beginning of the period, creditors were £84m higher and stock was £47m higher due to our actions to increase levels of safety stock to support our customers. Capital expenditure was £85.9m (2020: £69.7m). Corporation tax payments were £73.1m (2020: £32.2m), and dividends amounted to £133.6m (2020: nil). Share buy backs totalled £50.0m (2020: £9.8m) and the cash contribution to the Group's pension schemes in excess of the operating charge was £18.5m (2020: £22.2m). The interest and principal paid on lease liabilities totalled £85.8m (2020: £87.6m).

Reflecting the above, there was a net cash inflow of £84.6m (2020: £163.3m), leaving the Group with net cash at year end of £515.3m (26 December 2020: £430.7m). The Group has access to a £140m asset backed lending facility which remained undrawn at the balance sheet date.

Capital allocation and returns to shareholders

Our approach to capital allocation has primarily focused on achieving sustainable profit growth by investing in and developing our vertically integrated business. We also want to maintain and grow our ordinary dividend in line with earnings to reward shareholders with an attractive ongoing income stream. After allowing for these uses of cash, Howdens remains committed to returning any surplus capital to shareholders.

Within its definition of surplus capital, the Board believes it is appropriate for the Group to be able to operate through the annual working capital cycle without incurring bank debt, noting that there is seasonality in working capital balances through the year, particularly in advance of our peak trading period in the second half. We also take into account that the Group has a significant property lease exposure for the depot network, and a large defined benefit pension scheme that has only recently moved into a small surplus.

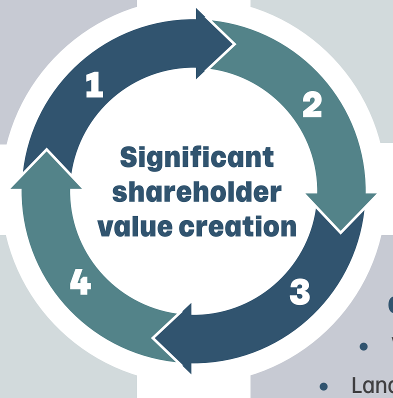
Howdens' approach to capital structure

Investing in organic growth:

- Open new and revamp existing depots
- Disciplined range management
- Optimise manufacturing & logistics
- Grow digital platform

Progressive ordinary dividend growth

- Dividend cover of 2.5x to 3.0x
- Sustainable growth through the cycle



Return surplus cash to shareholders:

- After organic investment needs
- Seasonal working capital movements
- Fund pension scheme
- Distribute cash >£250m*

Modest investment in adjacencies:

- Vertical integration eg solid surfaces
- Land purchases for expansion

* broadly equivalent to gearing of 0.7x Net Debt to EBITDA after taking into account total lease liabilities.

Howdens has a prudent risk appetite towards balance sheet management, an approach which has been borne out over the past two years with the balance sheet being a source of great strength through the challenges of the pandemic. While in the crisis phase of COVID-19 the Board took decisive action to conserve capital, but as markets have recovered, we have progressively reinstated our capital priorities including the return to paying dividends in 2021 and also the return of surplus capital in the second half of the year. These returns were only initiated after having repaid all government support received early in the pandemic.

The Board has reviewed its capital allocation policy considering the current economic environment to ensure it is clearly defined and retains a disciplined approach to enhance shareholder value. This prioritises our strategy of continuing to invest in depots, manufacturing and logistics capabilities and related strategic investments while delivering a progressive dividend. Our policy will be that where net cash is excess of £250m we expect to return surplus cash to shareholders which provides sufficient headroom to support organic growth, our working capital requirements and ongoing investments in our strategic priorities. At this level of net cash, the balance sheet will remain strong with a leverage of approximately 0.7x EBITDA after taking into account lease liabilities.

On this basis, the Board has decided that the Group will undertake a £250m share buyback programme which we aim to complete over the next 12 months. This is in addition to the £50m share buyback programme announced with the half-year results, which was completed during the second half of 2021.

During 2020, no interim dividend was paid, but a final dividend of 9.1p per ordinary share and a special dividend of 9.1p per ordinary share were paid in June 2021 in respect of 2020. Taking into account the Group's prospects and strong financial position, in July 2021 the Board declared an interim dividend of 4.3p per ordinary share. The Group's unchanged dividend policy is to target a dividend cover of between 2.5x and 3.0x and Board is recommending a final dividend for 2021 of 15.2p per ordinary share, giving a total dividend of 19.5p per ordinary share. The final dividend will be paid on 20 May 2022 to shareholders on the register on 8 April 2022.

Financial review continued

Pensions

At 25 December 2021, the defined benefit pension scheme was in a surplus at £141m (26 December 2020: deficit of £48m) on a IAS 19 basis. This movement from a deficit to a surplus was primarily a result of an increase in the net discount rate which was a benefit of £113m, a £25m cash contribution and an increase in asset returns of £58m. The current service, administrative and finance charges totalled £7m. The defined benefit pension scheme closed for future accrual from 31 March 2021. The scheme's funding level on an IAS 19 basis was 104.1% (2020: 99.0%) at the end of the financial year and in accordance with the scheme rules, deficit contributions were suspended in July 2021.

Current trading and outlook for 2022

Current trading

The following table shows sales in the first two periods of the new financial year (to 19 February 2022) in absolute terms, on a same depot (LFL) basis[1] and adjusted for working days.

	Periods 1-2		Periods 1-2 Adjusted*	
Revenue growth (%)	%	LFL%	%	LFL %
UK depots	17.1	15.6	19.5	18.0
Continental European depots**	21.4	18.9		

* compared with 2021 which had 38.5 trading days, 1 more than 2022. Continental European depots are the same in both 2021 and 2022.

** excludes 5 French depots which will be closed in 2022.

We have made an encouraging start to 2022 and are confident in our resilient business model across changing market conditions. We are continuing to execute and invest in our strategy and see many attractive medium-term opportunities for profitable growth and increased volumes.

We are currently offsetting inflationary pressures through price management and cost control, underpinned by our service-led business model and the scale of our manufacturing and sourcing operations.

We remain watchful of macro-economic uncertainties and vigilant for any potential headwinds in our markets.

During the second half of 2022 we will be trading against record revenue comparatives which includes our all-important peak trading period.

While it is still early in the new financial year, we have, at present, the momentum for another successful year in 2022 and the plans in place to deliver one.

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

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.

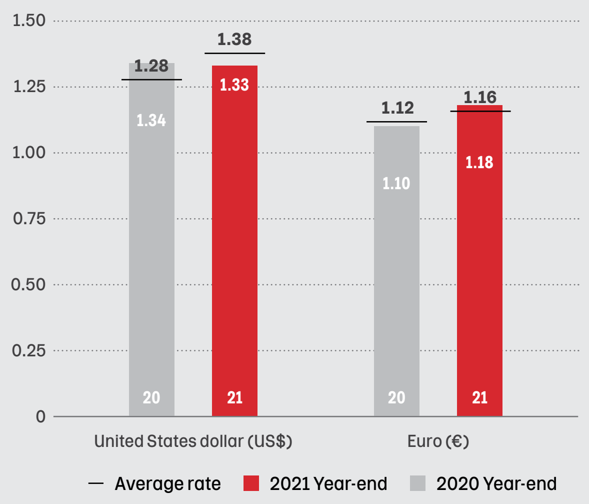
No speculative use of derivatives, currency or other instruments is permitted. The Treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements.

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 £5.2m. 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 2021 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 2021 year end, the Group had £515m 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 2021 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 2021 had a material implication for the Group.

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

23 February 2022

Risk management

Our approach to risk

When we look at risks, we specifically think about internal and external drivers of operational, hazard, financial and strategic risk areas over short, medium and long-term timescales. We consider the effects they could have on our business model, our culture and our strategy which we set out starting at page 8, and which we encourage you to refer to as you read this section.

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.

The Board sets and regularly reviews their risk appetite for key and principal risks. This appetite is used by the Executive Committee when considering risk mitigation strategies.

In 2022 we are enhancing the way in which we document and monitor risk appetite to further develop the understanding of what is an acceptable level of risk to take for the different types of risk we are exposed to.

Climate-related risks

Identification

In 2021 we developed our approach further to improve our climate risk insight. We use a combination of our long-standing, bottom-up process and horizon scanning to identify climate-related risks. During the year we conducted specific climate risk assessments with subject matter experts across the whole business focusing on both the physical and transitional risks of climate change.

Management

The business manages climate-related risk in our operational teams, led by the relevant Executive risk owner. The operational teams are responsible for mitigation, in line with our wider risk approach.

Integration into our risk management

We consider climate-related risks as part of our operational risk management process and we record this in our risk registers, albeit that they tend to have longer timelines. Using the business-owned risk management approach is the best way to ensure mitigations are dealt with effectively. We use a specific emerging risk identification and management approach, with dedicated reporting to the Executive and Board.

Our next steps

We will continue to develop our climate risk approach. Planned activities for 2022 and beyond include:

- Continuing to improve our risk identification process, incorporating more data streams and trends.
- Challenging the business on the effectiveness and accuracy of mitigation plans, including evidence of progress.
- Implementing specific climate-focused risk register reviews and developing our Executive and Board reporting.

Emerging risks

We consider emerging risks as part of our risk management approach using both internal expertise and external resources to identify emerging issues and their potential impact. In 2021 we enhanced our approach to improve risk insight over three separate risk horizons:

Horizon One - (Current issues out to 12/18 months) - Typically operational in nature and already robustly covered by the current process.

Horizon Two - (12/18 months to 5 years) - Includes those risks that may impact on achievement of our strategic objectives as well as new risks our strategic objectives may present to the business.

Horizon Three - (5 years plus) - Risks that may shape our strategic direction beyond the next 5 years.

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

Key areas of emerging risk are:

- Climate (see our TCFD reporting starting on page 52)
- Digital development
- People

The risk management process

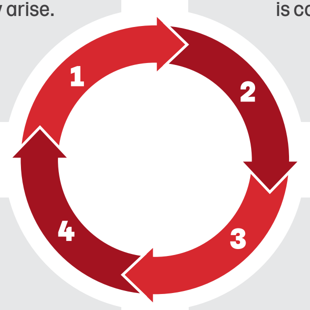
The main steps in the process are set out below:

1 Identification

Functional management and leaders formally identify risks twice a year providing both a bottom-up and a top-down perspective. We record these in functional risk registers for each area of our business. We also conduct ad hoc reviews of new and emerging risks throughout the year as they arise.

2 Assessment

We assess risks using a Group-wide scoring mechanism that considers both the likelihood of occurrence and the potential impact. We prioritise them by their risk score and an assessment of the level of exposure against our risk appetite is conducted. Risk that exceed our appetite may require additional risk response.



3 Response

Risks that require a response have additional mitigation strategies agreed and a future action plan drawn up together with a timeframe. We assign responsibility for implementation of action plans.

4 Monitoring and reporting

We provide a consolidated key risks report to the Executive Committee and Board for review, using escalation criteria previously set by them. Mitigation plans and the progress against them are also reported. The Board consider and agree the key risks, appetites and mitigation strategies which are fed back to risk owners. We conduct this exercise twice yearly and it is used to determine the Group's principal risks.

Risk Governance

Key activities

Risk monitoring and reporting

- We determine our principal risks from the key risk report and agreed with Executive Committee and Board.
- Executive Committee and Board challenge and agree the Group's key risks, appetites and mitigation strategies twice yearly.
- Key risks, assessments and responses are consolidated into a key risk report.

Risk response

- Where risks exceed our appetite, mitigation plans are drawn up by functional leaders and agreed with Executive Committee.

Risk assessment

- Risks are prioritised using a Group-wide scoring mechanism and are compared to our risk appetite.

Risk identification

- We conduct operational risk register reviews regularly to monitor current and emerging risks.
- We review internal/external emerging issues prior to each register review.

People responsible

Top-down
Board
Executive Committee
Audit Committee
Risk team

Functional leaders
Operational management
Risk team
Bottom-up

Reports/documents

Principal risks

We consolidate the principal risks from the key risk report. These are those risks that we consider could have a potentially material impact on our operations and/or achievement of our strategic objectives.

Key risk report

We consolidate our key risk report from the risk registers. This report outlines the highest scoring risks, emerging risk issues, the biggest influences to our risk profile and changes to the risks reported. The key risk report also provides a Group-wide perspective on risks escalated.

Risk register

We record risk registers for each functional area, aligned with the operating model of the business. The register includes all of the information required to accurately capture the risk and is maintained on our risk management information system. We identify an owner for each risk register responsible for its maintenance as well as the risks it contains.

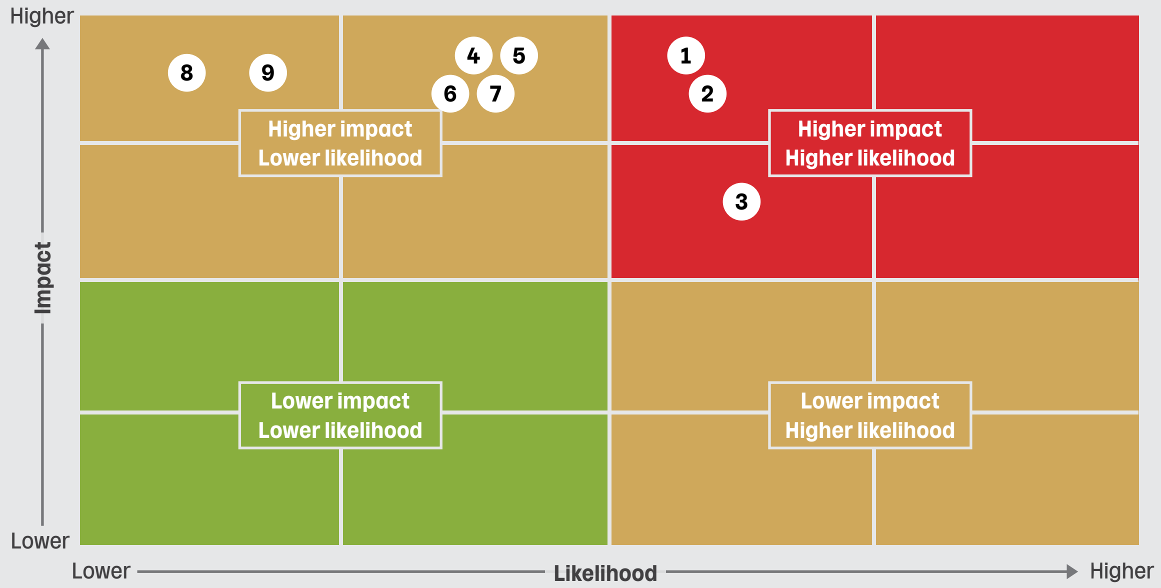
Principal risks and uncertainties

Principal risks

- **No new principal risks**
- **1 risk score has increased - Supply Chain**

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 Supply chain
2 Market conditions
3 Business model & culture
4 Maximising growth
5 People
6 Health and safety
7 Cyber security
8 Product
9 Business continuity & resilience

COVID-19

COVID-19 continues to have an effect on our business. Our rapid implementation of an appropriate governance framework and risk mitigations during 2020 allowed us to maintain a safe working environment and continue to trade throughout 2021. Over the year we have learned that several of the actions we took were key to ensuring the impact of COVID-19 was minimised. These actions included:

- Working closely with our suppliers and optimising stockholding for high-risk products.
- Using our supply chain resilience to respond to inbound transport disruption.
- Rapid roll out of new IT platforms allowing our staff to continue to work and serve our customers.
- Prompt deployment of equipment and training for employees to enable remote working.

These actions continue to help deal with the impacts of COVID-19 into 2022, including our ongoing management of new variants. Further to this, our learning will help us be better prepared for any future pandemics as well as improve our wider business continuity management approach.

Links to strategy

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

Brexit

The Trade and Cooperation Agreement that came into force at the end of the transitional period on the 24 December 2020 provides a framework for trade between the UK and the EU. Any breakdown of this agreement has the potential to bring with it some risk for all companies operating in the UK and the European Union. The main areas of potential risk for Howdens include:

- Free Trade & Customs Risks
  - Loss of free trade status - Tariffs or quotas on imported goods leading to higher prices.
  - Exit from the customs arrangements - Supply chain delays due to new customs regime and increased administrative burden.
  - No regulatory co-operation - regulatory uncertainty should standards diverge, potentially affecting sales of UK goods in the EU and vice versa and product risks.
- Strategy & Business Plan Risks
  - Consumer/Investor uncertainty - Potentially impacting on sales and future growth strategy.
  - Currency and stock market volatility - Increased costs due to currency fluctuations.

We continue to actively monitor the ongoing relationship between the EU and UK and reconsider our mitigation plans and potential impacts as part of our risk process.

2021 Principal risks

The arrows alongside each risk show the year on year change

1. Supply chain O P ↑

Over 2021 the scoring of this risk has increased as a result of ongoing global supply chain difficulties.

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 customers' 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 in our supply chain operations and this investment gives us increased capacity and agility.
- We are investing in new warehouse space to support our distribution capabilities and equip them for growth and peak trading.
- Increased stock holding of at-risk products to help ensure continuity of supply during continued Brexit uncertainty & COVID-19 difficulties.
- We obtained Authorised Economic Operator (AEO) preferred importer/exporter status to reduce potential customs delays.

Mitigation actions in 2021

- Increased our safety stocks further to reduce the potential risk of global supply constraints.
- Increased warehousing capacity with the use of our third distribution centre in Raunds.
- Increased the number of deliveries to our depots during our peak trading period to ensure availability.
- Secured HGV driver resources ahead of demand, ensuring continuity of supply to the depots.

Principal risks and uncertainties continued

2021 Principal risks continued

The arrows alongside each risk show the year on year change

2. Market conditions R P F

Risk and impact

- 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.

Mitigating factors

- We have proven experience in managing both selling prices and costs, and remain agile to take swift action as required.
- 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 to emerging market risk factors.

Mitigation actions in 2021

- Maintained focus on continuing COVID-19 impacts across our supply chain and business.
- Frequent scenario planning based on latest information to ensure our plans were appropriate to changing market conditions.

3. Business model & culture R O P

Risk and impact

- Our future success depends on continuing to maintain our values, our unique business model and our locally enabled, entrepreneurial culture.
- 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 2021

- Regular 'Town Hall' meetings held to bring together teams and discuss our successes and challenges ahead.
- Embarked on our ESG programme enhancement, with a key element focusing on re-enforcing our core values and further embedding our equality, diversity and inclusion standards.
- Howdens' Worthwhile foundation created to further develop our charitable efforts and support our business model through training of our builder customers.

Links to strategy

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

4. Maximising growth R O P

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, and systems, and our manufacturing and distribution capabilities to equip them for growth.
- Growth activities are reviewed in the light of our risk appetite, values, business model and culture.
- Plans to continue with our expansion of our operations in France and other territories.

Mitigation actions in 2021

- Converted more UK depots to the new depot environment.
- Opened more depots in the UK.
- Opened more depots in France.
- Strengthened our solid worksurface offering with the introduction of Howden Work Surfaces.
- Improved our service offering through our core logistics sites to ensure our ability to support growth.

5. People R O

Risk and impact

- The success of our business is so fundamentally driven by our people, their strength of spirit, drive, and unwavering customer focus.
- Our operations could be adversely affected if we were unable to attract, retain and develop our colleagues or if we lost a key member of our team.

Mitigating factors

- We invested heavily in our employee value proposition, always striving to provide the best possible working environment and growth opportunities for all our colleagues.
- We support our colleagues with a wide variety of apprenticeships, accreditations and development programmes across all areas of our business.
- We use the Remuneration Committee to ensure that key staff are appropriately compensated for their contributions and incentivised to continue their careers with us.
- We work continuously to ensure that appropriate continuity and succession plans are in place. We will continue to focus on leadership development and succession planning.

Mitigation actions in 2021

- We continued to ensure our working environments remained COVID-19 safe for all of our workers and brought in remote working for all of our offices, in line with Government advice, to reduce the Health & Safety risk to all personnel.
- Wellbeing programme introduced, with targeted training for our staff based on their role.
- Equality, diversity & inclusion (EDI) Programme further developed with specific goals established.
- Increase in apprenticeship offerings.
- Joined the Government Kickstart employment programme and supported several new Kickstart roles.

Principal risks and uncertainties continued

2021 Principal risks continued

The arrows alongside each risk show the year on year change

6. Health and safety (R) (O)

Risk and impact

- Howdens is about people and relationships. We have over 800 depots, 11,000 employees, hundreds of suppliers and hundreds of thousands of customers.
- Care for the health and safety of employees, customers, suppliers and everyone who comes into contact with Howdens is integral to our values and to our behaviours.
- If we do not 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 and 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 and safety at every level of the business, led by the Executive Committee.
- Rapid implementation of a COVID-19 governance framework and risk mitigations secured a safe working environment as the pandemic developed.

Mitigation actions in 2021

- Maintained COVID-19 safe practices in line with government advice.
- Increased Health & Safety Advisor resources in the France to support ongoing expansion.
- Continued to provide regular updates to all staff on our response to changing COVID-19 guidance and regulation in all the countries in which we operate.

7. Cyber security (R) (O) (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, or a financial loss.

Mitigating factors

- We place focus on training our people in cyber security, 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 2021

- We continue to review our cyber security posture and engage with third party expertise to provide insight and assurance.
- Further development of our multi-factor authentication (MFA) and tools for staff required to work remotely owing to Government guidance.
- Face to face, targeted awareness training at key staff meetings throughout the year.

Links to strategy

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

8. Product (O) (P)

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. Several new products were introduced during the year across all product categories.

Mitigation actions in 2021

- 17 new kitchen ranges launched.
- Solid worksurface offering brought in-house.
- Restructured our product team providing greater insight and resilience.
- Further developed our website and marketing offering to builders and end-users to provide new tools to make their lives easier.

9. Business Continuity & Resilience (R) (O) (F)

Risk and impact

- We have key business operations and locations in our infrastructure that are critical to business continuity. These operations are essential for ensuring our customers can get the product and services they want when they need them. They include areas such as our Credit Control Department, our Manufacturing & Logistics operations and key IT systems.

Mitigating factors

- We maintain and regularly review our understanding of what our critical operations are.
- We ensure resilience by design, building high levels of protection into key operations and spreading risk across multiple sites where possible.
- We ensure appropriate business continuity plans are in place for these and have a Group-wide incident management team and procedures established.

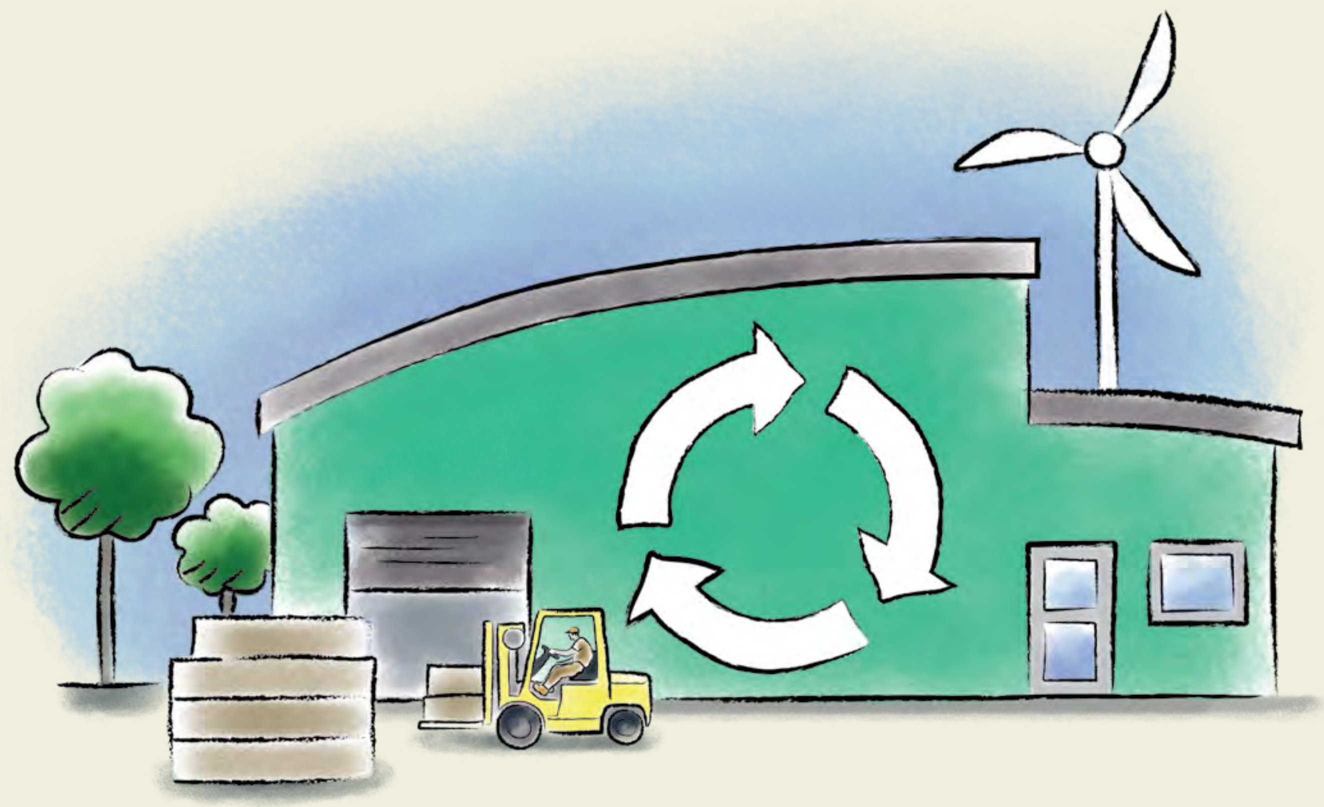
Mitigation actions in 2021

- Ongoing monitoring of the potential COVID-19 impacts on the continuity of our operations.
- Reviewed our continuity plans covering our sourcing and logistics approaches to support peak trading.

HOWDENS

Sustainability Matters

Worthwhile for all concerned



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 own 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 around 800 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 beginning on page 38. 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 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 at: www.howdenjoinerygroupplc.com/sustainability/group-health-safety-and-sustainability-policies. In 2021 the Board set up a Sustainability Committee, whose report begins on page 142.

Our 2021 TCFD implementation project

Reporting on the recommendations of the Task Force on Climate-Related Financial Disclosures ('TCFD') will become mandatory for us in 2022. However, we realise that there is a growing stakeholder pull for climate-related information, and also potential business benefits in starting our TCFD implementation right now.

In 2021 we have built on our existing climate risk and governance structures and have begun a wide-ranging TCFD implementation project, which we report on in more detail beginning on page 52.

The material sustainability areas for us and our stakeholders

We've organised the main body of this report into five sections, reflecting our material sustainability areas:

People: keeping them safe, 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.

In 2020, as part of a wide-ranging 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, commitments and targets

Our sustainability KPIs cover safety, use of wood from certified sources, and avoiding sending waste to landfill. You can find them on pages 60 to 64.

Our 2020 ESG strategic review resulted in four strategic commitments, which we report on at pages 50 to 51. It also resulted in a number of targets and research projects in each of our material areas, which we report on under the relevant area. As we work towards the commitments, learn more about the targets and research projects, and move further down our road to TCFD implementation, this may lead to new KPIs and key metrics in the future.

Strategic report
Governance
Financial statements
Additional information

Our vision

UK's leading responsible kitchen business	A unique and sustainable culture	Leader in risk and resilience governance
A sustainable product offering, responsibly manufactured or sourced, that meets the needs of the builder and the end-consumer	Maintaining and building on our culture of being worthwhile for all concerned. Continuing to grow a sustainable business that appeals to current and future stakeholders.	An agile and resilient business, proactively managing ESG risks, with transparent high-quality stakeholder reporting.



Represented by:

Our four strategic commitments

Zero waste to landfill	Carbon neutral manufacturing	Best practice in UK behavioural safety and wellbeing	Highly effective ESG reporting and disclosure
Maintain zero waste to landfill in manufacturing and distribution. Zero waste to landfill in depots over time, with target of less than 5% by end of 2022.	Carbon neutral manufacturing by the end of 2021.	Maintain international safety standard ISO 45001 in our manufacturing and distribution operations. Achieve ISO45001 in our depot network by the end of 2021.	Progressive, phased implementation of high-quality TCFD reporting. Implement the ISS ESG reporting platform in 2021.

See more on pages 50 to 51.

Underpinned by:

Our material sustainability areas

People	Sustainable supply chain	Sustainable product	Our environment	Communities
Keeping our 11,000 employees safe and well. Supporting their growth, offering them great rewards for success, and opportunities to grow with us.	Certified raw materials from sustainable sources. Responsible purchasing, working with our international network of over 250 main suppliers. Efficient distribution.	Continuous research and evolution of our products and packaging. Refining our efficient manufacturing processes and working with our suppliers on bought-in product.	Reducing waste, lowering emissions, working with the Carbon Trust to achieve continuing improvements.	Being a responsible member of over 800 local communities in the UK and internationally. Supporting a range of local and national charities.

See more, starting at page 60.

Our four ESG strategic commitments

Progress on our four ESG strategic commitments

E Environment
UK's leading responsible kitchen business

Zero waste to landfill

100% Manufacturing & distribution

99.1% Depots

Progress in 2021

In 2020 we achieved zero waste to landfill in our manufacturing and distribution, and we have maintained that in 2021. Rather than sending our waste offsite to be burnt for energy recovery, we took the slower but more responsible method of using the principles of the 'Waste Hierarchy' and maximising the amount that we can reuse, recover or recycle.

It's a lot more challenging to achieve zero waste to landfill in our network of almost 800 UK depots. From a baseline of 60% of depot waste avoiding landfill in 2019, we set the target of getting to over 95% by the end of 2022. We've exceeded that in 2021, with 99.1% of depot waste avoiding landfill, and we are busy trying to find solutions for the remaining 0.9%.

Worthwhile for all concerned

Carbon neutral manufacturing

100% Achieved in 2021

CARBON TRUST PAS 2060 CARBON NEUTRAL

Progress in 2021

Our commitment was to achieve carbon neutral manufacturing by 2021. We are pleased to announce that we have achieved this on schedule, and have received confirmation from the Carbon Trust (with evidence provided in accordance with PAS 2060:2014 - Specification for the demonstration of carbon neutrality).

Manufacturing accounts for around 40% of our total Scope 1 and 2 emissions, and is entirely under our control, so it makes sense for us to start there. Our approach was to reduce emissions as much as possible with current technology or renewable energy, and then to offset residual emissions with Gold Standard carbon offsets (shown on the independent GSF Registry here: https://registry.goldstandard.org/credit-blocks/details/227403).

Worthwhile for all concerned

Alignment to UN SDGs

Our material SDGs	UN SDG description and relevant targets under each SDG
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.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	'Ensure sustainable consumption and production patterns' SDG targets: 12.2, 12.5, 12.6, 12.7.

S Social
A unique and sustainable culture

Best practice in UK Behavioural Safety and wellbeing - ISO 45001

100% Manufacturing & distribution

Work complete in depots, independent audit in progress

Progress in 2021

Our commitment was to achieve the international safety standard ISO 45001 across our manufacturing, distribution and depot network by the end of 2021.

We achieved the ISO in our factories and distribution network in 2020. In 2021 we completed the work in our depots but were not able to achieve accreditation before the end of the year due to COVID-19 restrictions on auditors visiting our depots.

We passed our Stage 1 audit in the depots, carried out by the British Safety Council, with a score of 100%. The final, Stage 2, audit is scheduled to complete in early 2022, and we look forward to reporting the results once it is finished.

Worthwhile for all concerned

G Governance
Leader in risk and resilience governance

Highly effective ESG reporting and disclosure, including KPIs

TCFD and ISS implementations are underway

Progress in 2021

Our first commitment was to implement progressive, phased TCFD reporting. TCFD is not mandatory for us until our 2022 year end but we realise the importance of climate risk information to stakeholders and so we have begun our TCFD reporting journey this year and you can find the detail starting on page 52.

Our second commitment was to implement the ISS external ESG reporting platform to enable us to objectively benchmark ourselves against peers and to help stakeholders by giving them easier access to detailed ESG information. We have implemented ISS in 2021, and are in the process of verifying our scores, checking our data, and making sure that it is complete and current.

Worthwhile for all concerned

Our material SDGs	UN SDG description and relevant targets under each SDG
13 CLIMATE ACTION	'Take urgent action to combat climate change and its impacts' SDG targets: 13.1, 13.2.
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.

Our TCFD reporting

Our progress on TCFD implementation

We are taking TCFD implementation seriously. Our approach is to build it into the business from the bottom up because that will help us find opportunities as well as risks, and will help us measure and manage them to increase long-term stakeholder value.

We've made a lot of progress on our path to TCFD implementation this year, but we've still got some way to go. Unsurprisingly we're more mature around governance and risk management, while we're closer to the start of our journey in areas such as scenario planning.

We've been working with external TCFD implementation specialists on a range of projects across the business. We aim to move at pace, but to balance that with making sure that we take sufficient time to build the TCFD principles into our operating processes - because that's where we see the opportunities for generating long-term value.

The table below shows where we are now, the progress we've made this year, and what we still need to do.

TCFD recommended disclosure	Our disclosure	Developments in 2021	Focus areas for 2022 and beyond
GOVERNANCE			
A. Describe the Board's oversight of climate-related risks and opportunities.	• The Board looks at material climate-related risks and opportunities when setting and monitoring Group strategy • The Board considers climate risks as part of its overall risk review processes described in detail at page 38 • The Board monitors our progress on key climate-related commitments via in-person reports from our Director of ESG	• The Board set up a Sustainability Committee to oversee sustainability strategy, consider strategic proposals from management and make recommendations to the Board. Their report is on page 142 • The Sustainability Committee also consider Howdens' position on emerging climate issues, metrics and targets and our commitment to other climate-related goals	• The Sustainability Committee will meet regularly during 2022 and make recommendations to the Board as appropriate • The Director of ESG will report to the Sustainability Committee at each meeting. There will be a detailed review of the Group's roadmap to Net Zero
B. Describe management's role in assessing and managing climate-related risks and opportunities.	• The Exec's job is to execute Group strategy and implement programmes to manage and mitigate climate risks and take advantage of opportunities • The Director of ESG advises both the Board and the Exec	• Management engaged external specialists in TCFD implementation (Top Tier Impact Strategies Limited) to give support as we carry out climate materiality impact assessments and scenario planning	• Management will review the materiality impact assessments and scenario analysis in 2022 • The Director of ESG will work with the Executive Committee to develop sustainable strategies during the year
STRATEGY			
A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	• We've completed our initial climate materiality assessment and are reviewing the draft results • Once we've thoroughly reviewed them, we'll able to talk about our material risks and opportunities in more detail	• Implemented a comprehensive TCFD project across the business • Interviewed over 30 key stakeholders to identify potential material climate risks and opportunities • Carried out an initial review and assessment of materiality	• Scrutinising and testing the results of our initial review with operational areas, ExCo and Board • Building material risks and opportunities into our strategic planning
B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	• We're at the beginning of our journey on the impact of risks and opportunities • We've done a physical climate risk assessment over various timeframes, and we're reviewing the results. Once we've done this, we'll be able to think how best to build them into our strategy and planning	• Physical climate risks assessments of supply chain locations • Built three climate transition scenarios specific to our business • Carried out initial impact workshops with Group-wide participants	• Exploring ways of building material risks and opportunities into strategic and financial planning and decision making
C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	• We've constructed draft climate impact scenarios based on our initial assessment of material risks, including one aligned with below 2°C • Once we've reviewed the results of these draft scenarios and are happy that they are sufficiently robust, we will be able to understand their impact on our strategy in more detail and use them to model potential financial impacts	• Working towards Howdens-specific scenario planning has been a big part of our TCFD project • We've taken specialist external advice • We've built our initial scenarios from scratch, based on detailed stakeholder interviews and our initial assessment of materiality	• Testing the draft scenario results. Discussing with management, ExCo and Board. Building financial models from the scenarios • Further iterations of the scenarios, with refinement of inputs as necessary • Identifying the implications for our risks, opportunities, metrics and strategy

Our TCFD reporting continued

TCFD recommended disclosure	Our disclosure	Developments in 2021	Focus areas for 2022 and beyond
RISK MANAGEMENT			
A. Describe the organisation's processes for identifying and assessing climate-related risks.	• We combine our long-standing, bottom-up risk process with improved identification of medium and longer-term risks through horizon scanning. See pages 38-39 for more detail	• Built the outputs of our inherent climate risk assessment into operational risk registers • Worked with advisor to refine our process for assessing climate risks • Adapted our risk process to capture key climate metrics and targets	• Continue to improve our risk identification process, incorporating more data streams and trends • Assess key metrics and targets, and the operational plans to meet them
B. Describe the organisation's processes for managing climate-related risks.	• We manage climate-related risks in the same way as our other risks (see page 38), albeit that time horizons may be longer • A member of the Exec owns each risk and leads the relevant operational teams as they control day-to-day risk management and mitigation	• Carried out a specific, climate-focused round of risk register reviews to educate operational teams with the aim to ensure that we manage climate risks as effectively as other risks	• Challenge the business on the effectiveness and accuracy of mitigation plans, including evidence of progress
C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	• They have always been part of our overall risk identification and management process described in detail at page 39 • The main difference between climate-related risks and other risks is that we typically use longer time horizons when looking at climate risks	• Implemented a new emerging risk identification and management approach, with dedicated reporting to Exec and Board • Started project to capture Board risk appetite for climate risks	• Continue with specific climate-focused risk register reviews • Continue to develop reporting to Exec and Board
METRICS AND TARGETS			
A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	• We have long-standing KPIs on use of FSC® and PEFC raw materials and on production waste recycling - we report on these at page 63 and page 64 • We're reviewing the outputs of our detailed 2021 TCFD project to see if this suggests extra or alternative KPIs, as well as to identify whether there are any other important climate-related metrics	• First iteration of an ESG metrics dashboard for the business • Beginning to consider how climate-related metrics might build into consideration of future investment decisions	• Internal review and stakeholder consultation of any potential new KPIs • Consider appropriate scope of assurance over climate-related data
B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	• See our SECR reporting, starting on page 64 • We consider the risks relating to emissions as part of our overall climate risk reporting, summarised on page 57	• Assessed our material sources of Scope 3 emissions and investigating how we can report on them and what assumptions that would involve • Selected appropriate assumptions and started to investigate which of our Scope 3 emissions we can try to gather reliable data on	• Continue to refine assumptions for Scope 3 emissions where we don't have all the information. Beginning to report Scope 3 emissions where we have reliable data
C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	• We are currently researching and developing these targets as part of the overall TCFD implementation process	• Research and development of potential new TCFD metrics and targets, based on the outcomes of the TCFD implementation project so far	• Develop quantitative metrics and targets for material climate risks and opportunities and assign to the senior executive team

Our TCFD reporting continued

Main risks and opportunities from our scenario modelling so far

Details of the scenarios

As we describe in the 'Strategy' section of our TCFD reporting on page 52, we've begun our work on climate scenario planning in 2021. We looked at both physical and transition risks and held a series of workshops with stakeholders from across the business to identify and discuss material risks and opportunities. Our discussions concentrated on the time period to 2030, which we further split into short term (to 2023), medium term (to 2026) and long term (to 2030).

We developed three scenarios to frame our discussions of potential climate risks and opportunities:

1) Where governments and regulators act quickly and take the lead with a series of measures aimed at achieving the Paris Agreement targets. This scenario envisages swift action, a high level of legislation and emphasis on mechanisms such as carbon pricing and financial incentives for decarbonisation.

2) Where lack of agreement between governments leads to an initially slow pace of change, but where a series of social tipping points see a response to climate change which is led by citizens putting pressure onto governments and companies to act.

3) Where there is some commitment from governments, companies and citizens to a net zero transition, but where these commitments aren't always fully developed or enforced, and may sometimes be overridden by political, commercial or individual concerns in the short and medium term, requiring more severe policy action and enforcement in the longer term.

Results and next steps

Our initial scenario modelling work has given us an increased understanding of the qualitative impacts of climate change on our business across various time horizons, although we recognise that it is an iterative and dynamic process.

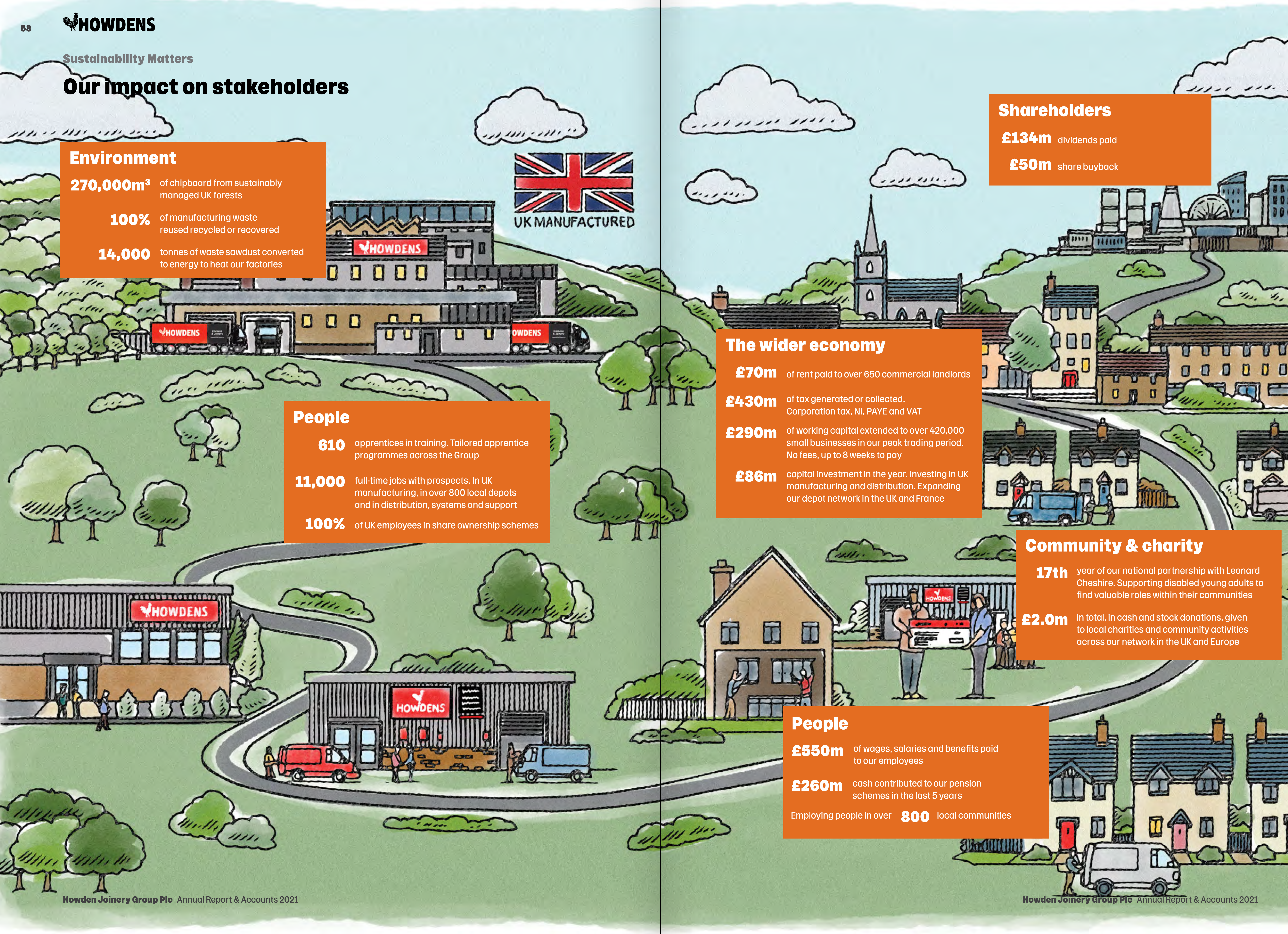
The results of our scenario modelling agreed with the results of our existing business risk management process starting on page 38, in that they did not identify any significant short-term climate-related risks.

Under each scenario there were a number of possible medium and long-term risks and opportunities, which we have summarised below. Our next step will be to develop this analysis, which will include quantifying the material impacts and setting a strategic direction to mitigate the risks and maximise the opportunities.

Opportunities	
Brand	Delivering on our aim to be the UK's leading responsible kitchen business and creating a brand that is recognised as a leader in managing climate-related risk could result in increased sales, greater brand awareness, increased market share and increased attractiveness to current and future employees
Cost reduction	Continuing to focus on energy efficiency, pushing through our targeted improvements and taking future steps on the path to decarbonisation could lead to a lower cost base. Relevant factors could be things such as: • Access to grants, subsidies and favourable tax treatment for adopting decarbonisation technologies • Absolute reductions in energy consumption will lower costs, particularly in times of rising energy prices, extended application of carbon pricing and an increase in the underlying carbon price
Access to capital	Building a climate resilient strategy and communicating it effectively to the market could increase the demand for our shares and could also give us access to lower-cost bonds and loans.
Product design	Taking the lead in producing sustainable products before our competitors could increase our competitive advantage and market share.

Risks	
Sourcing	Future physical or legal barriers arising from climate change could bring challenges to sourcing some of our products in the future - principally items which we currently source from overseas. Causes could be things such as: • Carbon pricing • Pressure on supply chains to decarbonise, especially in emerging markets • Trade tensions between countries with different Paris Agreement emission-reduction targets • Some current raw materials could increase in cost or become unavailable in the future, so alternatives would have to be found
Operations	The physical risk to our operations from climate change e.g. extreme weather events and rising sea levels could require additional capital expenditure or could interrupt operations. We have carried out a physical risk assessment of our locations in the UK and on our key suppliers' locations around the world, based on the latest climate science. Our assessment looked at physical risks such as coastal flooding, rising sea levels, heat stress and drought in certain regions and locations, using timeframes up to 2030. Our assessment didn't highlight any significant risks in the short-term. Our next step is to carry out further analysis of possible medium and long-term risks so that we can quantify them and take appropriate mitigating actions if necessary.
Decarbonisation	Decarbonisation of e.g. our distribution and depot fleets could require transitional investment and/or adjustments to current working practices.
Customer expectations	Failure to meet customer demands for sustainable products could reduce market share.

Our impact on stakeholders



Environment

270,000m^3 of chipboard from sustainably managed UK forests

100% of manufacturing waste reused recycled or recovered

14,000 tonnes of waste sawdust converted to energy to heat our factories

People

610 apprentices in training. Tailored apprentice programmes across the Group

11,000 full-time jobs with prospects. In UK manufacturing, in over 800 local depots and in distribution, systems and support

100% of UK employees in share ownership schemes

Shareholders

£134m dividends paid

£50m share buyback

The wider economy

£70m of rent paid to over 650 commercial landlords

£430m of tax generated or collected. Corporation tax, NI, PAYE and VAT

£290m of working capital extended to over 420,000 small businesses in our peak trading period. No fees, up to 8 weeks to pay

£86m capital investment in the year. Investing in UK manufacturing and distribution. Expanding our depot network in the UK and France

Community & charity

17th year of our national partnership with Leonard Cheshire. Supporting disabled young adults to find valuable roles within their communities

£2.0m in total, in cash and stock donations, given to local charities and community activities across our network in the UK and Europe

People

£550m of wages, salaries and benefits paid to our employees

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

Employing people in over **800** local communities

Sustainability Matters

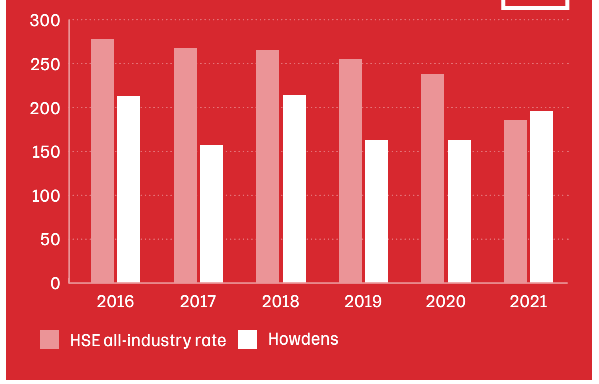
Our people

Keeping our people safe and healthy

2021 highlights

- Our safety KPI has increased from 162 RIDDOR[1] reportable injuries per 100,000 employees in 2020 to 196 in 2021. This is also above the 2020/2021 HSE All-Industry rate of 185, although the HSE have publicly said that their rate in 2020/21 is likely to be an underestimate and will not give a meaningful comparison.
- Despite the increase in RIDDOR-reportable injuries, our Injury severity rate has remained flat from 2020 to 2021 at 33.4 hours lost per 100,000 hours worked.
- Our working practices were significantly disrupted in 2021 by COVID-19 working restrictions on social distancing, COVID-19 fatigue and the 'Pingdemic'. These factors all reduced operating capacities in a year of record demand. We were busier than ever and we employed more people than ever - all of whom were fully trained but were gaining experience. These factors were key contributors to the unwelcome rise of injuries that we reported as RIDDORS because they resulted in absences from work for more than 7 days.
- Our priority for 2022 is to return to pre-COVID standards, to reduce reliance on modified working conditions and to ensure that all of our colleagues are able to work consistently safely.
- We actively promote employees to report all injuries and incidents, no matter how minor, because we know that a mature health and safety culture is built on full, open and blame-free reporting.
- In 2021 we also supported our employees' mental health and wellbeing through our 'Safe to talk' programme. Sponsored by Andy Witts, the Chief Operating Officer of our Trade division, the programme was launched with a video message from Andy emphasising that it's 'OK not to be OK', encouraging staff to seek help and reminding them of the confidential independent helpline, available to all staff, to help them with a range of health and wellbeing issues.
- We were awarded Highly Commended status by the Institute of International Risk and Safety Management (IIRSM) in the 'Outstanding risk management practice' category, recognising our approach to managing safely through COVID-19.

Reportable injuries/100k employees
Reportable injury rates increased in 2021



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.

2021 update: See page 51. We have completed our work, passed the Stage 1 audit, and are awaiting the results of the final audit which was delayed by the pandemic but is taking place in early 2022.

TARGET:
Achieve the British Safety Council's '5-Star' safety standard at all manufacturing and logistics sites by the end of 2023.

2021 update: This target is under review. The impact of COVID-19 has meant that we haven't been able to schedule an external audit of our progress for almost two years, which has caused significant upset to our project plan. We still aim to achieve 5-Star standard, but we are currently reviewing our timescales.

ONGOING WORK:
Continue with our behavioural safety and safety culture approach across the Group.

2021 update: We have continued to focus on personal safety responsibility & safety leadership. All our manufacturing and distribution senior leadership team attended the NEBOSH 'Excellence in Safety Leadership' course in 2021.

We have an HSE survey planned for Q1 2022, which will help us to measure progress and identify next steps.

ONGOING WORK:
Develop a Group wellbeing strategy in 2021.

2021 update: We have begun work in this area. See above for our 'Safe to talk' programme, We have also introduced trained Mental Health First Aiders and Wellbeing Representatives and delivered training on managing mental health.

1 'RIDDOR injuries' are injuries reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

Rewarding careers, opportunities to develop and thrive

2021 highlights

- We've continued to invest in people. Much of our 2021 development activity has had to take place online but we still delivered 112,000 hours of training.
- We've got an apprentice programme to be proud of. We currently have 610 apprentices on a range of tailored programmes throughout all areas of the business. They are a mixture of new starters, recruited into apprentice positions and training at a foundation level, and existing employees who are taking an apprenticeship route to gain higher level skills and professional qualifications. We recruited 616 apprentices in 2021, and we were pleased to celebrate the success of our 155 employees who successfully completed apprentice programmes in the year.
- We understand the value that apprentices can bring to our business, and we try to offer as many in-house apprenticeship programmes as possible. Where we are not able to use all of our Apprenticeship Levy credit we have partnered with EN:Able Futures, passing on surplus Levy credits to them so that they can offer apprenticeships in building and construction trade skills, including kitchen fitting. In this way, we are helping to address the demand gap for skills in the trade and also help to train the next generation of Howdens customers.
- We improved employee benefits in 2021. This included increasing company pension contribution levels and launching a 'Buy as you Earn' share scheme to encourage colleagues to benefit from our future success. Under the scheme, colleagues can buy shares out of pre-tax pay, and we also give them free matching shares. We also improved how we communicate with colleagues about their benefits, supporting them to make informed choices.
- Employee engagement is critical to our success. We continue to use employee forums and our union reps to get feedback on a wide variety of topics, and our Executive remain connected to our employees through regular site visits and hosting regional board meetings, where feedback is acted upon and leaders held to account.

The fast track for Vicky

Vicky Cuff joined Howdens as a Fast Track Assistant Manager Apprentice at the end of 2019. The apprenticeship programme involved a 12–15 month mix of on the job experience and study. Vicky was only 8 months into her role when the position of Depot Manager was advertised, but her manager encouraged her to apply. Vicky had made such a positive difference in her role that she was offered the position. She went on to complete her apprenticeship with distinction and has already delivered the depot's best ever year. Not only that, Vicky is already demonstrating her leadership qualities supporting her own apprentices to develop and progress.

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.

2021 update: We have Executive Committee sponsors for each strand of our EDI project: Theresa Keating leads on ethnicity; Andy Witts leads on disability and Julian Lee leads on gender. We have also set up an EDI subcommittee with employees at different levels from across the Group who are working with the sponsors.

Our focus is to develop action plans to address the areas where we can make the biggest difference. To do this, we're engaging with employees, listening to their experiences and priorities, and looking at what data we already have and what new data we need to be able to set targets and measure progress.

We have also developed bespoke EDI training sessions and have begun to roll them out across the Group.

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.

2021 update: Subjectively we know that people can thrive with Howdens. For example, many of our current depot managers joined us with few formal qualifications in an entry-level position and are now running their own businesses, selling millions of pounds worth of kitchens and being responsible for teams of staff and hundreds of customer accounts.

The challenge when we began the investigation phase of this project this year was that many objective measures of social mobility require data on employees' history and background which is not part of the recruitment process. We are considering ways to gather objective data for the future whilst continuing to encourage our employees to grow with us and to support them in their development with a range of tailored programmes across the business. Kirsty Homer is the Executive Committee sponsor.

Sustainable supply chain

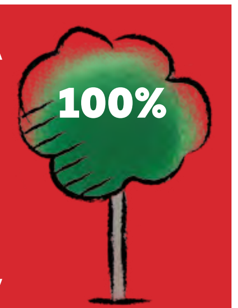
Certified wood, responsible purchasing, efficient distribution

2021 highlights

- We used over 270,000 cubic metres of chipboard and 61,000 cubic metres of MDF in our factories in 2021 - enough to fill the Albert Hall more than 3 times - so we need to know where our timber comes from.
- FSC® or 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 16 million miles in 2021 so we need it to be both efficient and safe. All of our trucks comply with the latest emissions standards, and we've fitted refinements to the standard build to increase efficiency and reduce emissions even further. We are ready to roll out a trial of Hydrotreated Vegetable Oil ('HVO') in 2022. HVO is a sustainably-sourced second-generation biofuel, which is made from plant-based materials and can replace diesel without requiring engine modifications. It has the potential to reduce CO_2, nitrogen oxide and particulate emissions compared to diesel.
- 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.
- 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.
- 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 is from FSC® or PEFC™ certified sources



Responsible Purchaser
Timber Trade Federation

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

TARGET to reduce fuel consumption: MPG improvement targets for our distribution fleet. Targeting a 1% improvement by 2021, with a further 2% by 2023.

2021 update: We are slightly ahead of target for 2021 and are making progress towards our 2023 target. Against a 2020 baseline of 9.89 MPG, we have achieved a 1.3% improvement with our 2021 12 month rolling average of 10.02 MPG. Given that our distribution fleet covered around 16 million miles in 2021, this increase in efficiency reduced our emissions by just over 250 tonnes of CO_2, as well as saving money by using less fuel per mile.

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.

2021 update: This target is all about maximising efficient truck loading. Empty space is inefficient. It increases our emissions and our costs. Against a 2020 baseline of 10.68 $KgCO_2/M^3$, and a target of 10.15 $KgCO_2/M^3$, we have delivered a 6.2% rolling 12-month emissions reduction in our own fleet with a figure of 10.02$KgCO_2/M^3$.

Sustainable product

Product development and re-engineering. Sustainable sourcing strategy

2021 highlights

Sustainability is integral to our new product development

- We've formalised a change in our approach to new product design and sustainability is now one of five standard pillars of consideration when designing new products.

Making sustainability part of business as usual

Quality | Cost | Design | Availability | Sustainability

Improving the sustainability of our products by design

Product re-engineering

- We manufactured over 4.5 million cabinets in 2021, so this is an area which we control and where we can make a big difference. That's why we are trying to produce a fully recyclable cabinet. At present we're at around 90%, and we're working on how to improve this even further.
- We're also looking at the beginning of our cabinet's lifecycle and aiming to maximise the percentage of recycled materials that they are made from. At present 35% of the wood content in the chipboard used to make our cabinets is recycled. Some of that is from our own wood waste which we collect from depots and take back to our main board supplier who then recycles it into new board. We're using our membership of the Ellen MacArthur Foundation Network to look at other circular opportunities.

Our sourcing strategy

- 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.

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 certification by the end of 2022.

2021 update: At the end of 2021, 95.5% of all our kitchen frontals were made from FSC® or PEFC certified materials. We are on track to achieve our 100% target by the end of 2022. All the frontals which we manufacture ourselves are certified, and we insist that all new frontals which are manufactured by third parties are accredited. The small number of frontals which are not accredited belong to old ranges which have been discontinued and will no longer be offered for sale after the first quarter 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.

2021 update: Our new Supplier Code of Conduct has been issued to all suppliers, and mandates that they use the Sedex responsible sourcing platform. We are in the process of working with our suppliers to make sure that they are on credible pathways to achieving this.

TARGET: 100% recycled corrugated cardboard in our own packaging by the end of 2022.

2021 update: 100% of the cardboard packaging used in our own-manufactured frontals and panels is recycled, recyclable and FSC® certified.

The packaging we use to protect our cabinets uses a specialist type of paper as part of the packing cushion which is recyclable and FSC® certified but which is not made using recycled cardboard. Our packaging suppliers have tested alternatives and established that in order to make the cushions 100% recycled the processes they would have to adopt would have a more detrimental effect on the environment than continuing with the current product. We continue to look for a recycled alternative.

Our environment

Reducing waste, responsible operations, lowering emissions

2021 highlights

- **Maintaining zero to landfill in 2021 in our manufacturing and logistics operations.** We were very pleased to achieve this in 2020 through our approach of 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. We have maintained this performance in 2021 and this is our target for the future.
- **Less than 1% to landfill in our UK depots in 2021.** This metric is part of one of our main ESG commitments, and we've made significant progress in 2021. See page 50 for more details.
- **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 encourages us to look for improvements.
- **Sawdust-to-heat.** In 2021 we converted 14,000 tonnes of sawdust into energy in biomass boilers at our Runcorn and Howden factories. This is enough sawdust to fill 17 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 40,000mWh of energy from our biomass boilers, equivalent to the average electricity consumption of over 11,000 households.

KPI

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

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.
2021 update: Exceeded 2021 interim target. See page 50.

COMMITMENT: Carbon neutral manufacturing by the end of 2021.
2021 update: Achieved. See page 50.

SECR Reporting

Energy efficiency initiatives

We have held the Carbon Trust Standard for Carbon since 2012, with a commitment to reduce TCO_2e/£m turnover by 2.5% p.a. Examples of our main measures to achieve this were replacing inefficient assets with energy-efficient equipment (such as LED lighting, efficient extraction system drive motors, compressed air system optimisation with leak detection), and logistics fleet efficiencies through driver training and trailer fill optimisation. Our new warehouse campus of 1.6m ft² at Raunds is built to a BREEAM Very Good status, and we started decarbonisation of our car fleet with 150 hybrid & electric vehicles introduced in 2021.

Use of renewable energy sources and carbon offsets

Since January 2021, our UK manufacturing sites bought all grid electricity from renewable sources backed by Renewable Energy Guarantees of Origin. This avoided equivalent carbon emissions of 4,125 tCO_2e. This is reflected in our market-based emissions which we are reporting for the first time in 2021. Our factories at Howden and Runcorn are heated by biomass boilers with fuel certified as sustainable and recognised under the Renewable Heat Incentive scheme by OFGEM. In 2021, these boilers generated 41,882mWh of heat. In 2021, we also purchased 12,648 tCO_2e of Gold Standard carbon offsets in support of our achievement of carbon neutrality at our Howden and Runcorn manufacturing sites. Details of the offsets, together with a link to the independent certification registry are on page 50.

SECR - Emissions reporting

Turnover increased by 35%, gross emissions increased by 12%, gross carbon intensity (turnover-based) ratio improved by 17%

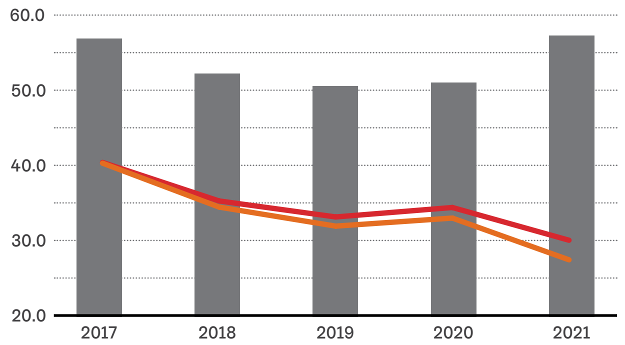
Emissions reporting methodology

We have used HM Government Environmental Reporting Guidelines including Streamlined Energy and Carbon Reporting guidance. Scope 1 and 2 carbon emissions are calculated in accordance with the WRI GHG Protocol, A Corporate Accounting and Reporting Standard (Revised edition), using the UK published DEFRA 2021 emissions factors. Market-based emissions are reported in accordance with the GHG Protocol Scope 2 Guidance - An amendment to the GHG protocol.

Our calculations are subject to internal quality checks at the initial data analysis and final report collation stages. They are not yet externally validated. The boundary of our reporting is all Scope 1 and 2 emissions within Howden Joinery Group Plc operational control, including all subsidiaries and international operations in France and Belgium. There are no process emissions within Howdens as defined in the GHG Protocol. Biomass emissions are pro-rated across 365 days due to the metering systems output alignment outside of the reporting period in this report.

	2021	2020
Scope 1 - Direct: Gas	15,707	13,032
Scope 1 - Direct: Diesel	27,626	24,744
Scope 1 - Direct: Other fuels	1,684	629
Scope 1 - Direct: Biomass	642	651
Scope 1 - Direct: Total	45,659	39,057
Scope 2 - Indirect: Electricity (location based)	11,585	11,967
Scope 2 - Indirect: Electricity (market based)	7,460	
TOTAL Scope 1 and 2 Gross emissions (location based)	57,243	51,024
TOTAL Scope 1 and 2 Gross emissions (market based)	53,118	
Carbon offsets tCO_2e	(12,648)	(9,168)
TOTAL Scope 1 and 2 Net emissions (market based)	44,595	41,856
Turnover (£m)	2,093.7	1,547.5
Carbon Intensity ratio (tCO_2e per £m turnover) Gross (location based)	27.3	33.0
Inflation adjusted intensity ratio (tCO_2e per £m turnover) Gross (location based)	29.9	34.4
Additional carbon intensity ratio (tCO_2e per £m turnover) Net (market based)	19.3	
Additional Inflation adjusted intensity ratio (tCO_2e per £m turnover) Net (market based)	21.1	
Energy consumption used to calculate above emissions (kWh)	308,287,234	274,272,777
Proportion of CO_2 emissions generated in the UK:	99.0%	99.1%
Proportion of total energy consumed (kWh) in the UK:	98.6%	98.8%

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 and partnerships

2021 highlights

Giving back to local communities

Howdens depots are part of the communities in which they serve. Our employees are from the communities where they work and through their work they build networks and relationships with local builders, local businesses and local people. That is why we think that our employees know what charitable support their communities need.

Every Howdens depot has a charity pot for use in their area. They can support larger, national charities if appropriate or they can donate to hospices, youth sports clubs or community groups. Whatever they think is best for the people in their community. Depots can also donate stock where needed. This was perhaps best demonstrated by our Belgian depots who donated €11k of kitchen appliances to help the relief efforts following the summer floods.

In 2021 Howdens donated £2.0m to a diverse mix of charities and community groups. More information on our support of local communities can be found at https://www.howdens.com/help-and-advice/about-us/charities

Inspiring and motivating young people

In 2020 we reported that Howdens had donated a fully fitted double-decker bus to the 'I can & I am' charity. The charity's purpose is to inspire confidence in young people and 'inflate balloons of self-belief'. The bus enables the 'I can & I am' team to visit schools and host workshops for children.

In 2021, Howdens began a £100k partnership with 'I can & I am'. This donation is used to cover the running costs of the bus and enable the 'I can & I am' team to focus on delivering workshops and mentoring. Since May 2021, over 3,300 children have attended workshops on the bus, the majority of whom were between 10 and 15. Find out more at: https://www.icanandiam.com/the-bus/

Solutions for independent living

Howdens continues to donate accessible kitchens to Leonard Cheshire Disability and installed 14 during 2021 (2020: 5).

Our kitchens have a huge impact on Leonard Cheshire's service users, enabling them to build and develop their life skills through cooking. This is beneficial for wellbeing with many recipients of our accessible kitchens noting that their confidence has improved, and they have become more independent as a result.

Our partnership with Leonard Cheshire is now in its seventeenth year and we look forward to donating more accessible kitchens and finding solutions for independent living in the year ahead.

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

ONGOING WORK: Improve how we organise our charitable giving and better help the communities in which we work, whilst retaining our core strength of local giving through local networks.

2021 update: In 2021 we incorporated the Howdens Worthwhile Foundation and will apply for charitable status for the foundation in 2022. The Howdens Worthwhile Foundation will help us better coordinate our charitable and community efforts. We believe that our efforts are most effective when they are aligned to our values. The local depot donations will continue to be central to the work of the Howdens Worthwhile Foundation, but it will also look for other opportunities to support the wider community under three broad themes: inspiration, motivation and perspiration.

We will provide an update on the work of the Howdens Worthwhile Foundation in the 2022 Annual Report.

Going Concern and Viability statements

Going Concern

The Directors have adopted the going concern basis in preparing the financial statements 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.

Going concern review period

The going concern review period covers the period of 12 months after the date of approval of these financial statements. The Directors consider that this period continues to be suitable for the Group.

Assessment of principal risks

The Directors have reached their conclusion on going concern after assessing the Group's principal risks. Pages 38 to 45 give more detail on these risks, their potential impacts and mitigations, and include a discussion of the effects of COVID-19 and Brexit.

Whilst all the principal risks could have an impact on the Group's performance, the specific risks which could most directly affect going concern are the risks relating to continuity of supply, changes in market conditions, and product relevance. The Directors note that the Group is currently holding additional amounts of fast-moving stock items as a specific mitigation against supply chain disruption, and they consider that the other effects of these risks would be reflected in lower sales and/or lower margins, both of which are built into the financial scenario modelling described below.

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

The Directors have reviewed trading results and financial performance in 2021, as well as early weeks' trading in 2022. They have reviewed the Group balance sheet at December 2021, particularly noting that the Group is debt-free, has cash and cash equivalents of £515m, and has appropriate stock levels.

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

1. **A 'base case' scenario.** This is based on the final 2021 Group forecast, made in November 2021 and including the actual results of the 2021 peak sales period.

   The basis of this scenario has been approved by the Board. It assumes future revenue and profit growth in line with management and market expectations as well as significant capital expenditure to support that growth and cash outflows for dividends and share buybacks.

2. **A 'severe but plausible' downside scenario.** This scenario starts with the base case described above - and models a going concern period where those sales are down by 7% and margin is down by 2%.

   This level of reduction in sales and margin has been chosen as it replicates the worst fall ever experienced in the Group's 25-year history. It is worse than the combined effect of COVID-19 and Brexit on 2020 actual performance where sales were down 2.3% on the previous year and margin was down by 2%.

   This scenario includes capital expenditure which is lower than in the base case, but which is still in line with our announced strategic priorities for growth, namely: new depot openings and refurbishments; additional investment in our manufacturing sites, and additional investment in digital. This scenario models a reduction in most of the variable cost base in line with the reduction in turnover. It includes dividends at a level of dividend cover in line with the Group's stated policy, but it assumes no share buybacks.

3. **A 'reverse stress-test' scenario.** This scenario starts with the severe but plausible downside 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 further mitigating actions.

   Capital expenditure in this scenario has been reduced to a 'maintenance' level. Variable costs have been reduced in line with the reduction in turnover on the same basis as described in the severe but plausible downside scenario. It assumes no dividends or share buybacks.

Results of scenario testing

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 a significant amount over and above the fall modelled in the plausible downside scenario 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.

Going Concern and Viability statements continued

Going Concern continued

Borrowing facilities available but not included in the scenario modelling

The Group has a bank facility which allows borrowing of up to £140m, which expires in December 2023 and whose other main details are set out in note 19 to the financial statements. The facility has not been used at any time since it was set up. All the going concern scenarios are modelled on the basis that the Group does not draw on this facility.

Conclusion on going concern

Taking all 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 Group will have adequate resources to continue in operational existence for the going concern review period set out above. 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 Group's long-term prospects, solvency and liquidity, with particular reference to the factors below:

Current position

- History of profitable trading, with strong net profit margins.
- Cash and cash equivalents balance at December 2021 of £515m.
- 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. Unused, but available 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.
- Demonstrated agility and resilience of the business model to adverse economic conditions.
- 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 45, together with details of the principal risks and mitigations.
- The Directors are satisfied that they have carried out a robust assessment of the Group's principal risks.

Long-term prospects and viability continued

Assessment of viability

Time period and scenario modelling

The Directors' review of the Group's long-term viability used a three-year period to December 2024. This was considered to be the most suitable period as it aligns with the Group'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 takes the base case described in the discussion of going concern above and extends it over the viability assessment period. It assumes an increase in sales and profit, capital expenditure in line with our plans for growth and investment in our strategic priority areas, and cash outflows for shareholder returns.

2. The severe but plausible downturn scenario takes the same decline over the going concern period as described in the discussion of going concern above, and then assumes a phased recovery over the rest of the 3-year period. It assumes that sales recover cautiously. On gross margin, which had been modelled at 2% down on the base case over the going concern period, the model assumes an improvement of 1% each subsequent year, thereby returning to the base case margin level by the end of the viability assessment period. It assumes capex which is less than the base case, but which is still in line with investing in our strategic priorities, dividends in line with our current level of dividend cover, and no share buybacks.

3. In the reverse stress-test scenario, the model assumed a phased recovery of margin and profit on the same bases as for the severe but 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 Group's principal risks are unlikely to be greater than those effects which were modelled in the severe but plausible downside and reverse stress-test scenarios.

Results of scenario testing

The results of the base case and plausible downside scenario modelling showed that the Group would have sufficient cash over the viability assessment period and would not need to use its lending 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 Group would need to use its borrowing facility at any point over the viability period was over three times the fall modelled in the severe but plausible downturn scenario.

None of the scenarios relied on the Group making use of its lending facility.

Conclusion on viability

Having considered the Group's current position, strategy, business model and principal risks in their evaluation of the prospects of the business, and having reviewed the outputs of the scenario modelling, the Directors concluded that they have a reasonable expectation that the Group will continue to operate and to meet its liabilities in full and as they fall due during the three year period to December 2024.

Further reading relevant to going concern and viability

Principal risks and mitigations, including a review of the risks arising from COVID-19 and Brexit	**Pages 38 to 45**
Management actions to secure stock availability	**Page 24**
Trading results	**Pages 32 to 37, and the Financial Statements**
Balance sheet	**Page 149**
Details of our £140m borrowing facility	**Page 169**
Auditor's report, with details of their work and conclusions on going concern and viability	**Pages 186 to 194**

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 82 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 82 and 83. On page 83, 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 145 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:

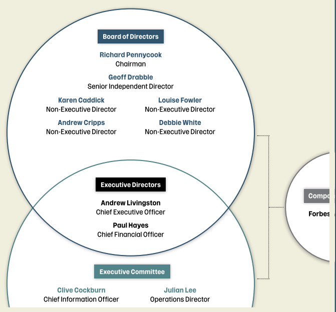
Andrew Livingston	**Paul Hayes**
Chief Executive Officer	**Chief Financial Officer**

HOWDENS

Governance

How we preserve value

Corporate governance report



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Board of Directors

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Key Board activity

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Executive Committee and Company Secretary

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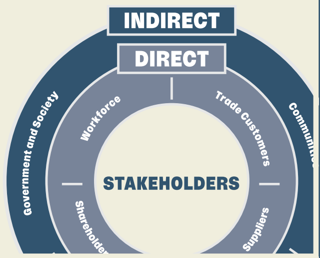
Section 172(1) statement and stakeholder engagement



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UK Corporate Governance Code application and compliance

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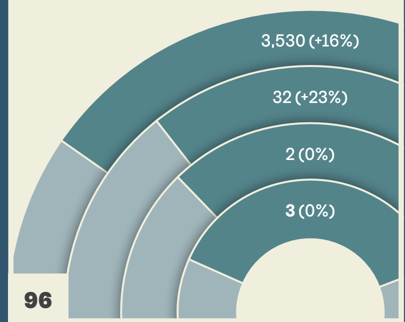
Nominations Committee report



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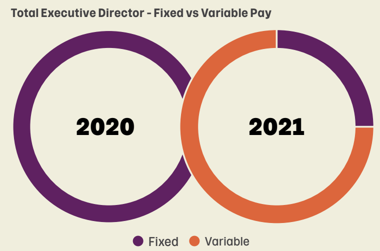
Remuneration Committee report



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Audit Committee report

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Sustainability Committee report

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Corporate governance report

Board meeting attendance

Richard Pennycook (7/7)
Karen Caddick (7/7)
Andrew Cripps (7/7)
Geoff Drabble (7/7)
Louise Fowler (7/7)
Paul Hayes (7/7)
Andrew Livingston (7/7)
Debbie White (7/7)

Using the corporate governance report

Part 1: Board and Executive Committee profiles and key Board activity during the year.

Part 2: Directors' duties and section 172 disclosure.

Part 3: Stakeholder engagement.

Part 4: UK Corporate Governance Code compliance.

2022 Annual General Meeting (AGM)

Details of the 2022 AGM may be found in the 'Additional information' section on page 202.

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 202 and 203.

Richard Pennycook
Chairman

Introduction from the Chairman

I wrote in this report in 2020 that COVID-19 had impacted all of our lives in ways we could not have imagined a year ago. Sadly, this continues to be true. We started the year locked down, although thankfully still trading, and the first two Board meetings of the year were held virtually. Once again, we are having to manage with a further wave of the pandemic and, as before, we will prioritise the health and safety of our employees and customers first.

Resilience

Our strong trading performance this year has been underpinned by good governance practice, which has given the business the resilience to prosper even in challenging times. It would be easy to assume that this resilience was just inherent within the business, but that is not the case. It comes from good governance, clear accountabilities and reporting lines, careful planning and relentless execution.

A good example of this resilience in action can be seen in the position taken in relation to safety stock. Long before consensus had moved from 'just in time' to 'just in case', Howdens had built significant safety stocks in order to safeguard its in-stock offering. Originally done as a measure to safeguard against the impact of Brexit, contingency stocks of fast-moving products have been increased since the start of the pandemic. This meant that, even in the face of significant disruption in global supply chains, Howdens was able to continue to supply its customers with kitchens. The Board received regular updates from the Supply Chain Director as well as updates from the CEO and CFO and were supportive of the position taken on inventory.

Our stakeholder relationships are also vital in building resilience and safeguarding value, and the Board will continue to focus on these relationships. Our contingency stock build would not have been possible without strong supplier relationships. Similarly, our relationship with employees meant that we were not impacted by the HGV driver shortage as others were. But in addition to fostering good stakeholder relationships, resilience also comes from good business as usual governance safeguards. During the year the Board continued to prioritise health and safety, risk and whistleblowing. In early 2022, the Board will appoint new auditors (more information on this can be found on pages 137 and 138) and we will ask shareholders to approve an updated Directors' Remuneration Policy (which begins on page 111).

Sustainability

With the exception of COVID-19, the overarching theme for 2021 has been sustainability. Businesses and individuals have been challenged to consider the sustainability of their behaviours to try and prevent irreversible climate change and to address the social inequities that we face. In 2021, we have built on our existing climate risk and governance structures and have begun a wide-ranging Task Force on Climate-Related Financial Disclosures ('TCFD') implementation project, which we report on in more detail beginning on page 52.

The Board also set up a Sustainability Committee during the year to provide a separate forum, not impacted by the time pressures of the wider Board agenda, in which these matters could be properly considered. The report of the Sustainability Committee is set out on page 142. More detail on sustainability initiatives can be found in our Sustainability Matters report, which starts on page 46.

This is clearly an area where the Company will engage with stakeholders and report in greater detail going forwards.

Pensions

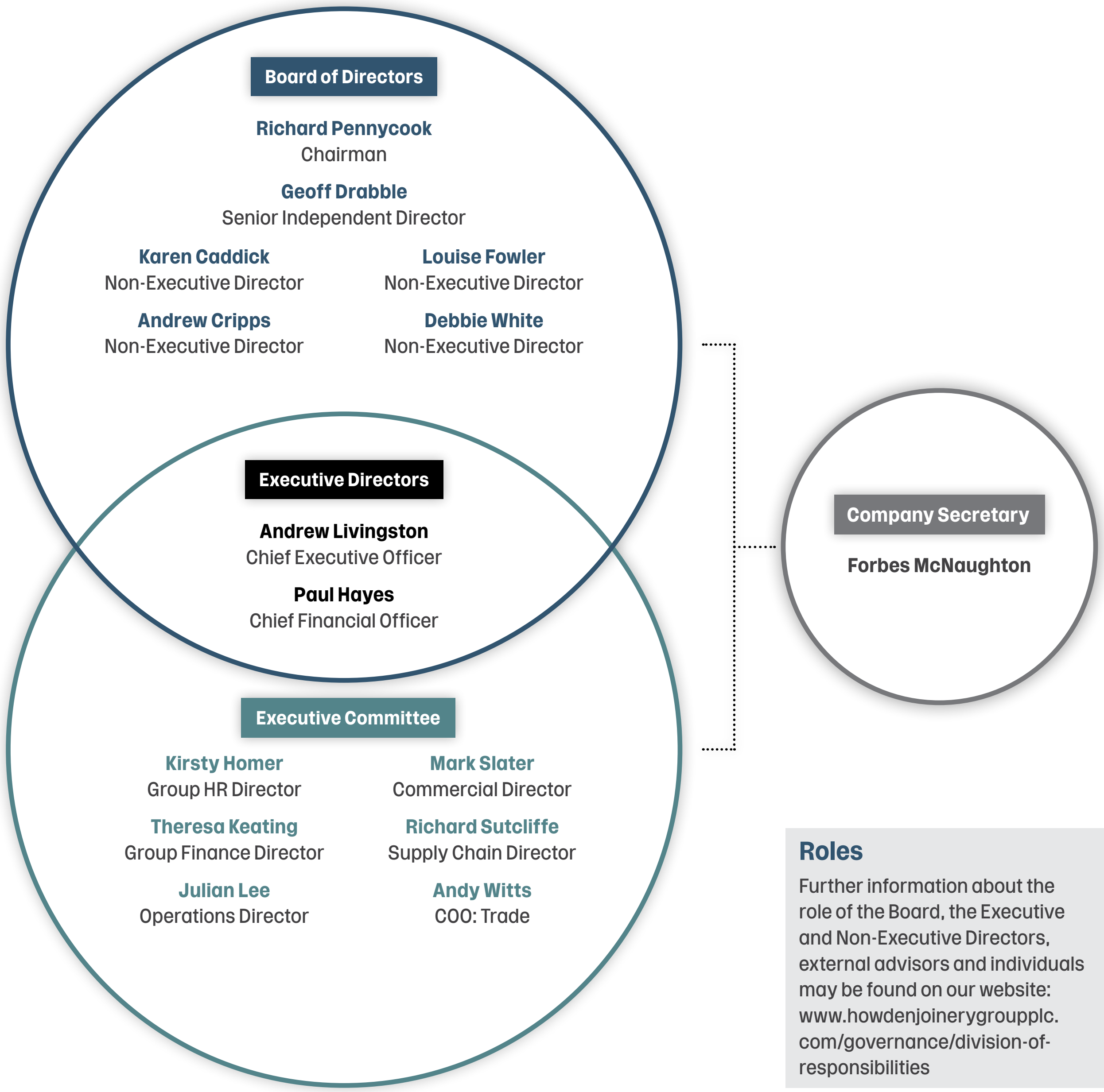
2021 was a significant year for the Company and the Board in respect of the Defined Benefit Pension Plan (the 'Plan'). During the year, the Plan's funding position improved so that it was in surplus on a technical provisions basis. It has remained there since and, due to the funding arrangements agreed with the Pension Trustees, Company contributions to the deficit have ceased. The Plan was also in surplus on an IAS 19 accounting basis.

In January, the Board approved the closure of the Plan to future accrual. The rationale for doing so was very clear:

it would ensure greater certainty and predictability of Plan costs which would help support the long-term viability of the Company. The two-tier pension structure which had developed was also at odds with Howdens' underlying ethos that it should be worthwhile for all concerned and provision of more equitable pension benefits across the workforce was also a determining factor when considering closure. While difficult for those employees affected, Howdens goes into 2022 with a much-improved retirement savings offering for the majority of its employees which, from April 2022, will be aligned across the organisation.

Such decisions demonstrate that the principle of worthwhile for all concerned continues to form the basis upon which all Board decisions are made.

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

Key to Board Committee membership
A Audit Committee
N Nominations Committee
R Remuneration Committee
S Sustainability Committee
◯ Chair of 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.

Executive Directors

Andrew Livingston
Chief Executive Officer

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

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.

Other listed company appointments
Non-Executive Director at LondonMetric Property Plc

Committee Membership

Paul Hayes
Chief Financial Officer

Appointed
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.

Other listed company appointments
None

Non-Executive Directors

Richard Pennycook
Independent Non-Executive Chairman

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

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.

Other listed company appointments
Chairman of On the Beach Group plc

Committee Membership
N S

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

Appointed
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.

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.

Other listed company appointments
Chairman of Ferguson Plc
Chairman of DS Smith Plc

Committee Membership
A N R S

Karen Caddick
Independent Non-Executive Director

Appointed
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 RSA Insurance Group Plc (now RSA Insurance Group Limited), 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.

Other listed company appointments
None

Committee Membership
A N R S

Andrew Cripps
Independent Non-Executive Director

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

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.

Other listed company appointments
Deputy Chair of Swedish Match AB

Committee Membership
A N R S

Louise Fowler
Independent Non-Executive Director

Appointed
Louise was appointed to the Board in November 2019.

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 also provides valuable insight given the investment the Company continues to make in its digital programme. Louise is an Honorary Professor in Marketing at Lancaster University Management School.

Other listed company appointments
Non-Executive Director of Assura Plc

Committee Membership
A N R S

Debbie White
Independent Non-Executive Director

Appointed
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 CFO and as Chair of the Audit Committee of the charity Wellbeing of Women ensures Debbie has strong financial awareness and competence. Debbie is currently interim HR Director at BT Plc and has also supported Howdens management in the formation and delivery of its Equality, Diversity and Inclusion (EDI) programme.

Other listed company appointments
Non-Executive Director of PAVmed Inc.[1]

Committee Membership
A N R S

1 The Board considered Debbie's appointment as Non-Executive Director of PAVmed Inc. prior to her appointment. The Board was satisfied that Debbie had the requisite time available to commit to her responsibilities in her role as Non-Executive Director of Howdens. Further information is available on page 92.

Corporate governance report continued

Key Board activity

Set out below and on the facing page are highlights of the matters the Board considered in 2021 and will consider in 2022. 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 2021 timeline, 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.

2021

January
- Health and safety
- Defined Benefit Pension Plan closure
- 2021 budget
- Investor relations update

Executive Committee presenters: RF KH TK JL AW

February
- ESG update
- Draft 2020 preliminary results
- Draft 2020 Annual Report and Accounts and 2021 AGM documents
- Dividend and capital returns strategy, including Special Dividend
- Investor relations update
- Risk update
- Non-Executive Directors' fees
- Principal Advisors

Executive Committee presenters: RF

April
- Health and safety
- Group Policies and Statements
- Investor relations update
- Dividend Reinvestment Plan introduction
- Share Incentive Plan expansion
- Strategic planning (separate session)

Executive Committee presenters: AG KH TK JL MS RS AW

May - AGM

Details of how the meeting was held in a COVID-safe manner may be found on page 88. All resolutions were passed with the requisite majority.

June
- Health and safety
- Appointment of new external auditor
- Pensions update[2]

July
- ESG review (including EDI)
- Health and safety
- Strategy update, including capital allocation
- Broker update
- Investor relations update
- Digital update
- Draft interim results and announcement
- Principal Risks

Executive Committee presenters: MS AW

September
- Warehousing proposal
- Supply Chain update
- France and Belgium update
- Health and safety
- Investor relations update
- Pensions Scheme Act 2021 training

Executive Committee presenters: RS

November
- Update on strategic initiatives
- Periods 10 and 11 performance
- Health and safety
- Pensions update[2]
- Investor relations update
- Schedule of Matters Reserved for the Board and Board Committee Terms of Reference
- 2022 Board calendar

Executive Committee presenters: AG

2022

January
- 2022 Budget
- Health and safety
- Whistleblowing report
- Investor Relations
- Governance update
- Review of Principal Risks
- Board evaluation feedback

February
- Draft 2021 preliminary results, draft 2021 Annual Report and Accounts and 2022 AGM documents
- Shareholder and capital returns
- Health and safety
- NED fees
- Principal advisor review
- Approval of principal advisors

April
- Strategic opportunities and long-term planning
- Health and safety
- Pensions
- Investor Relations

May
- AGM - further details on page 202

June
- Trading update
- AGM feedback

July
- HR update
- France and Belgium
- Health and safety
- Draft 2022 Interim results
- Key risks review
- Broker update
- Whistleblowing report

September
- Supply chain update
- Manufacturing and logistics update
- Employee engagement
- Health and safety
- Investor relations update
- Key risks

November
- Trading and commercial update
- Health and safety
- Investor relations update
- Corporate governance update (including presentation from the Group's corporate lawyers)
- Board Committees' Terms of Reference review
- Schedule of Matters Reserved for the Board review
- 2022 Board calendar

Executive Committee presenters

RF	Rob Fenwick (Chief Governance Officer)[1]
KH	Kirsty Homer (Group HR Director)
TK	Theresa Keating (Group Finance Director)
JL	Julian Lee (Operations Director)
AW	Andy Witts (COO: Trade)
AG	Andy Gault (Group Digital Director)
MS	Mark Slater (Commercial Director)
RS	Richard Sutcliffe (Supply Chain Director)

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 45. 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.

Shareholder engagement

Information about how we engage with shareholders can be found in our section on Stakeholder Engagement on pages 88 and 89.

1 Rob retired from the Executive Committee in February 2021.

2 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.

Corporate governance report continued

Executive Committee and Company Secretary

Executive Committee members

Kirsty Homer
Group HR Director

Appointed

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

Experience and contribution to creating value in the business

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.

Kirsty is key in ensuring the business has the right people and talent to fulfil its strategic aims. Following the retirement of the Chief Governance Officer, Kirsty has led the business's Equality, Diversity and Inclusion (EDI) agenda and has been instrumental in designing its EDI strategy and gaining agreement on priority areas.

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.

Theresa leads the key controls project, which is improving the business's capability to identify operational, IT and financial controls which mitigate our key and principal risks. Following the retirement of the Deputy CEO & CFO at the end of 2020, Theresa has also provided valuable stability and continuity in the Finance function.

Julian Lee
Operations Director

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

Prior to joining Howdens, Julian worked in a number of strategic and operational roles within the Silentnight Group. He joined Howdens in 2003 as a leader of the Manufacturing Division and from 2005 to 2009 was head of international sourcing and supply chain in Asia. Since 2009, Julian has made a major contribution to the transformation of our supply chain and operations and in 2020, he was appointed Operations Director, encompassing both manufacturing and logistics.

Julian leads our strategic manufacturing investments, including increased in-house manufacturing capability and capacity.

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, The Walt Disney Company and Dixons Carphone.

Mark's role as Commercial Director includes range management, which is one of the business's key strategic initiatives. Balancing choice and new product with disciplined range management is crucial to ensuring both availability and profitability.

Richard Sutcliffe
Supply Chain Director

Richard joined Howdens in January 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.

Richard's role as Supply Chain Director encompasses optimising stock holdings across the business and ensuring Howdens maintains market leading stock availability. He is also leading the XDC project, which is delivering 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.

Andy has overall responsibility for the performance and culture of depots and associated support functions in the UK and Ireland. He oversees the evolution of our depot estate, including our strategically important depot reformatting and the opening of new depots. He is key in ensuring our depots build trusted relationships with local tradespeople.

Company Secretary

Forbes McNaughton
Company Secretary

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

Experience and contribution to preserving value in the business

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

Forbes is the link between the Executive Committee and the Board and is responsible for managing a number of external stakeholder relationships such as with the Pensions Trustees and external regulators. He is the head of the legal function in addition to his corporate governance responsibilities.

Executive Directors

Andrew Livingston
Chief Executive Officer

Paul Hayes
Chief Financial Officer

Andrew and Paul's profiles may be found on page 76

Strategic report
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Additional information

Corporate governance report continued

Directors' duties

Section 172(1) statement

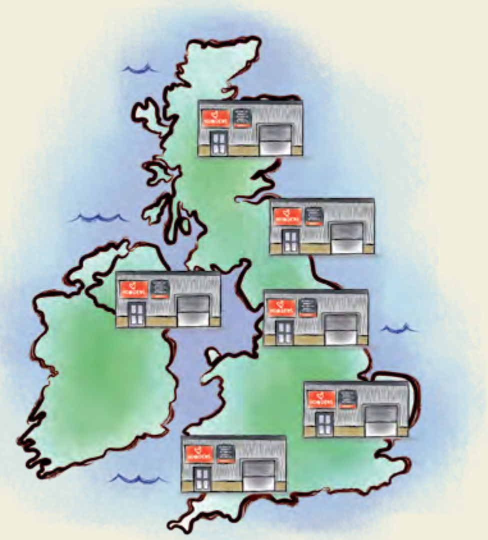
A director of a company is required to act in a way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, the director must have regard, amongst other matters, to the following:

Environment and community

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

Long-term thinking

The likely consequences of any decision in the long term.



Reputation

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

Investors

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

Suppliers

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

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 2021 please see pages 78 and 79.

The Board regularly considers feedback from the Company's stakeholders. These are set out in detail on pages 84 to 89. 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. The Board also established the Sustainability Committee during the year to consider environmental and societal matters in more detail (see pages 142 and 143 for more detail on the Committee's duties and remit). The work of this committee will directly affect the Board's decision making.

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 2021.

Defined Benefit Pension Scheme Closure

In January 2021, the Board approved the closure to future accrual of the Defined Benefit Pension Plan ('DB Plan') with effect from 31 March 2021. The closure followed a period of formal consultation with DB Plan members, the DB Plan trustees and collective bargaining groups.

When considering the closure of the DB Plan, the Board was keenly aware of the competing interests of the stakeholders involved and therefore ensured its decision making was ultimately driven by the need to offer pension provision which was worthwhile for all concerned and sustainable in the long-term. In line with this, the Board was clear that the defined contribution scheme (DC Plan), into which DB Plan members would move and in which most UK employees were participating already, needed to be made more competitive in addition to the DB Plan closure, and it therefore approved a competitive new DC Plan design.

In coming to its decision to close the DB Plan and to approve a new design for the DC Plan, the Board was mindful of the potential negative impact on existing DB Plan members' future pension benefits; however, it considered that the following benefits of the closure were substantial:

- Greater certainty and predictability of DB Plan costs and contributions from the Company, which in turn supports the long-term viability of the Company to the benefit of its investors, workforce, customers, pensioners, and suppliers; and
- Provision of more equitable pension benefits across the workforce and greater flexibility of pension benefits to tailor to individuals' circumstances.

To further reduce the impact of closure on DB Plan members, and in line with feedback given during the consultation period, the Board approved the use of transition payments and a change to the rules to allow DB Plan members who remained employed until retirement to use their top up DC Plan funds as their tax-free retirement lump sums.

Capitol Park - warehousing strategy

In September 2021, the Board approved a new warehousing facility close to our Howden site. The rationale behind such a decision was to further support the successful vertical integration strategy by securing long-term warehousing for its manufactured stock, the manufacturing capabilities for which had seen significant investment approved in 2020.

In reaching its decision to approve the lease of the Capitol Park facility, the Board considered the likely consequences of its decision in the long-term. Whilst the Board was mindful of the impact of increased in-house manufacturing capability on some existing supplier relationships, it noted that the benefits of the proposals included shareholder value creation and environmental benefits, the leasing of one large site being more cost and energy-efficient than the leasing of several smaller sites over a wider geographic spread. In addition, Capitol Park will afford the business the flexibility to use more of the space at the Howden site for manufacturing in future, further supporting its vertical integration strategy. The Board also noted that there was the potential for job creation through the lease of an additional site and that the additional warehousing space supported the business model by ensuring the Group could remain in-stock for the benefit of its trade customers.

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.

Shareholder returns - special dividend

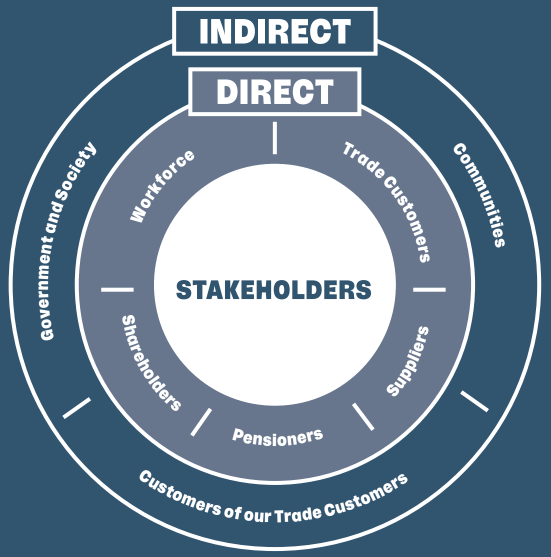
Following the decision to suspend dividend payments in 2020 due to the impacts of the COVID-19 pandemic, the Board approved the payments of a final dividend (in respect of the year ended 26 December 2020), a special dividend, and an interim dividend in 2021.

In coming to its decision to pay a special dividend (equivalent to the cancelled 2019 final dividend), the Board considered the health of the Group's finances, future investment opportunities, expected peak working capital requirements, and trading outlook, and noted the strong trading and cash performance in the second half of 2020. The Board also took this decision following the repayment of all financial support the business received in 2020 under the Government Coronavirus Job Retention Scheme and the payment of any deferred payments ahead of agreed schedules (see page 79 of the 2020 Annual Report and Accounts). This was the right thing to do at the time given the Board's wider statutory obligation to society as well as its shareholders. Shareholder feedback at the time was also supportive of the decision. However, once other stakeholders had 'been made whole', the Board considered it important that cash returns to shareholders should resume and that shareholders, a significant number of whom are also employees in the Group, should receive a one-off additional return given the strong position of the Group.

Corporate governance report continued

Stakeholder engagement

Howdens' stakeholders



Stakeholder and forms of engagement

Workforce

Engagement with our workforce includes the following:

- **Regional Board meetings**
- **Employee engagement surveys**
- **Senior leadership meetings**
- **Town hall meetings**
- **Trade union and works council meetings in manufacturing**

Non-Executive Director responsible for workforce engagement

In 2019, the Board appointed Geoff Drabble as the Non-Executive Director responsible for workforce engagement.

Regional Board meetings

Regional Board meetings are a forum for the depot leadership team and Executive Committee members to discuss strategy and day-to-day business matters on a regular basis. Our COO of Trade attends all meetings and all regional directors, area managers and depot managers attend the meetings applicable to their region. Our CEO attends a number of these meetings each year. Certain support functions (including Finance and HR) also regularly attend. One Regional Board meeting is held per region per period, providing over 100 opportunities each year for two-way discussions about critical business issues.

Defined Benefit Pension Plan ('DB Plan') consultation

At the end of 2020 and beginning of 2021, team briefings with management groups and trade union representatives were held to gather views on the proposed closure to the DB Plan to future accrual. Internal communication channels were used to keep the workforce informed of the consultation progress and the outcomes of the process. The closure of the DB Plan was agreed with the Pension Trustees and the trade union, and approved by the Board to take effect in March 2021. Further information regarding the outcome of the consultation is available on pages 83 and 89).

Local engagement surveys and employee forums

Following a period of significant sales growth and the introduction of new ways of working in depots due to COVID-19, the trade leadership team decided to use local engagement surveys to understand how our depot teams were feeling and to get feedback on local issues.

Feedback from the surveys identified common strengths across the depot network, including knowing and understanding what the expectation was of individuals, believing depot managers are committed to quality, and believing Howdens to be a great place to work. Common areas for development were also identified and included wanting more opportunities to learn and develop and the opportunity to do what they do best.

Regional directors are leading the follow-up locally, using a combination of general results sharing and one-to-one discussions. Results are being compared across regions to identify further trends.

Building on the success of the all-employee survey in 2019, the business will participate in the Best Companies engagement survey for all employees in March 2022.

In addition, informal feedback sessions are hosted by area managers to address local issues and are usually organised into sessions by job role, but may also be organised by depot or a specific issue. Issues raised are often of a local nature and are resolved locally. Where there are broader issues, area managers will liaise with the wider business for a resolution. These forums also act as an opportunity to exchange best practice as well as to meet colleagues from other depots.

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.

Corporate governance report continued

Stakeholder engagement continued

Trade customers

Engagement with our trade customers includes the following:

- Local depots
- Builder forums
- Cabinet 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 2021, the Regional Board meetings were held both in-person and virtually. From these meetings, managers were able to feedback directly to the CEO, COO of Trade and other senior executives about any matters affecting their depots and their customers.

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.

In 2021, 11 forums were held with our trade customers, 9 of which were held virtually. In response to feedback from the forums, we made a number of product and process improvements, including improving how our back panels are fixed to our base cabinets by investing in an automated process at our Runcorn manufacturing site and by trialling a new size of worktop in selected depots to gauge demand.

The business will once again host Builder Forums in 2022. Depending on the COVID-19 measures in place at the time, these may be held virtually or in-person.

Cabinet research groups

In 2021, four research groups were conducted in-person with a cross section of small builders, landlords, and developers within COVID-safe environments. The participants involved were selected to ensure a balanced mix of customer participants, all of whom had purchased and installed a minimum of two kitchens in the last 12 months.

The sessions were hosted by an independent agency and focused on our cabinets and those of our trade and retail competitors. In particular, cabinet construction, quality and ease of installation were considered. These sessions are key to ensuring that our cabinets are the best in the trade market. Our 2021 session results showed that customers still favour Howdens' rigid units over our competitors' and rank our specification as the best in the market.

However, the feedback also confirmed further opportunities to improve our specification and packaging solution even further. Initiatives are currently underway to explore these opportunities further.

As a result of earlier cabinet research groups, we have halved the allowable tolerance on key cabinet features, making our cabinet measurements even more precise, which enables better assembly of our kitchens by our customers. We achieved this by improving our manufacturing capability on production lines and by implementing exacting controls in our processes. To ensure these new tolerances are maintained, investment was made in a highly accurate, 'state of the art' laser measuring system, which will also be used going forward to validate continuous improvement activities.

Customer surveys

We run a monthly online survey with over 40,000 of our trade customers to gain insight into their trade job activity, the proportion of their spend with us versus competitors, and their overall business 'optimism'. We also use these surveys to engage customers on specific topics such as stock availability in the market, their perception on customer service, product quality, and range feedback. This knowledge allows us to be 'on the pulse' of what is going on in the market and to understand the challenges that our trade customers face.

Suppliers

Engagement with our suppliers includes the following:

- Supplier conference
- Category team relationships

Supplier conference

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.

In 2021, due to COVID-19 restrictions, the business hosted its annual supplier conference, 'Playing to Win', virtually. The conference was used to maintain the ongoing conversation with our key partners, informing them of the key initiatives and business priorities and to ensure we continued to take advantage of the range of opportunities throughout the year. The session was attended by over 100 senior executives from our key partners who were given the opportunity to ask questions to our senior leadership team.

Supplier meetings

Throughout 2021, it was extremely important we continued to work closely with our suppliers to navigate the ongoing global supply chain challenges and disruption and to maintain the in-stock promise to our trade customers. In the first half of 2021 this was mostly done virtually as we were unable to travel due to COVID-19 restrictions. However, in the second half of the year as restrictions were lifted we were able to visit our key partners, which in turn contributed to us overcoming any supply chain challenges that we faced ahead of our peak trading period.

Supplier Code of Conduct

In 2021 we updated and re-issued our Supplier Code of Conduct to our supply base. This reinforced our expectations of the supply base and supports the commitments we have set out as part of our sustainability agenda (further information is available in the Sustainability Matters report beginning on page 46).

Category team relationships

Our internal commercial structure is organised into categories. The use of categories 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.

Despite the challenges around travel and material lead-times we have continued to work closely with our key partners on product development. This has continued at pace across all our product categories with a significant amount of new product being introduced throughout the year. This has ensured our trade customers have been able to access the latest trends and products from our depots.

Corporate governance report continued

Stakeholder engagement continued

Pensioners

Engagement with our pensioners includes the following:

- Board engagement with the Trustee Board
- Plan closure consultation
- Newsletters
- Triennial valuations

At 25 December 2021, the Howden Joinery Defined Benefit Pension Plan (the 'Plan') had over 10,500 members, of whom over 6,300 were deferred members, and over 4,100 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 every year and provide an update on matters affecting the membership.

In 2021, the Company engaged with the Trustee Board on a number of matters outside of the normal engagement cycle of investment and funding strategy, including the proposed closure of the Plan to future accrual and new climate-related regulations.

Plan closure consultation

At the end of 2020, the Company entered into consultation with active members (individually and collectively with the trade union) and the Trustee Board on a proposal to close the Plan to future accrual with effect from 31 March 2021.

During the consultation, all parties had the opportunity to raise their views with the Company, and as a result of this process and the feedback received, the Company agreed enhancements to the original proposal. This included the use of transition payments and a change to the rules to allow Plan members who remained employed until retirement to use their top up defined contribution scheme funds as their tax-free retirement lump sums.

Following the closure of the Plan, the active employee members joined the Company's defined contribution pension scheme and, as part of the project to review pension benefits across the business, the Company has increased employer contributions to the defined contribution pension scheme for all employees.

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 31 March 2020 was completed in April 2021.

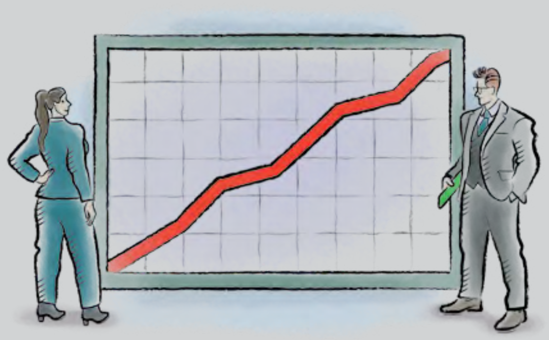
Following the review, the Company agreed to maintain deficit repair contributions at the rate of £30m per year, with an agreed 'switch off' mechanism if full funding on the Technical Provisions basis was met. Full funding on this level was achieved and therefore the deficit repair contributions were suspended in July 2021.

The Company and Trustee Board have also engaged and agreed a long-term funding objective for the Plan with the aim to reduce reliance on the Company. The Trustee Board has an agreed approach to de-risking and triggers and regularly updates the Company.

Shareholders

Engagement with our shareholders includes the following:

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



Annual General Meeting (AGM)

At the time of the 2021 AGM, the UK Government's Coronavirus rules restricted socialising indoors to those in the same household (or within a support bubble) and stipulated that travel should be minimised wherever possible. While the rules allowed for meeting others for work (where it was necessary), this did not include shareholder meetings of public companies.

The 2021 AGM was therefore held with three employee shareholders, one of whom was the Company Secretary and the other the CFO. The minimum quorum required by the Articles of Association was therefore met. The Chairman was also in attendance and chaired the meeting.

However, the Company was keen that its shareholders should be provided with the opportunity to submit any questions they had 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.

Through the questions facility, shareholders submitted questions regarding future dividends, our depots in France, and the environmental credentials of the paper used for our annual reports and notices of AGM. The Company's response to these questions may be found on our website: www.howdenjoinerygroupplc.com/investors/share-price/annual-general-meeting

Shareholder meetings

Following both the full year results and half year results announcements, the Executive Directors spoke with investors owning around one-third of the Company.

Following the release of the full year results in February 2021, feedback from investors included that the Company's ever strengthening competitive position was encouraging, and that the Company's prudent balance sheet management had been a significant advantage throughout 2020.

Following the release of the half year results in July 2021, management once again spoke with investors who referred to uncertain market conditions ahead, but expressed confidence in the Howdens business model and competitive position.

In addition, during the year the Chairman met with shareholders to discuss a wide range of governance matters. The Remuneration Committee and Audit Committee Chairs were also available to meet with shareholders during the year and will be so again in 2022. The Committee Chairs will also present on the work of their respective committees at the 2022 AGM.

Directors' Remuneration Policy consultation

The Chair of the Remuneration Committee invited the Company's principal shareholders and shareholder representative groups to consult on the updated Remuneration Policy. She met with all those that requested meetings and provided written responses to others. Further information about the consultation and its outcomes may be found on page 122 of the Remuneration Committee report.

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. During the year, the Company was compliant with all Provisions of the Code, except for Provisions 38, 40 and 41.

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. In 2021, our Chief Financial Officer (who was appointed to the Board on 27 December 2020) received 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 108 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.

Provision 40 provides that when determining executive director remuneration policy and practices, remuneration committees should address whether remuneration arrangements promote effective engagement with the workforce. Provision 41 provides that the annual report of remuneration committees should include a description of the engagement that has taken place with the workforce to explain how executive remuneration aligns with wider company pay policy. The Remuneration Committee did not directly consult with the workforce on Executive Director pay arrangements during 2021; however, the Committee receives reports from management on pay and benefits across the workforce to ensure that there is good alignment on remuneration across the organisation as a whole. In addition, in 2021, the Board approved an update to the Company's Share Incentive Plan ('SIP'), our UK all-employee share plan, which allows all employees with shares held in the SIP trust to exercise voting rights on those shares. This means our UK employees with SIP shares (a majority of the workforce) are able to vote on the Directors' remuneration report and the Directors' Remuneration Policy (when applicable) at general meetings of the Company. The Remuneration Committee will keep under review the need to engage the workforce more directly on executive remuneration arrangements. Details of how Executive Director pay is considered in the context of the workforce is set out on page 123 of the Remuneration Committee report.

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 2021, the Company (led by the Board) increased shareholder returns, paid more tax, employed more people and contributed to the communities in which we operate. More information on our sustainable business model and strategy can be found on pages 13 to 15 and our contribution to wider society can be found in our Sustainability Matters report beginning on page 46.

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 help to preserve the value that the business generates and how they support the strategy. For example, we have set out the way our remuneration structure supports our strategic aims on pages 124 and 125.

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 8. The Board regularly discusses the importance of Howdens' unique culture and are mindful that it remains aligned with its purpose, values and strategy. 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 84 and 85.

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

Section 1: Board leadership and company purpose continued

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 is 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 29 to 31.

More information on our risk processes, including our principal and emerging risks, can be found on pages 38 to 45. Our Audit Committee report provides a summary of our internal control framework on page 140.

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 84 to 89. How the Board members discharged their 'section 172' statutory directors' duties is described on pages 82 and 83.

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 123.

All employees are able to raise any matters of concern via the confidential whistleblowing helpline. The helpline is available 24 hours a day, it is multilingual, and it is 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 2021 Board evaluation concluded that the Board was effective, professionally run and had worked well during the year. Further information about the outcomes and process of the 2021 Board evaluation may be found on pages 104 and 105 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 76 and 77. 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 has 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 74. Similarly, the number of each Board Committee's meetings and attendance may be found on the following pages: 96 (Nominations Committee), 106 (Remuneration Committee), 134 (Audit Committee), and 142 (Sustainability 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, Debbie White's appointment as Non-Executive Director of the NASDAQ-listed company, PAVmed Inc, was authorised by the Board. Prior to the appointment, the Board considered whether Debbie could allocate enough time to her role as a Non-Executive Director of Howdens and was satisfied that she had the requisite time to fulfil the new role as well as her current role with the Company.

Members of the senior management team regularly presented to the Board on their respective areas of the business (see pages 78 and 79 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 141.

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 101 of the Nominations Committee report and the Board's diversity policy is available on page 100.

The Nominations Committee regularly reviews the skills matrix and the tenure of each Board member (see pages 98 and 101 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 page 97).

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.

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 98.

The tenure of each Director may be found on pages 101 and 102. 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 two years to just over eight years, and the average tenure is just over five 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 2021 Board evaluation process and outcomes may be found on pages 104 and 105 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 76 and 77. 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 2022 AGM Notice. The Board recommends that shareholders vote in favour of the re-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 134.

N

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

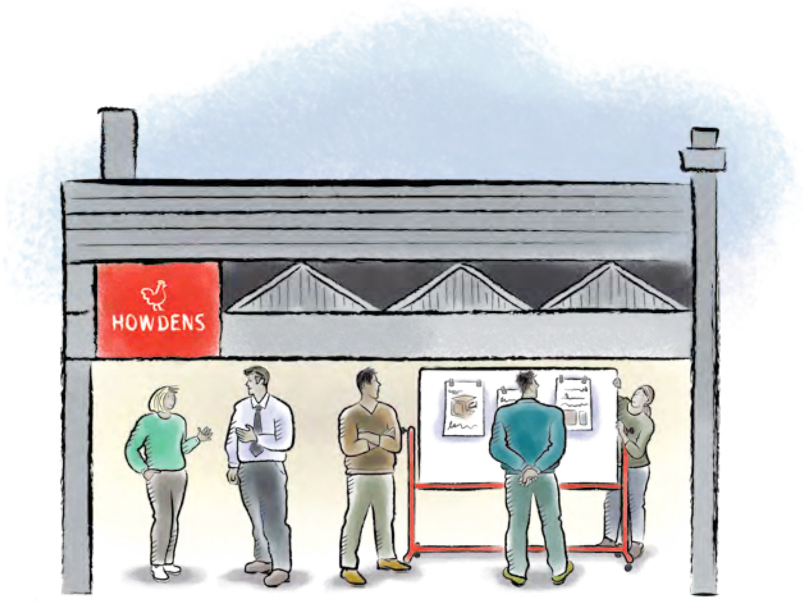
A statement regarding the Directors' responsibility for preparing the Annual Report and Accounts and the Directors' assessment of the Annual Report and Accounts, taken as a whole, as being fair, balanced and understandable and providing the necessary information for shareholders to assess the Company's position, performance, business model and strategy, may be found on pages 70 and 71.

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 'Risk management' and 'Principal risks and uncertainties' sections (see pages 38 to 45) and are satisfied that it accords with the Code and with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. As described in the Audit Committee report on page 140, a key controls project is ongoing across the Group to focus and further strengthen our overall control framework. This work to further enhance internal controls will lead to better assurance and efficiencies through opportunities to formalise and automate controls in a consistent way across the Group.

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 'Risk management' and 'Principal risks and uncertainties' sections (see pages 38 to 45. 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 106.

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 123.

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 109 of the Remuneration Committee report.

By order of the Board

Richard Pennycook
Chairman

23 February 2022

Nominations Committee report

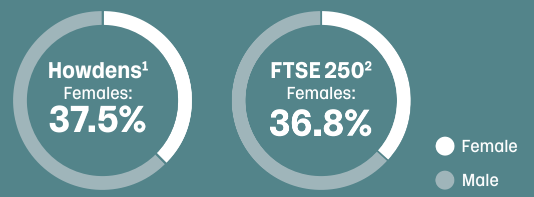
Nominations Committee 2021 meeting attendance

Richard Pennycook (4/4)
Karen Caddick (4/4)
Andrew Cripps (4/4)
Geoff Drabble (4/4)
Louise Fowler (4/4)
Debbie White (4/4)

Key activities in the year ahead

- **All current Directors will stand for re-election at the AGM on 12 May 2022.**
- **Regular updates from the Group HR Director on senior management succession will be provided to the Committee.**
- **The Committee will undertake its review of skills, composition and size of the Board.**
- **A review the Boardroom Diversity Policy will be undertaken.**
- **Executive Committee succession planning and talent management updates will be provided to the Committee.**

Board gender split



1 Figures correct as at 25 December 2021.
2 Figures derived from the 2022 FTSE Women Leaders Review.

Richard Pennycook
Nominations Committee Chairman

Introduction from the Committee Chairman

The role of the Nominations Committee continues to evolve. Whilst maintaining its core responsibilities of succession, composition and evaluation, the Committee recognised in 2021 that there were parts of the Committee's remit, particularly around diversity, which required a more dedicated forum.

Sustainability

At the Nominations Committee meeting in September, the Committee discussed and recommended to the Board that a separate committee of the Board be established to ensure sufficient time and attention was being afforded to key environmental and social priorities. This committee, called the Sustainability Committee, was established in November 2021 and its first report can be found on page 142.

Going forwards the Sustainability Committee will have responsibility for considering the ongoing work of the Equality, Diversity, and Inclusion ('EDI') Group, which continues to have a Board sponsor in Debbie White, as well as initiatives on social mobility and apprenticeships.

The Nominations and Sustainability Committees will continue to work together closely where their respective remits overlap, such as on Boardroom diversity.

Succession

Despite the fact that there were no changes to the Board in 2021, it has nevertheless been a busy year for the Nominations Committee. The Committee was involved with new appointments to the Executive Committee and undertook the search to identify my successor as Chairman of the Board (and indeed the Nominations Committee). Further details in respect of each of these appointments are set out later in this report.

Composition

The Nominations Committee remains mindful of the importance of broadening diversity within leadership and senior management teams. We remain pleased that half of the Non-Executive Directors on the Howdens Board are female, but we are aware that gender representation is not the only means by which a board achieves diversity. Similarly, we understand the need to improve gender, racial and other imbalances throughout our organisation, but particularly in senior leadership roles.

We have disclosed our boardroom gender and ethnicity data within this report but we will work with the Sustainability Committee during 2022 to determine whether greater disclosure and targets would be in the best interests of the Group.

Evaluation

As in 2020, an internal Board evaluation process was undertaken in respect of the 2021 review. Circumstances once again dictated that this review was also undertaken remotely. More information on the Board evaluation process and outcomes are set out on pages 104 and 105.

Richard Pennycook
Nominations Committee Chairman

2021 Nominations Committee activity

February

Committee meeting
- Board effectiveness, balance of skills, and time commitment
- Board succession and recommendations for AGM elections
- Draft 2020 Nominations Committee Report

April

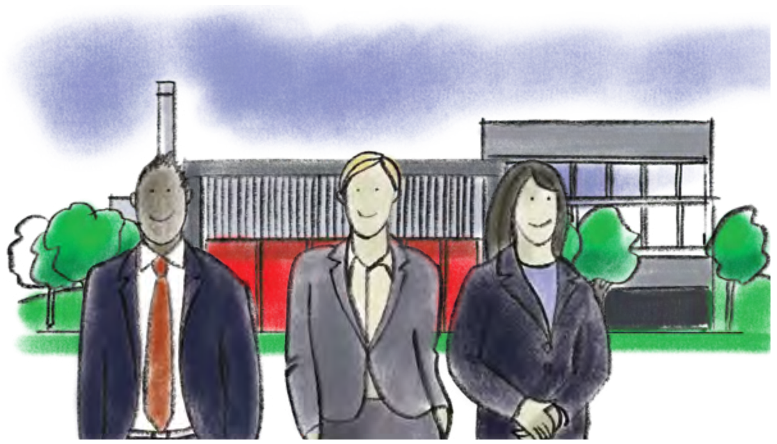
Committee meeting
- Board evaluation follow up
- Executive Committee succession
- Non-Executive Director succession

July

Committee meeting
- Executive Committee succession

September

Committee meeting
- Board update and skills matrix update
- Sustainability Committee proposal
- Board diversity policy review
- Nominations Committee Terms of Reference



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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.

		Number of Non-Executive Directors	
Skills and Experience	Importance	Direct experience	Indirect experience
Industry/Sector			
Business-to-business	H	6	0
Manufacturing	H	4	2
Logistics, distribution and supply chain management	H	4	2
Consumer goods	H	5	0
Geographic exposure			
UK	H	6	0
France	M	4	2
Governance			
UK listed companies	H	6	0
Company chair experience	M	4	1
Remuneration committee chair experience	M	4	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

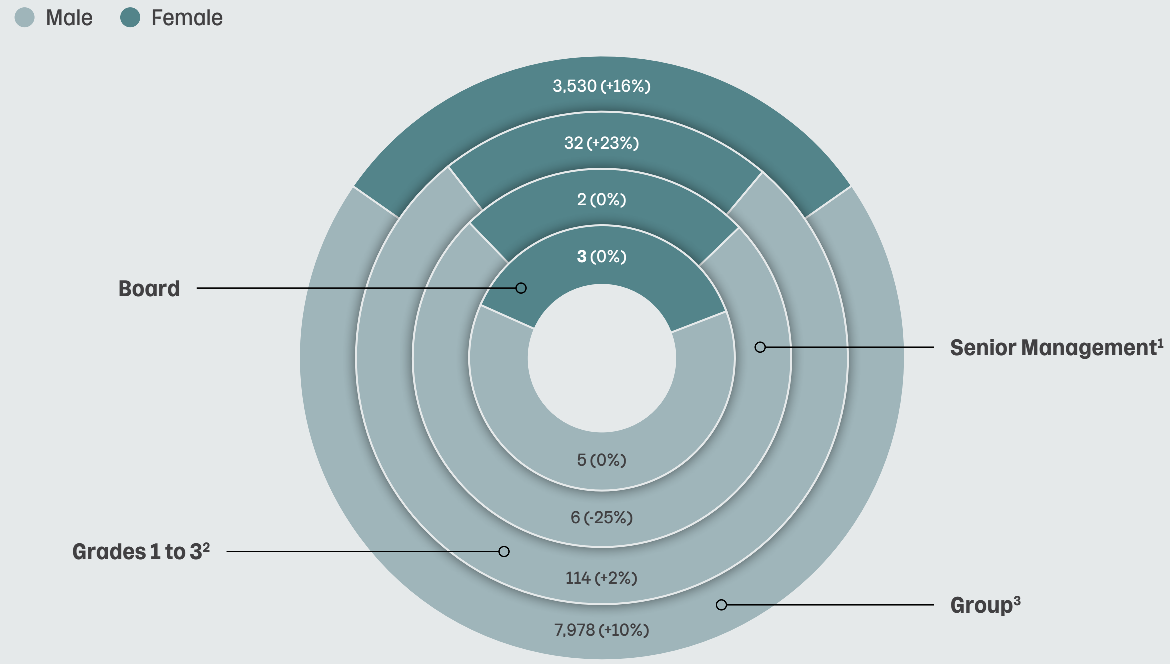
Diversity

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 25 December 2021

The percentages shown in brackets below indicate the change since 2020.



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, the Republic of Ireland, and Isle of Man.

HOWDENS

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 FTSE Women Leaders Review (formerly 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 2023, 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 25 December 2021, 37.5% of Board members were women. Both of the Executive Directors were male. There were no 'non-white' members of the Board members as at 25 December 2021.

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.

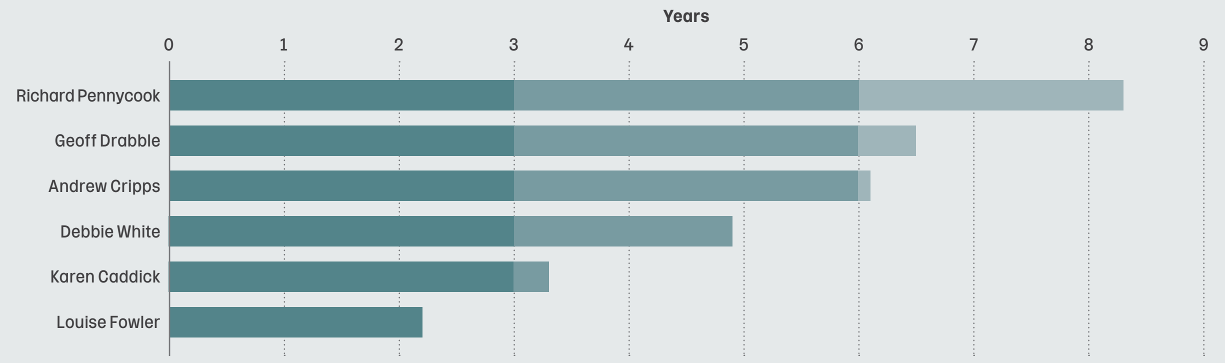
The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people. The Group 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 25 December 2021



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 2021. However, the process normally used in relation to appointments is set out below. 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.

The process for the Chairman's succession is set out in the case study on page 103.

Appointment

Where it is identified through Board succession planning that a non-executive appointment is required to the Board, the Nominations Committee will engage an external search consultancy to undertake the process of recruiting a new Non-Executive Director. The external search consultancy would be made aware of our Boardroom Diversity Policy (if they were not already) and the Nominations Committee would specifically task them with producing a diverse shortlist of candidates for the position.

The skills matrix (the current version of which may be found on page 98), together with the collective knowledge, experience and diversity of the Board and the length of service of the Directors, would be used by the Committee to highlight where there were opportunities for a new Non-Executive Director to contribute to the skillset of the Board and would inform the search that external search consultancy undertake.

Following longlisting and shortlisting processes, and prior to any recommendation being made by the Nominations Committee to the Board, the preferred candidate would meet with each existing member of the Board.

Induction

Working with the Company Secretary, new Directors undertake an induction programme tailored to the needs of the individual. However, they will generally include a number of site visits and meetings with members of the Executive Committee, key employees and advisors. Site visits include our manufacturing sites, our distribution centre and depots. New Directors will also be provided with a mixture of documentation including Company publications, Board materials and some formal information on the role and responsibilities of UK-listed company directors.

The Group's induction programme for newly appointed Directors will continue to be centred on familiarisation with the Group's operations, key individuals and external advisors.

Nominations Committee report continued

Succession continued

Senior management succession

The Committee received regular updates regarding senior management[1] succession planning (see Nominations Committee activity on page 97). These updates included the planning and processes involved with the appointment of a new Chief Customer Officer. Further detail may be found below.

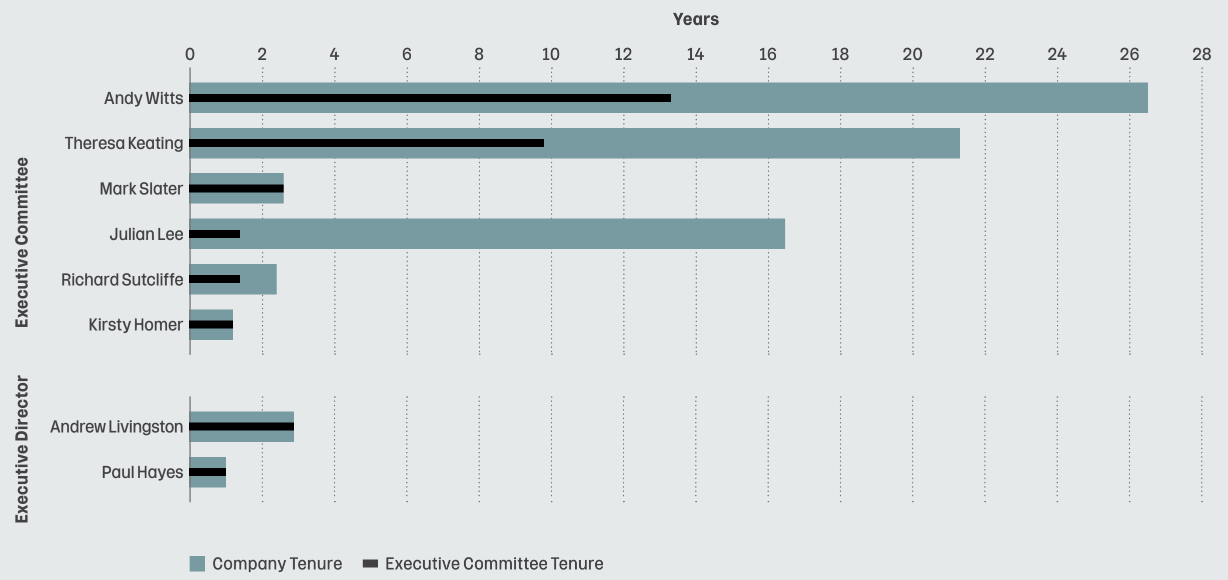
Chief Customer Officer

A new Executive Committee role was created in 2021 with the aim of placing even greater emphasis on the customer in Howdens' day-to-day decision making. The Chief Customer Officer (CCO) will focus on customer strategy and engagement, using data and insights from Depot Managers and working closely with the Commercial and Trade teams to help inform our approach to products, services and the overall customer experience of Howdens. The Chief Customer Officer will also be accountable for digital innovation.

David Sturdee will join as CCO in the first quarter of 2022. David has spent much of his career with Yum! Brands, most recently as Chief Operating Officer and Chief Customer Officer for Pizza Hut Europe.

The Nominations Committee will continue to work with the CEO and Group HR Director on senior management succession and development in 2022.

Company and Executive Committee tenure as at 25 December 2021



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'.

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Case study
Chairman Succession

Responsible for leading the Board and having responsibility for its overall effectiveness in directing the Company, the Chairman is the underpin for good corporate governance within a company.

In preparedness for the ninth anniversary of the Richard Pennycook's appointment to the Board in September 2022, the Nominations Committee, under the leadership of the Senior Independent Director, commenced the search for his successor in 2021. At no point was the incumbent Chairman involved in the process of selecting his successor.

The Nominations Committee agreed a scope and candidate profile and engaged Russell Reynolds to conduct the external search for a new Chairman[2]. The Committee requested that a diverse long-list of candidates, in respect of gender, ethnicity and background, be produced.

Following the long-list process, a short-list has been agreed which includes female candidates. Candidates will meet with members of the Nominations Committee and the CEO. Following these meetings, the Nominations Committee will propose an appointment to the Board.

On 18 February 2022, noting that the succession process was at an advanced stage, the Company announced that Richard Pennycook had indicated his intention to retire from the Board with effect from 17 September 2022 and that an announcement regarding the appointment of his successor would be made in due course.

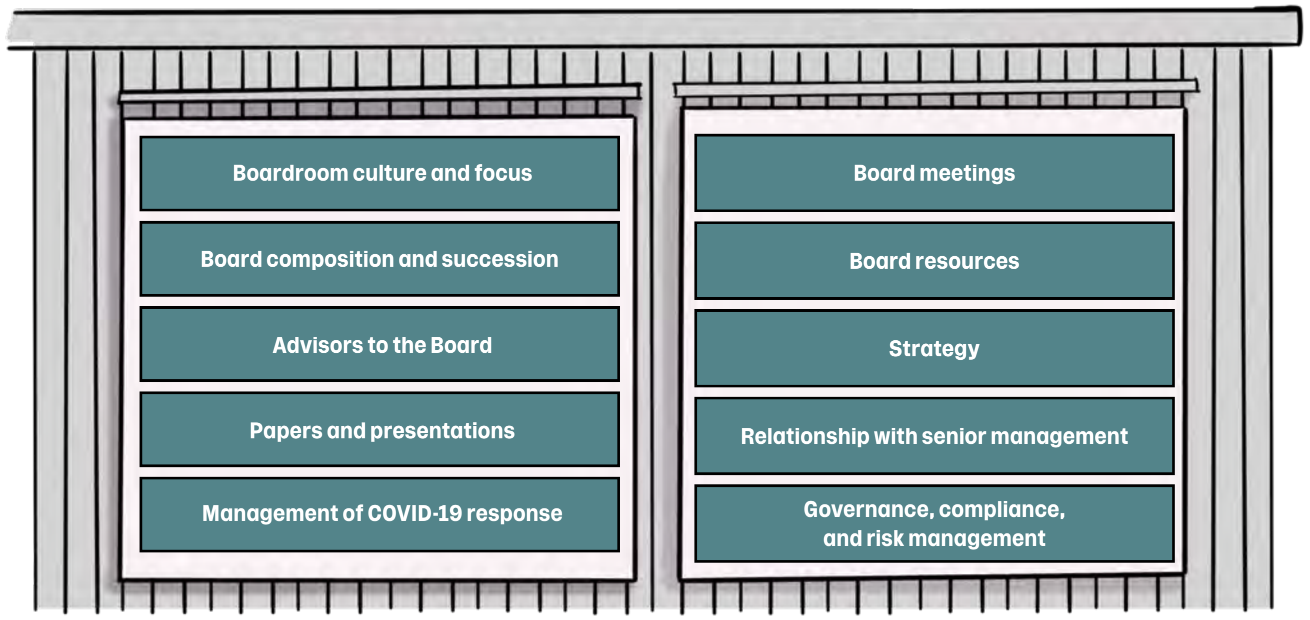
2 The Committee confirms that Russell Reynolds has no other connection with the Company or its Directors other than in relation to the recruitment of members of the Board.

Nominations Committee report continued

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 2021 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

As the evaluation was structured as an internal evaluation of the Board, it 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.

There were no changes to the membership of 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 2021.

The Board worked well as a group and 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 praised management's performance during the year and it was 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.

It was further noted that the evaluation would provide a good introduction to the Board for an incoming Chair, particularly around the recommendations for further effectiveness improvements.

Highlighted strengths

- Board and Committee processes continued to ensure high corporate governance standards were maintained throughout the year. The external audit tender process was especially regarded as being a significant success.
- Improved financial reporting outside of Board and Committee meetings (following feedback in the 2020 evaluation process).
- Continued focus on stakeholder safety and wellbeing.

Recommended areas for development and actions going forward

- Developing the focus on long-term, strategic matters in Board meetings in 2022.
- Continuation of the focus on Non-Executive Director succession planning, paying regard to the recommendations of the Parker and FTSE Women Leaders Reviews.
- Further development of informal methods of communication outside of Board and Committee meetings.

Influence on Board composition

Members of the Board discussed the recommendations of the Parker and FTSE Women Leaders Reviews. In 2022, the Nominations Committee will continue its focus on succession planning and will ensure that when it looks to recommend new appointments, 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.

Following feedback in the 2020 Board evaluation, the Committee also proposed to the Board in 2021 the establishment of the Sustainability Committee, a new sub-committee of the Board. While it was noted that the additional focus on sustainability matters was both important and welcomed, the members of the Nominations Committee were clear that environmental and social matters are inextricably linked to the business, and this link should not be diluted by the establishment of the new Sustainability Committee.

By order of the Board

Richard Pennycook
Nomination Committee Chairman

23 February 2022

Remuneration Committee report

Remuneration Committee 2021 meeting attendance

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

Key activities in the year ahead

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

Karen Caddick

Remuneration Committee Chair

Annual Remuneration Committee Chair's statement

I am pleased to present the Howden Joinery Group Plc Remuneration Committee report for 2021. The report has been prepared in compliance with the requirements of the Large and Medium-sized Companies and Groups Regulations 2013 and incorporates changes made under the updated EU Shareholder Rights Directive (SRD II).

Using this report

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

The report is split into three sections:

1. This Committee Chair's statement

2. Directors' Remuneration Policy (to be proposed to shareholders at the 2022 AGM)

3. The Directors' remuneration report

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

Part 1	Company performance and stakeholder experience
Part 2	Application of policy in 2021
Part 3	Implementation of policy in 2022
Part 4	Additional disclosures

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

2021

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

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

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

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

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

Policy

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

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

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

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

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

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

2021 reward outcomes

Annual bonus

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

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

Performance Share Plan (PSP)

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

Remuneration Committee report continued

Annual Remuneration Committee Chair's statement continued

2022 reward and incentives

Salary

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

Annual bonus

For the 2022 annual bonus, we replicated the methodology and PBT and cash flow measures used in the 2021 annual bonus, subject to an aggregate maximum of 150% of basic salary. This maintains the focus on profit in incentives and alignment with the depots, whilst maintaining a healthy stretch between target and maximum bonus levels to ensure strong shareholder alignment.

PSP

We first reported in the 2019 Remuneration Committee report that we had introduced a shareholder returns measure in 2020 in respect of the PSP to complement the pre-existing PBT measure. The Committee concluded that Relative Total Shareholder Returns (TSR) would provide greater alignment with shareholder interests and provide balance to the existing PBT measure. The TSR measure was also felt to be the most relevant comparator externally and would safeguard against complexity. The introduction of this measure has been well received by both shareholders and senior management and inclusion of TSR in the 2022 PSP will mean that it is a measure in all in-flight PSP awards.

For the 2022 PSP, we will retain both the PBT and TSR measures. Given market practice, and the current use of profit in our incentives, the Committee has agreed a weighting of 67% for PBT growth and 33% for the TSR measure. Profit represents a fundamental performance metric for the business, and is used throughout the organisation, from our depot teams to executives, to reward performance. It is therefore important to us that PBT continues to have a majority weighting within the PSP, whilst ensuring this is complemented by a relative measure with the TSR element.

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

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

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

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

Pensions

We reported in 2019 that the Committee had agreed a plan with the Executive Directors to ensure that their pensions would be aligned with the wider workforce by the Company's next policy cycle (May 2022).

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

In November 2020, the Company entered into a consultation process with affected employees and collective bargaining groups regarding the potential closure of the defined benefit Howden Joinery Pension Plan (the 'Plan') to future accrual. The outcome of the consultation was that the Plan would be closed to future accrual from 31 March 2021. The key driver for the Board in tabling these proposals was the realignment of pension spending across its workforce to provide all employees with the same flexible and competitive pension arrangement. This will result in an improved defined contribution pension benefit and will ensure fairness in pensions across the Company.

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

Senior management and the wider workforce

In addition to the Executive Directors, the Howdens Remuneration Committee also sets remuneration for senior management[1]. The Committee also received updates on the ongoing employee benefits review and all-employee remuneration related policies in order to provide the context for, and to ensure alignment with, the policy on Executive Director remuneration.

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

I hope the information presented within this report provides a clear explanation as to how we have operated our remuneration policy over 2021 and how we intend to implement it for 2022. We continue to be committed to an open and transparent dialogue with our stakeholders, and the Committee would welcome any feedback or comments you have on this report, our Policy or how we implement it for 2022.

Karen Caddick

Remuneration Committee Chair

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

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

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

In reaching its conclusion, the Committee considered the remuneration experience structures and policies for the workforce as a whole in 2021, the relative ratios of Executive and employee reward, continued alignment to shareholder value, as well as the predictability and proportionality of the incentives, and their ongoing alignment to culture. The Committee took all of these matters into consideration and agreed that the vesting in full of these awards without adjustment or withholding was the right overall outcome.

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

Remuneration Committee report continued

Annual Remuneration Committee Chair's statement continued

2021 Remuneration Committee activity

H1

January

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

February

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

April

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

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

May

AGM
- Remuneration report approved by shareholders

H2

July

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

August
- Remuneration Policy Working Group begins meeting

September

Committee meeting
- Update on Directors' Remuneration Policy review

October
- Remuneration Policy Working Group disbands

November

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

December

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

Strategic report
Governance
Financial statements
Additional information

Directors' Remuneration Policy

Fixed Variable

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

Summary of changes to the Remuneration Policy

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

Underlying principles

When determining the Directors' Remuneration Policy, the Committee was mindful of its obligations under Provision 40 of the UK Corporate Governance Code to ensure that the Policy and other remuneration practices were clear, simple, predictable, proportionate, safeguarded the reputation of the Company and were aligned to Company culture and strategy. Set out below are examples of how the Committee addressed these factors:

Clarity	
Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Company invited its principal shareholders and shareholder representative groups to consult on the updated Directors' Remuneration Policy and received supportive feedback. The draft policy was updated following feedback from shareholders, details of which can be found on page 122. All UK employees are awarded Free Shares in the Company through the Share Incentive Plan ('SIP'). UK employees are also able to participate in a partnership and matching shares programme (known as the 'Buy As You Earn' scheme or 'BAYE') which also operates through the SIP. Further information on workforce engagement can be found on pages 84 and 85.
Simplicity	
Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The Remuneration Policy has received positive feedback from stakeholders in relation to its simplicity. The Committee's approach to performance measures had always been that they must be understandable for participants in the schemes in order to ensure they are effective.
Risk	
Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Whilst the Committee has consciously not set an absolute annual quantum on Executive remuneration, this is something that the Committee will keep under review. The total pay of the Executive Directors is considered by the Committee as well as pay ratios with the wider workforce and shareholder returns.

Remuneration Committee report continued

Directors' Remuneration Policy continued

Predictability	
The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	The range of possible rewards for the Executive Directors is considered on page 116 and were communicated when the Directors' Remuneration Policy was approved by shareholders. The range in relation to the PSP reflects the reduced maximum award for 2021 rather than maximum allowed under the policy. The Committee has a wide range of discretion in relation to variable pay awards, new joiners, and leavers, which were identified and explained when the Remuneration Policy was approved.

Proportionality	
The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	In 2020, the profitability of the business was significantly impacted by the COVID-19 lockdown measures put in place by Government in the first half and as such both the 2020 annual bonus and 2018 PSP lapsed in full. While the Committee was pleased with the performance of the Executive Directors throughout the year, particularly given the extraordinary trading environment, it concluded that this was appropriate given the broader stakeholder experience throughout the year. In 2021 the business's strong trading performance was reflected in high levels of variable reward. The Committee remains confident that the awards used to ensure continued delivery of strategy and long-term performance are working as intended.

Alignment to culture	
Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The Committee remains confident that the incentive schemes operated under the Remuneration Policy are aligned with purpose, values and strategy. Howdens' staff are paid on the performance of their local depot or on the profitability of the Group as a whole. This has created an autonomous, entrepreneurial, profit-focused culture and is reflected in the heavy weighting given to profit measures in our incentive schemes for Executive Directors and senior management.

Future policy table - Executive Directors

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

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

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Base salary			
Recognises the market value of the Executive Director's role, skill, responsibilities, performance and experience.	Salaries are reviewed annually, and are effective from 1 January each year. Salaries will not be changed outside of the annual review, except for in exceptional circumstances, such as a mid-year change in role.	Increases will normally be only for inflation and/or in line with the wider employee population. Salaries are set with consideration of each Executive Director's performance in role and responsibilities, and within a range defined by a market benchmark derived from companies of a comparable size operating in a similar sector. The peer group used is reviewed whenever benchmarking is performed, and the Committee applies judgement in identifying appropriate peer group constituent companies. The individual's level of total remuneration against the market is considered at the same time. Reviews will also take into account the performance of the individuals, any changes in their responsibilities, pay increases for the wider workforce and internal relativities. 2021 and 2022 salary levels are detailed on page 128.	None.
Benefits			
Provides a competitive level of benefits.	Howdens pays the cost of providing the benefits on a monthly basis or as required for one-off events.	Benefits are based upon market rates and include receipt of a car allowance, health insurance and death-in-service insurance payable by the Company.	None.

Fixed Variable

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

Remuneration Committee report continued

Directors' Remuneration Policy continued

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

Performance measures and targets

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

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

Annual bonus

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

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

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

Performance Share Plan

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

Fixed Variable

Remuneration policy for other employees

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

Non-Executive Directors' Remuneration Policy

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

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

Remuneration Committee report continued

Directors' Remuneration Policy continued

Statement of consideration of employment conditions elsewhere in the Group

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

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

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

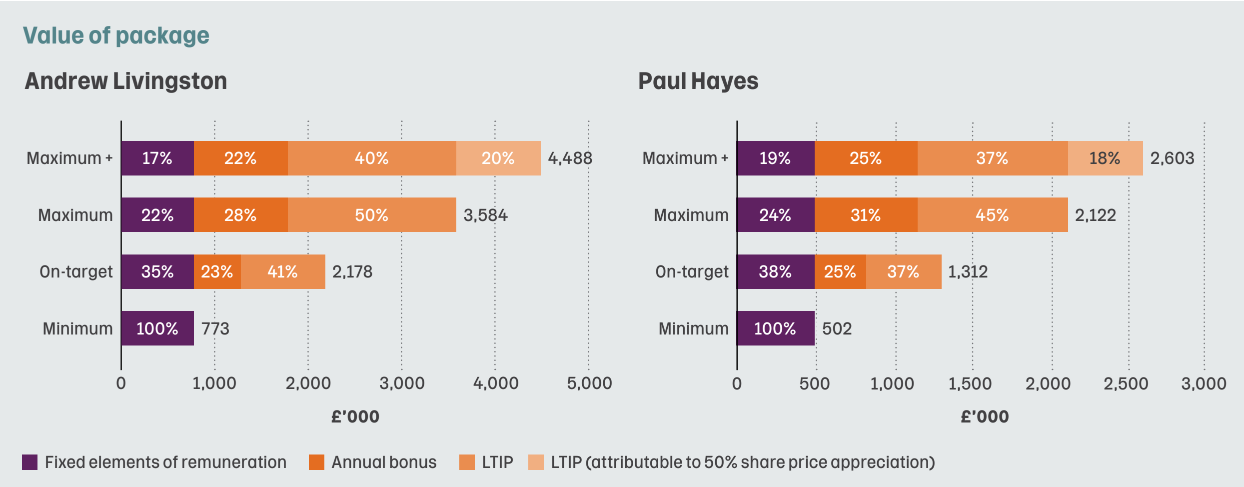
Statement of consideration of shareholder views

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

2022 remuneration scenarios

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

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



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

Annual bonus is based on a maximum opportunity of 150% of salary and an on-target opportunity of 75% of salary.

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

The 'maximum +' includes share price appreciation of 50%. This column is calculated on the same basis as the maximum column however includes an uplift of 50% total over three years for the PSP.

Fixed Variable

Approach to recruitment remuneration

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

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

Service contracts and letters of appointment

All Executive Directors' employment contracts are not fixed term, but have twelve months' notice of termination on both sides. In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be paid monthly for a maximum of twelve months. Such payments will be equivalent to the monthly salary that the Executive Director would have received if still in employment with the Company. Executive Directors will be expected to mitigate their loss within a twelve month period of their departure from the Company.

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

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

Non-Executive Director appointments are for an initial period of three years. They are subject to re-appointment annually in accordance with the UK Corporate Governance Code. Non-Executive Directors are not entitled to any form of compensation in the event of early termination for whatever reason. Copies of the Directors' service contracts and letters of appointment are available at the Company's registered office during usual business hours.

Remuneration Committee report continued

Directors' Remuneration Policy continued

Policy on payment for loss of office

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

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

Directors' remuneration report

Part 1: Company performance and stakeholder experience

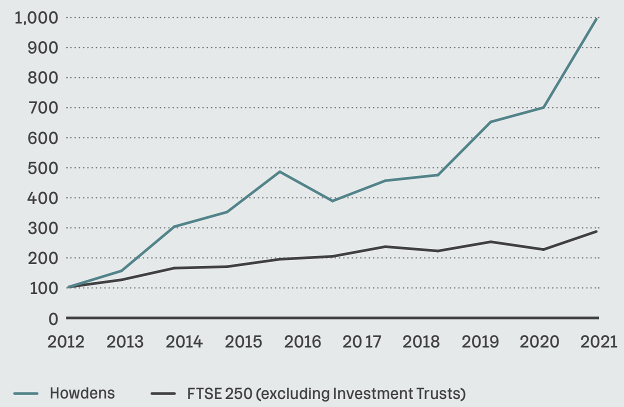
In this opening section of the Directors' remuneration report, we detail some of the considerations of which the Committee has regard when implementing the Remuneration Policy. Contained in this section are specific disclosures on Group performance, as well as comparative disclosures on the relative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

Group performance

Total shareholder return (TSR)

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

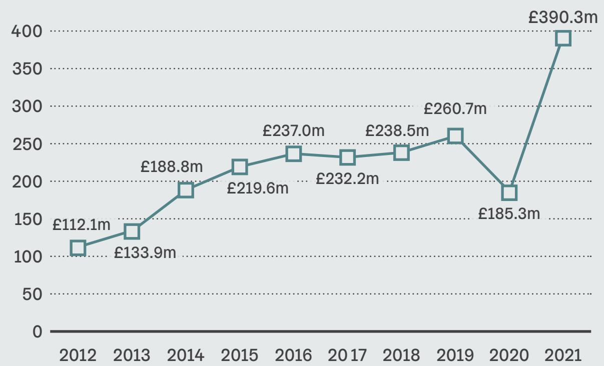
Howdens historic TSR



Profit before tax (PBT)

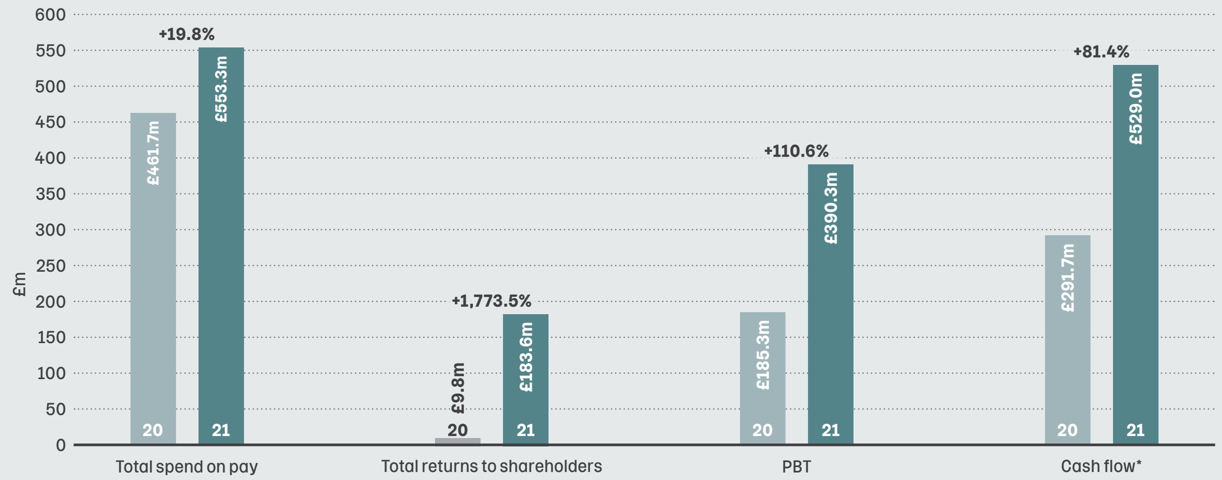
The graph below illustrates the Company's historic PBT performance.

Howdens historic PBT (£m)



Relative importance of spend on pay

The graph below sets out the change in the Group's total remuneration spend from 2020 to 2021 compared to the total returns to shareholders of the Group and the two incentive performance measures PBT and cash flow.



* Net cash flow from operating activities is the definition used for the annual bonus scheme (see page 114).

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

Director pay

Our corporate performance and remuneration

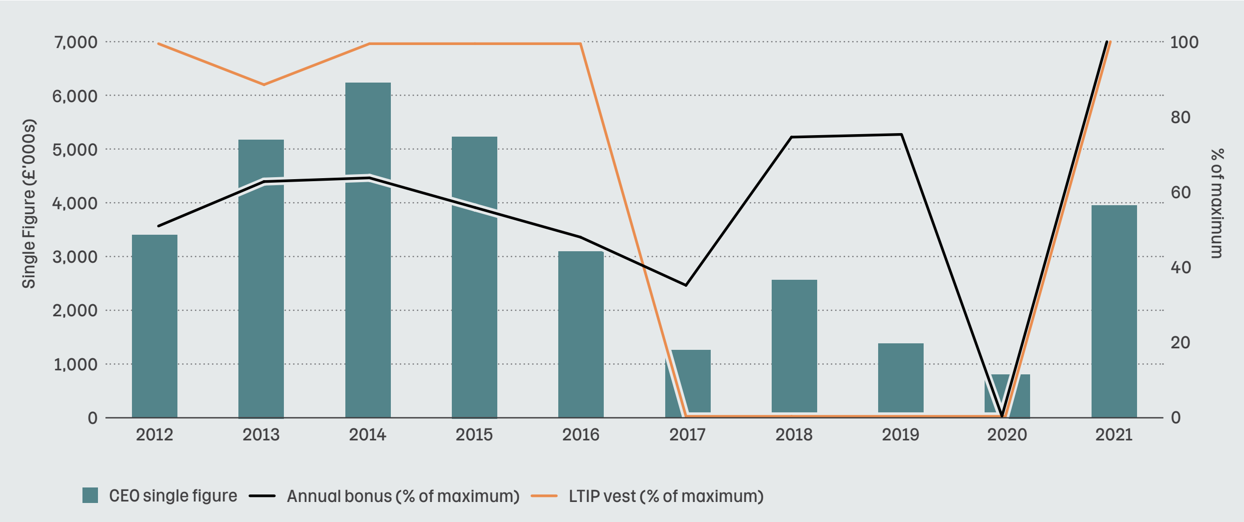
Historic single figure

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

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

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

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



Fixed Variable

CEO pay ratio table

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2021	A	135:1	113:1	93:1
2020	A	31:1	25:1	21:1
2019	A	71:1	58:1	48:1
2018	A	122:1	100:1	81:1

During 2021, Howdens has calculated the CEO pay ratio in line with the updates to the Directors' Remuneration Reporting Regulations. The data used to calculate the CEO pay ratio was accurate as at 31 December 2021. In accordance with section 17 of The Companies (Miscellaneous Reporting) Regulations 2018, method A was used in the calculation of the pay ratios; ranking the pay and benefits of all our UK employees for the relevant financial year to identify the 25th, 50th, and 75th percentile-ranked employees and using the pay and benefits figures for these three UK employees to determine the pay ratios at each quartile. Method A has been used as it has been identified by the Department for Business, Energy and Industrial Strategy in its guidance as the most statistically accurate method for identifying the pay ratios.

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

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

	25th percentile	50th percentile	75th percentile
Total pay and benefits (FTE)	£29,278	£34,867	£42,405
Salary (including overtime) (FTE)	£20,872	£25,160	£30,713

The pay and benefits of our colleagues was calculated in line with the Single Total Figure of Remuneration methodology. In our calculations we used actual pay from 1 January 2021 to 31 December 2021. Joiners, leavers and part time employees' earnings have been annualised on an FTE basis (excluding any payments of a one-off nature).

Where bonus payments are made on a weekly, monthly or quarterly basis, we included payments made in the 2021 compensation year; however, for annual bonus payments, we estimated the bonus due to employees for the 2021 compensation year (payment is due in March 2022). P11D values are based on the 2020/21 reportable values, however, they have been annualised accordingly.

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

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

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

Remuneration Committee report continued

Directors' remuneration report

Part 1: Company performance and stakeholder experience continued

Case study

Directors' Remuneration Policy Review

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

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

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

Policy review process

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

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

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

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

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

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

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

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

Fixed Variable

All-Director remuneration relative to average employees (audited)

The updated EU Shareholder Rights Directive (SRD II) requires listed companies to disclose the annual change in each director's pay in comparison to the average change in employee pay. This comparison is made on salary, bonus and taxable benefits and as such does not include some of the elements disclosed under the Single Figure Table such as pension contribution or long-term incentives. While the SRD II requires a listed entity to provide employee pay information for that entity only (i.e. not on a group-wide basis), a 'Group' comparator has also been included in the table below as this provides a more representative comparison. The table below discloses this information from financial year 2019 onwards and will ultimately provide a five-year view of the change in individual Director's pay relative to the change in average employee pay.

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

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

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

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

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

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

4 In September 2019, Karen Caddick was appointed Remuneration Committee Chair and Geoff Drabble was appointed Senior Independent Director. Geoff also assumed additional responsibilities as the Non-Executive Director responsible for employee engagement at the beginning of 2019. The increases shown in their Non-Executive Director fees for 2019 to 2020 are predominantly due to these changes.

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

Wider workforce considerations

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

Remuneration Committee report continued

Directors' remuneration report

Part 2: Application of policy in 2021

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

2019 Directors' Remuneration Policy Summary

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

Executive Directors

Fixed pay

Base salary	Link to strategy
Salaries are reviewed annually and set within a range defined by a market benchmark. This is derived from companies of a comparable size or operating in a similar sector. Our policy is to pay at median.	Salaries reflect the market value of the Executive's role in addition to their skill, responsibilities, performance and experience.

Benefits	Link to strategy
The Company pays the cost of providing benefits on a monthly basis or as required for one-off events.	Our Policy provides a competitive level of benefits.

Pension	Link to strategy
Executive Directors appointed after May 2019 are invited to join the Company defined contribution pension scheme or receive a salary supplement in lieu of pension in line with the maximum level of benefit they would have received if they had enrolled in the scheme. Company contributions for Executive Directors are aligned with those for the wider workforce. The pension benefits of Directors appointed before May 2019 are governed by earlier Remuneration Policies and their contracts of employment. However, the CEO, who was appointed to the Board in April 2018, has voluntarily agreed to reduce his current benefits to be in line with the wider workforce by May 2022, that being the next scheduled renewal by shareholders of this Policy. More detail on the tapering of their benefits is set out on page 108.	The Committee remains committed to providing competitive long-term savings opportunities provided they are aligned with the opportunities afforded to the wider workforce.

Fixed Variable

Variable pay

Annual bonus	Link to strategy	
The annual bonus has a maximum opportunity of 150% of base salary. Performance is assessed annually against stretching PBT and cash flow targets. 30% of any bonus earned is deferred into shares. Shares are paid out on the second anniversary of the deferral date. Malus and/or clawback provisions operate on the bonus for a period of up to two years after the performance period.	PBT and cash flow targets reflect our key internal performance indicators and the role of sustainable profit growth in our entrepreneurial culture. The annual bonus incentivises performance over the financial year. Deferral links bonus pay out to share price performance over the medium term.	**Performance period:** 1 year **Additional deferral period:** 2 years **Time from end of performance period to receipt:** • 70% of bonus has no deferral period. • 30% of bonus paid after 2 year deferral period.

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

Executive Director shareholdings

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

In 2019, a post-cessation shareholding requirement was introduced in the Directors' Remuneration Policy. This requires Executive Directors to hold 100% of their shareholding requirement (or full actual holding if lower) for a period of two years post-cessation of employment. See page 131 for the total shares in the Company held by the Directors, together with unvested performance shares and those held subject to deferral conditions.

Non-Executive Directors

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

Fees are reviewed every year and are set within a range defined by a market benchmark of comparable size companies and with reference to any pay increase awarded to the wider workforce. All fees for 2022 and the prior year are set out of page 128. Non-Executive Directors are also entitled to receive expenses in respect of reasonable travel and accommodation costs.

Remuneration Committee report continued

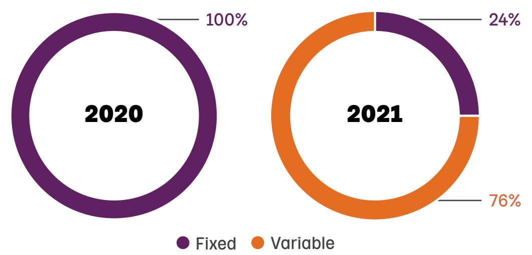
Directors' remuneration report

Part 2: Application of policy in 2021 continued

Single figure of remuneration (audited)

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

Total current Executive Director fixed vs variable pay



Notes to the single figure table

Executive Directors

Salary

Salaries will not be changed outside of the annual review, unless there are exceptional circumstances, such as a mid-year change in role. Increases will normally be only for inflation and/or in line with the wider employee population. Salaries are set within a range defined by market benchmark derived from companies in a similar sector (policy is to pay median). Salaries for 2022 can be found on page 128. The peer group used is reviewed whenever benchmarking is performed, and the Committee applies judgement in identifying appropriate peer group constituent companies. The individual's level of total remuneration against the market is considered at the same time.

Taxable Benefits

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

Pension

Both Executive Directors received a cash benefit in lieu of pension during the year. More information about future Executive Director pension benefits can be found on pages 108 and 114.

Fixed Variable

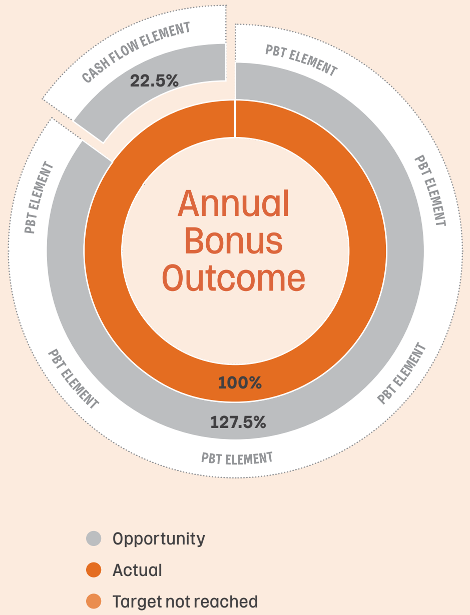
Annual Bonus (Audited)

Targets

Our annual bonus for 2021 was based on PBT and cash flow measures subject to an aggregate maximum of 150% of salary. The PBT and cash flow measures were weighted as follows:

	PBT component	Cash flow component
Threshold	£185.3m (17% of salary)	£246.0m (3% of salary)
Target	£259.1m (63.67% of salary)	£306.0m (11.25% of salary)
Outperformance	£272.1m (127.5% of salary)	£313.0m (22.5% of salary)

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



Outcomes for the year

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

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

Performance Share Plan ('PSP') (Audited)

Targets

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

Outcomes for the year

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

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

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Remuneration Committee report continued

Directors' remuneration report

Part 3: Implementation of policy in 2022

In this section of the Directors' remuneration report we set out how the Committee has implemented policy for 2022. Disclosures in this section are forward looking. The outcome of any variable award for Executive Directors will be reported in the Remuneration Committee report for the financial year 2022.

Non-Executive Director fees

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

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

1 The Chair of the Board of Directors does not receive the basic Non-Executive Director fee or an additional fee for chairing the Nominations Committee.

Executive Director base salaries

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

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

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

Annual bonus measures

The table below sets out annual bonus measures for 2022. Targets for these measures are considered commercially sensitive by the Board and so are not disclosed here. Performance targets, together with achievement against them, will be set out in full in the 2022 Remuneration Committee Report.

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

Fixed Variable

Performance Share Plan (PSP) measures

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

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

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

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

Remuneration Committee report continued

Part 4: Additional disclosures

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

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

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

External appointments

It is recognised that Executive Directors may be invited to become non-executive directors of other companies and that exposure to such duties can broaden their experience and skills, which will benefit the Company. Howdens allows Executive Directors and other appropriate senior employees to accept a maximum of one external non-executive appointment outside the Company, subject to permission from the Committee, provided this is not with a competing company nor likely to lead to conflicts of interest. Andrew Livingston is currently Non-Executive Director of LondonMetric Property Plc, a FTSE 250 REIT. Andrew received £54,937.54 in fees in respect of his role as Non-Executive Director. Andrew held this position upon appointment. Paul Hayes does not have any external appointments. Executive Directors may retain the fees paid to them in respect of their non-executive duties.

Total pension entitlements (audited)

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

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

	Executive Directors	
	Andrew Livingston	Paul Hayes
Accrued pension at 25 December 2021 (£'000)	-	-
Normal retirement date	-	-
Pension value in the year from defined benefit component (£'000)	-	-
Pension value in the year from defined contribution component (£'000)	-	-
Pension value in the year from cash allowance (£'000)	91	31
Total	91	31

Fixed Variable

Director shareholdings (audited)

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

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

	Current Executive Directors	
	Andrew Livingston	Paul Hayes
Shareholding requirement %	200%	200%
Shareholding requirement (number of shares)[1]	144,766	94,655
Shares owned outright (including by connected persons)[2,5]	146,577	7,051
Current shareholding (% of salary)[1]	203%	15%
Guideline met	Y	N
Unvested deferred bonus shares	20,242	-
Share awards subject only to continued employment[3,5]	203	49
Share awards subject to performance conditions and continued employment[4]	689,040	125,436
Options subject to performance conditions	-	-
Vested but unexercised options	-	-

1 Based on a share price of £8.98, being the three-month average price to 25 December 2021, and basic salary as at 25 December 2021. This is calculated by using only those shares owned outright by the Executive Directors and their connected persons at 25 December 2021 and the Executive Director's salary at that date.
2 Includes Share Incentive Plan ('SIP') partnership and dividend shares.
3 Includes only SIP free and matching shares.
4 Performance Share Plan awards under the Long-Term Incentive Plan.
5 Between the end of the period (25 December 2021) and 23 February 2022, Paul Hayes has acquired 38 SIP Partnership Shares and 6 SIP Matching Shares. No other changes to the Executive Directors' total shareholdings (including any holdings of their connected persons) have occurred between the end of the period and 23 February 2022.

Non-Executive Director shareholdings (audited)

There is no shareholding requirement for Non-Executive Directors.

	Non-Executive Director					
	Karen Caddick	Andrew Cripps	Geoff Drabble	Louise Fowler	Richard Pennycook	Debbie White
Shareholding[1,2]:	6,000	3,000	3,000	470	54,663	4,562

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

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Directors' remuneration report

Part 4: Additional disclosures continued

Scheme interests awarded during the financial year (audited)

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

Nature of award:	Award of Conditional Shares under the PSP	
	CEO	CFO
Number of shares under award	191,843	125,436
Face value of award[1]	£1,430,000	£935,000
Performance condition	Proportion of PSP award subject to the performance condition	
TSR performance condition:	33%	
PBT performance condition:	67%	
TSR component vesting schedule	Position at which Howdens ranks compared to comparators	Proportion of TSR portion of Award that may vest
	At or above upper quartile	100%
	Straight line vesting between these two points	
	At median	15%
	Below median	0%
PBT component vesting schedule	Annualised PBT growth over Performance Period	Proportion of PBT portion of Award that may vest
	15% p.a.	100%
	Straight line vesting between these two points	
	5% p.a.	15%
	Less than 5% p.a.	0%
Performance period	Performance measured from FY2020 to FY2023	
Grant date	6 Apr 2021	
Vesting date	6 Apr 2024	
Additional holding period	2 years	

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

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

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

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

Fixed Variable

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Consideration by the Directors of matters relating to Directors' remuneration

The Committee met six times during 2021 and discussed a number of items for which it is responsible. Under its terms of reference, which are reviewed on an annual basis, the Committee is responsible for determining the broad policy and specific remuneration packages for Executive Directors and senior management (that being the members of the Executive Committee, the Company Secretary and the Head of Internal Audit and Risk), including pension rights and, where applicable, any compensation payments. The Committee is also regularly updated on pay and conditions applying to other employees in the Company.

Advisors to the Committee

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

The Committee also has access to detailed external information and research on market data and trends from independent consultants. PricewaterhouseCoopers LLP (PwC) is the Committee's retained independent advisor and provided advice to the Committee during the year. PwC has been independent advisor to the Committee since 2007 and was appointed by the Committee as the result of a tender process. During the year, the Committee reviewed the ongoing independence of PwC as adviser to the Committee and agreed to retain them. It was satisfied that PwC was providing robust and professional advice. Work undertaken by PwC for the Committee included updating the Committee on trends in compensation and governance matters and advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior members of staff. A representative from PwC usually attends each meeting of the Remuneration Committee. Fees paid to PwC in relation to remuneration services provided to the Committee in 2021 totalled £171,350 with fee levels based on the quantity and complexity of work undertaken. PwC also provided consultancy advice and support to the internal audit function to the Company during 2021. PwC is a member of the Remuneration Consultants' Group which operates a code of conduct in relation to executive remuneration consulting.

Voting at the 2021 AGM

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

By order of the Board

Karen Caddick
Remuneration Committee Chair

23 February 2022

Audit Committee report

Audit Committee 2021 meeting attendance

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

Key activities in the year ahead

- **Review of the Annual Report and Accounts and preliminary results announcement.**
- **KPMG's appointment as auditor to be recommended to shareholders at the AGM.**
- **Shareholder update by the Audit Committee Chair at the AGM.**
- **Review of the 2022 interim results.**
- **Consideration of internal audit's annual plan, independence, resources and findings.**
- **Review of key controls.**
- **Approval of the 2023 Audit Committee calendar.**

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 2021.

It has been a busy year for the Audit Committee. In addition to ensuring effective external and internal audits, the Committee has undertaken a number of projects.

We also concluded the process of selecting a new external auditor in 2021. We have provided a detailed case study of the external audit tender process on page 138 of this report given the vital role an effective external audit performs. The Committee are looking forward to the fresh perspectives a new external auditor will bring from 2022. We thank Deloitte for two decades of independent scrutiny of our annual accounts and recommend KPMG for appointment at the AGM.

As reported in this Committee report last year, Howdens is undertaking a project to review the Group's internal controls in order to reappraise and document key controls and strengthen the controls environment. This is an extended project that will continue into 2022. The scope of the work includes the mapping of core processes, IT general controls (ITGC) and a programme of enhancements to existing fraud risk management activity. The Group is systemising its control framework to provide greater segregation of duties. The Audit Committee will continue to receive updates from management on this important project in 2022.

The Committee continued its programme of presentations from management, particularly in the key areas of divisional finance, compliance and information security, including cyber risk. Receiving updates from the Head of Information Security remains a vital part of the Committee's agenda in helping to address the risk of a cyber security incident.

The Committee undertook its regular governance reviews during the year and worked with the newly formed Sustainability Committee and the Board in developing controls over the implementation of Task Force on Climate-Related Financial Disclosures (TCFD). More information on the Group's approach to TCFD can be found on pages 52 to 57.

Finally, it was pleasing to receive the FRC's letter in respect of their thematic review of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' relating to the disclosures in our 2020 Annual Report and Accounts. The FRC did not raise any questions or queries to which the Group needed to respond and only recommended minor improvements to our existing disclosures[1]. This demonstrates the Group's continued commitment to high quality, transparent reporting and robust corporate governance practices.

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

Andrew Cripps
Audit Committee Chair

2021 Audit Committee activity

H1

February

Committee meeting
- 2020 draft Annual Report and Accounts and Full Year Announcement
- External audit report
- External audit policies
- External audit tender
- Internal audit report
- Key controls project
- Discussion with external auditors (without management present)

April

Committee meeting
- External audit tender
- Corporate governance reform update from external auditor
- Effectiveness of the external auditor and audit processes
- Information and cyber security reviews
- Internal audit report
- Key controls project update
- Audit Committee effectiveness
- Discussion with Head of Internal Audit (without presence of management)

May

AGM
- The reappointment of the external auditor and authority for the Directors to determine the auditor's remuneration were approved by shareholders

June

Additional Committee meeting
- Prospective external audit candidate presentations
- Decision to recommend KPMG as external auditor from 2022

H2

July

Committee meeting
- 2021 half year results, including going concern considerations
- External auditor half year review
- Internal audit report
- Key controls project update
- Conflicts of interest review
- Discussion with external auditor (without management present)

September

Committee meeting
- Internal audit report
- Key controls project update
- Review of fraud controls
- Depot financial controls and compliance review
- Discussion with Head of Internal Audit (without management present)

November

Committee meeting
- 2021 external audit plan
- 2022 internal audit plan
- Key controls project update
- Consideration of a more formalised Audit and Assurance Plan
- Terms of reference review
- 2022 Audit Committee calendar
- Discussion with external auditor (without management present)

1 The FRC asks that companies make clear the inherent limitations of their review and that their review was based solely on our report and accounts and did not benefit from detailed knowledge the Howdens business or an understanding of the underlying transactions entered into.

Audit Committee report continued

Financial reporting

Results review

The Audit Committee reviewed the Group's 2021 Annual Report and Accounts and the half-yearly financial report published in July 2021.

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.

The Committee also received regular updates in respect of the key controls project during the year. More information on the key controls project can be found on page 140.

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's reports detailed the results of their procedures in relation to these 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 2021 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 2021 and 2020

Inventory obsolescence provisioning

The Group's in-stock model (further information about which may be found on page 14) 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. In 2021, management continued to take a strategic position on additional safety stock to try and minimise the impact on depots from the issues seen in global supply chains caused by COVID-19.

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.

It was noted that the upward trend in discount rates ahead of inflation, coupled with better than projected asset returns, resulted in the Pension Fund moving into surplus on an IAS 19 basis. The Committee concurred that this asset be regarded as recoverable in the balance sheet.

Distributable reserves

As reported in the 2020 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 196.

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.

The Committee received regular updates on the proposed corporate governance reforms as set out in the Government White Paper 'Restoring trust in audit and corporate governance'.

Committee effectiveness

An effectiveness review was carried out on the Committee and its members as part of the wider Board evaluation process. 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.

The Committee also undertakes an Audit Committee effectiveness self-assessment questionnaire each year. Audit Committee specific training plans and audit and assurance policies were two areas which the Committee agreed to consider further.

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 140) 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 141.

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 25 December 2021 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.

The Committee Chair 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.

Andrew will present a summary of the work of the Audit Committee to shareholders at the 2022 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 FTSE 250 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.

External auditor*

External auditor	Deloitte LLP (Deloitte)
External auditor tenure	20 years
Lead audit partner	Claire Faulkner
Lead audit partner tenure	5 years (of a 5 year cycle)
New external auditor to be engaged	2022
Total fees paid to auditor in the year	£0.8m (Non-audit fees accounted for £0.1m of the total fee)

* The information above is correct as at 25 December 2021.

External audit tender

Following a comprehensive external audit tender process during the year, the Audit Committee made a recommendation to the Board to appoint KPMG LLP as the Group's external auditor from 2022. The Board will recommend KPMG's appointment to its shareholders at the 2022 Annual General Meeting. A case study on the external audit tender process can be found on page 138.

Case study
External Audit Tender Process

Having retained the same audit firm, Deloitte LLP, for the previous 20 years, the Audit Committee decided to run a tender process for a new external auditor before the Statutory Auditors and Third Country Auditors Regulations 2017 obliged the Group to do so in 2023. The Committee was aware that best practice was to coincide the change of auditor with the end of the current engagement partner's five-year term and decided early in 2021 that it would not take advantage of the flexibility afforded by the FRC due to the impact of COVID-19 to extend auditor and engagement partners' terms by one year.

The Committee were particularly mindful of the key statutory and regulatory requirements set out by the Competition and Markets Authority (CMA), Financial Conduct Authority (FCA) and Financial Reporting Council (FRC) applicable to the external auditor tender process and received legal advice in respect of these at the outset of the process.

2019

The Audit Committee identified the key experience required of a new auditor, including experience of FTSE 100 audits, capital market transactions and cross border audits in view of the expected growth of the Group over the appointment period (up to ten years). These requirements were compared with the full range of audit firms, including those outside of the 'Big 4'. Once a short-list of firms with the requisite experience had been established, management was tasked with ensuring that none of these firms were offered new work which would potentially compromise their independence as prospective auditors.

2020

Having identified two preferred audit firms for the full tender process, presentations were made by the Group to each firm. The firms were requested to propose three potential engagement partners for evaluation. It was communicated to each of the audit firms that the Audit Committee's preferred process was first to get to know and select potential engagement partners from each firm, followed by a presentation of information relevant to the audit and due diligence process concluding with final proposals and face to face presentations. The tender process was paused during COVID-19 restrictions.

2021

February

An update on the tender process was provided to the Audit Committee. It was agreed that Debbie White would join the Committee Chair in the detailed selection and evaluation process for additional non-executive input.

Each firm submitted three potential engagement partners who were evaluated using a pre-agreed evaluation list.

Subsequent to the February Audit Committee meeting, and having confirmed their independence, a tender timetable was agreed with the shortlisted audit firms. Non-disclosure arrangements were put in place and request for proposals (RFPs) issued by the Group.

A data room was populated and was made available to the two audit firms ahead of management presentation meetings.

May

Each prospective audit partner met with senior management and all members of the Board ahead of the final evaluations.

Clear directions were provided for written proposals to the Committee to include:

- Explanation of approach to independence
- Audit approach and use of technology
- Team structure, continuity and succession planning
- Materiality assessment
- Assessed key audit risks
- Approach to controls, use of Internal Audit
- Approach to technical accounting issues
- Approach to regulatory and disclosure compliance
- Reporting to the Audit Committee
- Approach to transition from the incumbent auditor
- Assurance of professional scepticism, challenge and highest audit quality

June

The Audit Committee considered the written proposals and presentations from each of the tendering audit partners at an additional Audit Committee meeting. After careful consideration, the Audit Committee concluded that both audit firms were suitable for appointment but that the Committee's preferred auditor was KPMG LLP.

KPMG have been shadowing Deloitte during the 2021 audit to familiarise themselves with Company processes as part of the wider transition arrangements put in place. Shareholders will be asked to approve KPMG's appointment for the 2022 audit at the AGM in 2022.

Audit Committee report continued

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 2021, 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 2021 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.

Details of the fees paid during the year to Deloitte may be found in the table on page 137 and in note 5 to the consolidated financial statements (page 158).

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

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 four years.

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 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.

Key Controls

As reported in the 2020 Annual Report and Accounts, work is underway to review 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.

Good progress in delivery of the project continued throughout 2021 with regular updates being provided to the Audit Committee. Internal project management and governance frameworks were determined to be working effectively and the Committee was satisfied with the progress made during the year.

The Committee remains committed to the activities to strengthen the control environment regardless of the outcome of the White paper 'Restoring Trust in Audit and Corporate Governance' although it is likely that this will guideprioritisation and activity for 2022.

Internal audit

The internal audit team has continued to develop its capabilities during the year. This includes continued development of data analytics and systemisation of controls. 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 and budget.
- 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.

Independent assurance

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

Internal audit effectiveness

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

In previous years, the Audit Committee has commissioned an external assessment of the internal audit function every five years in order to assess the performance and effectiveness of the Internal Audit department. The last external assessment was undertaken by Grant Thornton in 2017.

In 2021 the Audit Committee commissioned an external quality assessment (EQA) readiness assessment (a standard developed by the Chartered Institute of Internal Auditors) of the internal audit function. An EQA evaluates conformance with the International Professional Practices Framework (IPPF), which includes the Code of Ethics, the Core Principles, the Definition of Internal Audit and the International Standards for the Professional Practice of Internal Auditing (the IIA Standards). The readiness assessment concluded that the function's processes were effective and robust and would be sufficient to meet the requirements of a full EQA. No areas reviewed were considered to be of concern, although a small number of best practice improvement recommendations were made.

Given the output of the EQA readiness assessment, the Audit Committee agreed to reconsider external assessment of the function in three years' time. As such, the next EQA readiness assessment will be undertaken in 2024.

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.

Cyber and information security risk

The risk of a cyber security incident is considered to be one of the Group's principal risk. More information on this risk can be found on page 44.

An update on cyber and information security was presented to the Committee by the Head of Information Security and the Director of Infrastructure and Service Delivery at the Committee meeting in April.

The Committee noted that, in addition to the development of technical controls to mitigate the increasing risk of a cyber security incident, a strategy for Security Governance had been implemented to ensure clear direction to the business. The promotion of security risk management through improved business engagement and targeted training were other key area developed during the year. Biannual training on cyber security is completed by all employees on a rolling basis.

There were no significant information security breaches during the year and there had been no such breaches during the preceding three year period.

Divisional controls

Senior management from the business are invited to discuss the controls in their business areas. The Director of Finance and the Head of Compliance for the Trade division gave presentations on the key risks and control environments in their area.

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 78 and 79).

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

23 February 2022

Sustainability Committee report

Sustainability Committee 2021 meeting attendance

Richard Pennycook (1/1)
Geoff Drabble (1/1)
Karen Caddick (1/1)
Andrew Cripps (1/1)
Louise Fowler (1/1)
Debbie White (1/1)

Key activities in the year ahead

- **Deep-dive review on skills.**
- **Establishing a Group-level commitment toward Net Zero.**
- **Presentations in respect of the Group-wide diversity agenda.**
- **Initiative updates from the Sustainability Director.**

Richard Pennycook
Sustainability Committee Chairman

Introduction from the Sustainability Chair

Whilst there has long been an expectation that companies should behave in a socially responsible way, there has been a marked change in the previous decade as to the political and public will in relation to the advancement of progressive environmental and social matters. We see the awareness of these matters, such as the 'decarbonsiation' of the global economy, waste reduction, levelling-up in respect of diversity and ethnicity, and social mobility, and the willingness to act from our customers, employees and shareholder.

ESG initiatives and reporting have been a recurring item on the agenda of the Howdens Board. The business has responded to increased focus on ESG matters by dedicating additional resource and first appointing a Chief Governance Officer and latterly a Director of Sustainability. But it is important that leadership sets the tone from the top, particularly in relation to setting strategy and metrics, and therefore (following a recommendation by the Nominations Committee) the Board established a dedicated committee in 2021 to review sustainability initiatives and reporting. Delegating the responsibilities which originally sat with the Board will allow for additional focus and scrutiny and it is intended that the Sustainability Committee will look to identify areas where Howdens can really make a difference, as well as ensuring high standards of governance and reporting in this area.

It is probably true to say that 'ESG' is used as a catch-all term for almost all non-commercial or non-financial business matters. Corporate governance, in its current form of a codified set of rules against which companies must 'comply or explain', has been in place for nearly 30 years and Howdens has a well-developed set of Board and Committee practices and systems which are designed to mitigate corporate governance risks and failures. Howdens already has developed high-quality financial and governance reporting practices and therefore the remit of the Sustainability Committee does not cover governance matters per se and these remain a matter for the Board and its Committees.

It is expected that the function of the Sustainability Committee will develop over time but we have set out below the core role, remit and responsibilities of the Committee to provide a summary of how the Committee will operate in 2022. We have also disclosed some of the key work of the Committee during the year, some of which was addressed by the Board prior to the establishment of the Sustainability Committee.

Role, remit and responsibilities

The principal role of the Committee is to assist the Board in articulating and developing its sustainability strategy and providing oversight of sustainability initiatives across Howdens, in line with the purpose, values, and strategy of Howdens as established by the Board.

This includes monitoring of the content and completeness of Howdens' external statements, disclosures and other reporting on Sustainability matters. The Committee shall carry out the duties considered below in relation to any environment and climate action and Howdens' contribution to society. However, it will also consider any other matters referred by the Board or its Committees relevant to sustainability.

The Committee will carry out the following duties:

- Oversee Howdens' sustainability strategy, consider and approve proposals from management on the content of that strategy and recommend its adoption by the Board.
- Monitor and review progress against priorities and objectives, including compliance with public commitments on sustainability matters.
- Oversee management's plans on environment and climate action, including the setting, disclosing, and achievement of targets.
- Oversee and assess Howdens' overall contribution to, impact on, and role in society in the countries where it operates.
- Review external reporting and recommend for approval the external statements and disclosures made by Howdens in relation to sustainability, including the relevant sections of Howdens' Annual Report. This shall include keeping under review the extent and effectiveness of Howdens' external reporting of sustainability performance and its participation in external benchmarking indices.
- Consider Howdens' position on relevant emerging sustainability issues and consider and approve proposals on Group targets and/or the Group's commitment to non-mandatory sustainability related objectives.

The Committee will liaise as necessary with all other Board Committees as required.

Diversity: Equality, Diversity and Inclusion (EDI) Group

At the Sustainability Committee meeting in November, the Committee received an update from the Group HR Director on the progress made during the year in respect of the EDI Group.

The Group's EDI priorities were considered and an Executive Sponsor was agreed for each priority. Each sponsor will be supported by an internal and external resource and will be responsible for building an action plan for their priority area as well as having responsibility beyond their focused demographic to steer the overall direction of the EDI strategy.

The Committee also noted that an employee engagement survey would be undertaken in March 2022. This will be used as an opportunity to communicate the EDI priorities and collect the data needed to better understand the current EDI landscape and to and measure progress.

Apprentices

Howdens has an externally recognised track record for apprenticeships and we are proud of our strong success in this area. Many of our commercial strengths are underpinned by our home-grown model and, in conjunction with our focus on social mobility, will remain an area of focus.

The development of skills both at Howdens and in the wider construction industry will help sustain our business as well as helping to address the skills gap in construction more generally.

Howdens uses its apprentice levy across four key investment areas:

- Continuing to build our apprentice pipelines.
- Developing existing employees.
- Funding the education of construction apprentices.
- Educating and enabling our trade customers to employ apprenticeships.

The Sustainability Committee will undertake a deep-dive review on skill in 2022.

More information on apprenticeships at Howdens can be found in the Sustainability Matters report on page 46.

Task Force on Climate-Related Financial Disclosures (TCFD)

Following updates to the Board during the year, the Sustainability Committee considered and approved the methodology and draft disclosures under TCFD. Supported by external consultancy, TT Impact Strategies, the Group utilised the following methodology for TCFD implementation:

1. Governance and oversight: Board and management oversight to ensure that climate issues are embedded in the strategic planning/ enterprise risk management
2. Assess materiality of climate-related risks: Understand potential climate related risks and opportunities for Howdens' business involving all relevant internal stakeholders
3. Develop and define scenarios: Construct appropriate scenarios to develop relevant narratives according to Howdens' context and business model
4. Evaluate business impacts: For each scenario (three scenarios), identify key strategic and financial impacts - qualitative to quantitative
5. Identify potential responses: Use the results to identify realistic strategic responses to manage risks and opportunities
6. Document and disclose: Communicate to relevant parties - the inputs, assumptions, methods, outputs, and potential management responses

The Group's reporting under TCFD in respect of the year ended 25 December 2021 can be found on pages 52 to 57.

The Sustainability Committee will continue to receive updates from management on how the outputs from the TCFD review process are being implemented across the business as well as the development of TCFD reporting in the future.

By order of the Board

Richard Pennycook
Sustainability Committee Chairman

23 February 2022

Directors' report

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 25 December 2021. Comparative figures relate to the 52 weeks ended 26 December 2020.

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 and streamlined energy and carbon reporting (SECR): 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 65. Information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155), may be found on pages 64 and 65.

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 90 to 95. 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 140. Risk management arrangements information may be found on pages 38 and 39 and in the Principal risks and uncertainties section beginning on page 40.

Diversity policies: The Board and Group diversity policies are available on page 100 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 84 to 89.

Employees: Information about the total number of employees and gender diversity statistics are located on page 99. The average number of employees and their remuneration are shown in note 6 on page 159. The methods of engaging with the workforce may be found on pages 84 and 85. 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, and in 2021 were invited to participate in a new SIP Partnership and Matching Shares plan. Further details of the SIP may be found in note 25 on page 177.

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 1 to 37.

Dividend: Dividend information can be found in the Chairman's statement on pages 17 and 18 and the 'Financial review' on pages 34 and 35.

Directors' statement of disclosure of information to the auditor: This statement may be found on page 70.

Located in the additional information section:

Annual General Meeting (AGM): Information about the AGM can be found on page 202. The recommendation to appoint KPMG LLP as the Group's auditor, can be found on pages 134 and 137.

Share capital, substantial shareholdings and acquisition of the Company's own shares: Information in this regard can be found on pages 202 and 203.

Indemnity and Insurance: Details of Directors' Indemnity and Insurance is located on page 203.

Significant agreements: Details of any agreements that take effect, alter or terminate upon a change of control may be found page 203.

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-UK 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

23 February 2022

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 is 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 48.

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 emissions and streamlined energy and carbon reporting (pages 64 and 65). • Discussion of the Company's progress on implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (pages 52 to 57). • Discussion of the UN Sustainable Development Goals and our progress on 'zero waste to landfill' and carbon neutral manufacturing (page 50). • 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 64). • KPI on use of certified timber in our manufacturing processes (page 62). • Discussions of our efforts to reduce waste and our responsible, energy-efficient operations (page 64).
Social matters	Sustainability and Corporate Social Responsibility Statement of Intent (see Group website).	• Our impact on our stakeholders (starting on page 58) and engagement with stakeholders (starting on page 84). • Our work with local and national charities (page 66).
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 50). • 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 85.
Employees	Health & Safety Statement of Intent (see Group website), Market abuse compliance, Data Protection and Privacy, Whistleblowing.	• KPI on Health and Safety and discussion of Health and Safety performance and initiatives (page 60). • Discussion of employee rewards and benefits, development opportunities and apprentice schemes (page 61). • Diversity policies and statistics (pages 99 and 100). • Workforce engagement (pages 84 and 85). • Directors' Remuneration Policy (see Group website for the full policy or pages 124 and 125 for a summary of the policy). A proposed new policy is set out on pages 111 to 118.

We outline our business model on pages 14 and 15. All of our non-financial KPIs are presented together on pages 30 and 31. 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.

Financial Statements

Our financial performance

Revenue
£2,094m (2020: £1,548m)

2017	£1,404m
2018	£1,511m
2019	£1,584m
2020	£1,548m
2021	**£2,094m**

Profit before tax
£390m (2020: £185m)

2017	£232m
2018	£239m
2019	£261m
2020	£185m
2021	**£390m**

Net cash
£ 515m (2020: £431m)

2017	£241m
2018	£231m
2019	£267m
2020	£431m
2021	**£515m**

Operating profit
£402m (2020: £196m)

2017	£234m
2018	£240m
2019	£260m
2020	£196m
2021	**£402m**

EPS
53.2p (2020: 24.9p)

2017	30p
2018	31p
2019	35p
2020	25p
2021	**53.2p**

Dividends paid
£133.6m paid in 2021

2017	£68.4m
2018	£68.3m
2019	£70.6m
2020	£0m
2021	**£133.6m**

Shares bought back

2017	£47.9m
2018	£62.2m
2019	£55.2m
2020	£10m
2021	**£50m**

Consolidated income statement

	Notes	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Continuing operations:			
Revenue	4	2,093.7	1,547.5
Cost of sales		(804.7)	(617.5)
Gross profit		1,289.0	930.0
Selling & distribution costs		(756.5)	(636.7)
Administrative expenses		(130.8)	(97.6)
Operating profit	5	401.7	195.7
Finance income	7	-	0.6
Finance costs	8	(11.4)	(11.0)
Profit before tax		390.3	185.3
Tax on profit	9	(75.8)	(37.7)
Profit for the period attributable to the equity holders of the parent		314.5	147.6
Earnings per share:			
Basic earnings per 10p share	10	53.2p	24.9p
Diluted earnings per 10p share	10	53.0p	24.8p

Consolidated statement of comprehensive income

	Notes	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Profit for the period		314.5	147.6
Items of other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme	20	170.4	(12.7)
Deferred tax on actuarial gains and losses on defined benefit pension scheme	9	(33.5)	2.4
Change of tax rate on deferred tax	9	(8.5)	1.1
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(2.3)	0.5
Other comprehensive income for the period		126.1	(8.7)
Total comprehensive income for the period attributable to equity holders of the parent		440.6	138.9

Consolidated balance sheet

	Notes	25 December 2021 £m	26 December 2020 £m
Non-current assets			
Intangible assets	12	22.6	24.3
Property, plant and equipment	13	295.8	248.8
Lease right-of-use assets	14	555.8	544.2
Pension asset	20	140.8	-
Deferred tax asset	15	13.4	17.0
Prepaid credit facility fees		0.3	0.6
		1,028.7	834.9
Current assets			
Inventories	16	301.6	255.0
Trade and other receivables	17	205.8	166.6
Cash and cash equivalents	23	515.3	430.7
		1,022.7	852.3
Total assets		2,051.4	1,687.2
Current liabilities			
Lease liabilities	14	(57.5)	(70.0)
Trade and other payables	18	(384.7)	(300.4)
Current tax liability		(25.9)	(22.2)
		(468.1)	(392.6)
Non-current liabilities			
Pension liability	20	-	(47.7)
Lease liabilities	14	(533.7)	(510.5)
Deferred tax liability	15	(37.7)	(1.7)
Provisions	21	(20.4)	(13.9)
		(591.8)	(573.8)
Total liabilities		(1,059.9)	(966.4)
Net assets		991.5	720.8
Equity			
Share capital	22	59.8	60.3
Capital redemption reserve	22	5.4	4.9
Share premium	22	87.5	87.5
ESOP reserve	22	5.9	(3.5)
Treasury shares	22	(27.1)	(28.2)
Retained earnings	22	860.0	599.8
Total equity		991.5	720.8

The financial statements were approved by the Board and authorised for issue on 23 February 2022 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 28 December 2019	60.5	4.7	87.5	(6.3)	(29.3)	498.1	615.2
Impact of adopting IFRS 16	-	-	-	-	-	(30.9)	(30.9)
Tax effect of adopting IFRS 16						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 income 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
Accumulated profit for the period	-	-	-	-	-	314.5	314.5
Other comprehensive income for the period	-	-	-	-	-	126.1	126.1
Total comprehensive income for the period	-	-	-	-	-	440.6	440.6
Current tax on share schemes	-	-	-	-	-	(0.1)	(0.1)
Deferred tax on share schemes	-	-	-	-	-	1.3	1.3
Movement in ESOP	-	-	-	10.5	-	-	10.5
Reclaim of forfeited dividends	-	-	-	-	-	0.2	0.2
Proceeds from sale of forfeited shares	-	-	-	-	-	1.8	1.8
Buyback and cancellation of shares	(0.5)	0.5	-	-	-	(50.0)	(50.0)
Transfer of shares from treasury into share trust	-	-	-	(1.1)	1.1	-	-
Dividends	-	-	-	-	-	(133.6)	(133.6)
At 25 December 2021	59.8	5.4	87.5	5.9	(27.1)	860.0	991.5

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £41.7m (2020: £35.9m), 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 5,567,555 ordinary shares held in treasury, each with a nominal value of 10p (2020: 5,775,230 shares).

The nature and purpose of each of the other reserves is explained at note 22.

Consolidated cash flow statement

	Notes	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Operating profit		401.7	195.7
Adjustments for:			
Depreciation and amortisation of owned assets	12, 13	40.6	34.5
Depreciation, impairment and loss on termination of leased assets	14	74.8	79.5
Share-based payments charge		10.1	3.6
Decrease in prepaid credit facility fees		0.3	0.3
Write down of property, plant and equipment and intangible assets		3.2	-
Operating cash flows before movements in working capital		530.7	313.6
Movements in working capital and exceptional items			
Increase in inventories		(46.6)	(23.2)
(Increase)/decrease in trade and other receivables		(39.2)	2.3
Increase in trade and other payables and provisions		84.1	91.2
Difference between pensions operating charge and cash paid		(18.5)	(22.2)
		(20.2)	48.1
Cash generated from operations		510.5	361.7
Tax paid		(73.1)	(32.2)
Net cash flow from operating activities		437.4	329.5
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(85.9)	(69.7)
Receipts from sale of property, plant and equipment and intangible assets		0.1	-
Interest received		-	0.6
Net cash used in investing activities		(85.8)	(69.1)
Cash flows used in financing activities			
Payments to acquire own shares		(50.0)	(9.8)
Receipts from release of shares from share trust		0.4	0.3
Inflow from receipt of forfeited dividends		0.2	-
Inflow from sale of forfeited shares		1.8	-
Dividends paid to Group shareholders		(133.6)	-
Interest paid- including on lease liabilities		(11.0)	(10.4)
Repayment of principal on lease liabilities		(74.8)	(77.2)
Net cash used in financing activities		(267.0)	(97.1)
Net increase in cash and cash equivalents		84.6	163.3
Cash and cash equivalents at beginning of period		430.7	267.4
Cash and cash equivalents at end of period	23	515.3	430.7

Notes to the consolidated financial statements continued

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 25 December 2021. The comparative period covered the 52 weeks to 26 December 2020.

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) No1606/2002 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 67. 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 186.

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 - Classification of liabilities as Current or Non-Current

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

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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.

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. All subsidiaries are 100% owned and the Group considers that it has control over them all.

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 completion of 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.

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 and 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 regularly 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 obtaining, configuring or customising 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.

When the Group incurs configuration and customisation costs as part of a cloud-based software-as-a-service agreement, and where this does not result in the creation of an asset which the Group has control over, then these costs are expensed.

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 as well as 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.

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 only temporary differences which are not provided for are in relation to tax losses in UK and overseas subsidiary companies where it is not expected there will be taxable profits against which these losses can be utilised 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 which closed to future accrual in 2021. 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 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 lease depot, warehouse, factory and office properties, as well as other assets such as fork lift trucks, lorries, vans and cars. 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 credit 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; or
- 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 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 IFRS16 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 remeasurement of the lease liability.

The lease asset and liability are remeasured from the rent review agreement date, based on the future agreed cashflows at the new agreed rent.

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.

Notes to the consolidated financial statements continued

Other payables

Other payables are stated at their fair value.

Share-based payments

The Group issues equity-settled share-based payments. They are measured at fair value at the date of grant. The fair value 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, and an estimate of any expected credit losses.

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 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 liability.

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 regular reviews of stock levels, as well as 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 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 of 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 25 December 2021 £m	52 weeks to 26 December 2020 £m
Capital additions	89.8	67.0
Depreciation and amortisation	(40.6)	(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 25 December 2021 £m	52 weeks to 26 December 2020 £m
UK	2,043.3	1,509.6
Continental Europe	50.4	37.9
	2,093.7	1,547.5

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.

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Notes to the consolidated financial statements continued

Carrying amount of assets

	25 December 2021 £m	26 December 2020 £m
UK	1,991.9	1,638.2
Continental Europe	59.5	49.0
	2,051.4	1,687.2

Non-current assets (excluding deferred tax assets)

	25 December 2021 £m	26 December 2020 £m
UK	982.8	795.1
Continental Europe	32.5	22.8
	1,015.3	817.9

Additions to property plant and equipment and intangible assets

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
UK	82.8	63.1
Continental Europe	7.0	3.9
	89.8	67.0

5 Operating profit

Operating profit has been arrived at after (charging)/crediting:

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Net foreign exchange gain	5.2	0.4
Depreciation of property plant and equipment	(31.5)	(28.7)
Amortisation of intangible assets	(9.1)	(5.8)
Depreciation and impairment of lease right-of-use assets	(74.8)	(79.5)
Cost of inventories recognised as an expense	(789.9)	(611.0)
Write down of inventories	(20.0)	(6.8)
Loss on disposal of fixed assets	(3.2)	-
Increase in allowance for expected credit losses on trade debts	(2.9)	(1.5)
Staff costs	(553.3)	(461.7)
Auditor's remuneration for audit services	(0.8)	(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 25 December 2021 £m	52 weeks to 26 December 2020 £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	(0.5)	(0.4)
Total audit fees	(0.7)	(0.6)
Other services:		
Audit related assurance services (review of the half-year results)	(0.1)	(0.1)
Tax compliance services	-	-
Tax advisory services	-	-
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 25 December 2021 £m	52 weeks to 26 December 2020 £m
Wages and salaries	(474.6)	(388.6)
Social security costs	(44.7)	(35.8)
Pension operating costs (note 20)	(34.0)	(37.3)
	(553.3)	(461.7)

Wages and salaries includes a charge in respect of share-based payments of £10.1m (2020: £3.6m).

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 25 December 2021 No.	52 weeks to 26 December 2020 No.
	10,789	10,004

Notes to the consolidated financial statements continued

7 Finance income

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Bank interest receivable	-	0.6

8 Finance costs

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Interest expense on lease liabilities	(11.0)	(10.3)
Other finance expense - pensions	(0.4)	(0.6)
Other interest	-	(0.1)
Total finance costs	(11.4)	(11.0)

9 Tax

(a) Tax in the income statement

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Current tax:		
Current year	77.3	33.6
Adjustments in respect of previous periods	(0.5)	0.6
Total current tax	76.8	34.2
Deferred tax:		
Current year	0.4	4.8
Effect of changes in tax rate	(1.7)	-
Adjustments in respect of previous periods	0.3	(1.3)
Total deferred tax	(1.0)	3.5
Total tax charged in the income statement	75.8	37.7

UK Corporation tax is calculated at 19% (2020: 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 25 December 2021 £m	52 weeks to 26 December 2020 £m
Deferred tax charge/(credit) to other comprehensive income on actuarial difference on pension scheme	33.5	(2.4)
Change of rate effect on deferred tax	8.5	(1.1)
Deferred tax (credit)/charge to equity on share schemes	(1.3)	0.2
Current tax charge/(credit) to equity on share schemes	0.1	(0.1)
Total charge/(credit) to other comprehensive income or changes in equity	40.8	(3.4)

(c) Reconciliation of the total tax charge

The Group's effective rate of tax is 19.4% (2020: 20.3%). The total tax charge for the period can be reconciled to the result per the income statement as follows:

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Profit before tax	390.3	185.3
Tax at the UK corporation tax rate of 19% (2020: 19%)	74.1	35.2
IFRS2 share scheme charge	(0.3)	0.2
Expenses not deductible for tax purposes	1.7	0.5
Overseas losses not utilised	2.2	1.4
Non-qualifying depreciation	0.6	1.1
Super deduction - capital allowances	(0.6)	-
Rate change	(1.7)	-
Other tax adjustments in respect of previous years	(0.2)	(0.7)
Total tax charged in the income statement	75.8	37.7

Patent box

During 2020 we were granted a patent on a new plastic leg design which we have incorporated into our sales of circa 5m of kitchen cabinet units. We applied for the patent in 2017 and there is a potential to claim tax relief under HMRC patent box rules. We will review the potential scale of any claim with our advisers before deciding whether to make a claim under these rules.

10 Earnings per share

	52 weeks to 25 December 2021			52 weeks to 26 December 2020		
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	314.5	591.2	53.2	147.6	592.3	24.9
Effect of dilutive share options	-	2.1	(0.2)	-	2.7	(0.1)
Diluted earnings per share	314.5	593.3	53.0	147.6	595.0	24.8

11 Dividends

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the 52 weeks to 25 December 2021 - 4.3p/share	25.3	-
Final dividend for the 52 weeks to 26 December 2020 - 9.1p/share	54.2	-
Special dividend for the 52 weeks to 26 December 2020 - 9.1p/share	54.1	-
	133.6	-

	52 weeks to 25 December 2021 £m
Dividends proposed at the end of the period (but not recognised in the period):	
Proposed final dividend for the 52 weeks to 25 December 2021 - (15.2p/share)	89.3
	89.3

Notes to the consolidated financial statements continued

The Directors propose a final dividend in respect of the 52 weeks to 25 December 2021 of 15.2p per share, payable to ordinary shareholders who are on the register of shareholders at 8 April 2022, and payable on 20 May 2022. The proposed final dividend for the current period is subject to the approval of the shareholders at the 2022 Annual General Meeting, and has not been included as a liability in these financial statements.

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 explained in the accounting policies note.

	Intangible assets in use £m	Intangible assets under construction £m	TOTAL £m
Cost			
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
Exchange adjustments	(0.1)	-	(0.1)
Additions	5.6	4.4	10.0
Disposals	(13.1)	(0.1)	(13.2)
Reclassifications	3.3	(3.3)	-
At 25 December 2021	46.3	3.9	50.2
Accumulated depreciation			
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)
Exchange adjustments	0.1	-	0.1
Charge for the period	(9.1)	-	(9.1)
Disposals	10.6	-	10.6
At 25 December 2021	(27.6)	-	(27.6)
Net book value at 25 December 2021	18.7	3.9	22.6
Net book value at 26 December 2020	21.4	2.9	24.3

In April 2021, the IFRS Interpretations Committee ('IFRIC') published an agenda decision on accounting for configuration and customisation costs incurred in implementing cloud-based software-as-a-service contracts. This decision clarified that where the customer doesn't control the underlying software and where the configuration and customisation costs don't create a separate intangible asset then the configuration and customisation costs should be expensed.

Following the publication of this agenda decision the Group carried out a review of its intangible assets and concluded that there were assets with a net book value of £1.6m which it would not have capitalised if the IFRIC agenda decision had been effective when the related costs were incurred. These amounts were written off in the current period and are included as part of the intangible asset disposals shown above. The Group has amended its accounting policy for intangible assets to address the IFRIC decision. The amended policy is at note 2 to these accounts.

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 28 December 2019	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
Exchange adjustments	-	-	(0.2)	(0.6)	-	(0.8)
Additions	12.2	6.6	8.7	29.6	22.7	79.8
Disposals	-	(7.3)	(12.0)	(4.4)	-	(23.7)
Reclassifications	-	0.9	9.8	0.4	(11.1)	-
At 25 December 2021	55.1	92.1	191.0	207.1	33.1	578.4
Accumulated depreciation						
At 28 December 2019	(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)
Exchange adjustments	-	-	0.1	0.2	-	0.3
Charge for the period	(1.3)	(4.7)	(11.9)	(13.6)	-	(31.5)
Disposals	-	7.3	11.3	4.3	-	22.9
At 25 December 2021	(9.1)	(29.6)	(125.5)	(118.4)	-	(282.6)
Net book value at 25 December 2021	46.0	62.5	65.5	88.7	33.1	295.8
Net book value at 26 December 2020	35.1	59.7	59.7	72.8	21.5	248.8

Notes to the consolidated financial statements continued

14 Lease right-of-use assets and lease liabilities

Nature of the Group's leasing activities

Around 90% of our leases by value are for depot, warehouse, and office properties, as well the land at one of our factories. A typical depot lease would be for a period of 10 to 15 years, with warehouse and factory leases being for significantly longer and typical office lease periods being shorter. We also lease other smaller assets such as fork lift trucks, lorries, vans and cars, with typical lease periods ranging up to around 5 years.

Our lease accounting policies are in Note 2.

Amounts recognised in the balance sheet

	25 December 2021 £m	26 December 2020 £m
Right-of-use assets		
Property	510.9	495.8
Vehicles, plant & machinery	44.9	48.4
	555.8	544.2
Additions to right-of-use assets in the period	70.0	86.5

	25 December 2021 £m	26 December 2020 £m
Lease liabilities		£m
Current	(57.5)	(70.0)
Non-current	(533.7)	(510.5)
	(591.2)	(580.5)

Amounts recognised in the income statement

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Included in net operating expenses		
Depreciation of right-of-use assets:		
- property	58.0	62.9
- vehicles, plant & machinery	15.2	14.7
Impairment and net loss on lease termination	1.6	1.9
Total - recognised in net operating costs	74.8	79.5
Expense relating to short-term leases	3.7	2.9
Variable lease payments, not included in the measurement of lease liabilities	1.6	1.1
Included in finance costs		
Interest expense on lease liabilities	11.0	10.3

Cash flows and maturity analysis of lease liabilities

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Total cash outflow for leases	85.8	87.5

	25 December 2021 £m	26 December 2020 £m
Maturity analysis of lease liabilities		
Contractual undiscounted cashflows due		
- within 1 year	68.0	79.9
- 1 to 5 years	263.6	242.0
- more than 5 years	352.5	351.4
	684.0	673.3

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 25 December 2021 £m	52 weeks to 26 December 2020 £m
Sublease income recognised in the period	3.3	3.6

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 28 December 2019	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 income statement	2.4	-	(0.2)	-	-	2.2
At 26 December 2020	9.1	1.3	0.3	3.1	1.5	15.3
(Charge)/credit to income statement	(2.3)	(1.1)	1.9	(0.5)	1.4	(0.6)
Credit to the income statement - change of rate	-	-	-	0.7	1.0	1.7
Charge outside the income statement - change of rate	(8.5)	-	0.3	-	-	(8.2)
(Charge)/credit outside the income statement	(33.5)	-	1.0	-	-	(32.5)
At 25 December 2021	(35.2)	0.2	3.5	3.3	3.9	(24.3)

Deferred tax arising from accelerated capital allowances can be further analysed as a £2.7m asset and a £2.5m liability (2020: £3.0m asset and £1.7m liability).

Notes to the consolidated financial statements continued

The presentation in the balance sheet is as follows:

	25 December 2021 £m	26 December 2020 £m
Deferred tax assets	13.4	17.0
Deferred tax liabilities	(37.7)	(1.7)
	(24.3)	15.3

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.

	25 December 2021 £m	26 December 2020 £m
Trading losses	63	53
Non-trading losses	20	20
Capital losses	86	86
Total losses	169	159

The losses disclosed above relate to activities both in the UK and in overseas jurisdictions. Of the trading losses, £31m relate to UK activities with the remainder being attributable to Belgium (£1m) and France (£31m). All of the non-trading losses and capital losses are attributable to UK activities.

16 Inventories

	25 December 2021 £m	26 December 2020 £m
Raw materials	16.0	10.2
Work in progress	5.6	4.8
Finished goods and goods for resale	322.9	274.1
Allowance against carrying value of inventories	(42.9)	(34.1)
	301.6	255.0

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

	25 December 2021 £m	26 December 2020 £m
Trade receivables (net of allowance)	166.5	132.4
Prepayments	34.3	29.0
Other receivables	5.0	5.2
	205.8	166.6

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 expected credit losses on debtors is as follows:

	25 December 2021 £m	26 December 2020 £m
Balance at start of period	12.9	11.4
Increase in allowance recognised in the income statement	2.9	1.5
Balance at end of period	15.8	12.9

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 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 make an allowance against them based on any expected credit losses. This means that we consider 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 base our assessment both on past experience and also on whether there are any other likely significant future factors which might affect recoverability and influence our assessment of expected credit losses. We maintain regular contact with customers with overdue debts and, where necessary, we take legal action to recover the receivable.

We make an allowance for expected credit losses for any specific amounts which we consider to be irrecoverable or only partly recoverable. We also have a separate general allowance, which is based on historical default rates together with our assessment of the effect of any other likely significant future factors which may affect expected credit losses. At the period end, the total allowance for expected credit losses of £15.8m (2020: £12.9m) consists of a specific allowance of £3.7m (2020: £4.7m) which has been made against specific debts with a gross carrying value of £4.7m (2020: £6.0m), and a general allowance of £12.1m (2020: £8.2m). 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 £5.6m of debts in the period (2020: £4.4m). Included within our aggregate trade receivables balance are specific debtor balances with customers totalling £42.6m before allowance for expected credit losses (2020: £29.0m before allowance) 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:

	25 December 2021 £m	26 December 2020 £m
1-30 days past due	24.8	14.9
31-60 days past due	5.6	2.9
61-90 days past due	2.6	1.6
90+ days past due	9.6	9.6
Total overdue amounts, excluding allowance for doubtful receivables	42.6	29.0

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 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 0.02% 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 and inventory as security for any borrowing under the facility. More details are given in Note 19.

18 Other financial liabilities

Trade and other payables

	25 December 2021 £m	26 December 2020 £m
Current liabilities		
Trade payables	178.8	161.0
Other tax and social security	86.6	72.5
Other payables	26.3	17.1
Accruals	93.0	49.8
	384.7	300.4

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 average credit taken for trade purchases during the period, based on total operations, was 59 days (2020: 55 days).

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 25 December 2021, the Group had available £138m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (26 December 2020: £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 SONIA plus a margin of 128.3 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. Under the terms of this scheme, employees make pension contributions out of their salaries, and the Group also makes additional contributions.

The total cost charged to income in respect of this plan in the current period of £26.5m (2020: £12.2m) represents the Group's contributions due and payable in respect of the period. All of this amount was paid in the period as was also the case in the previous period.

Defined contribution: other plan

The Group operates another defined contribution plan for its employees. The assets of this plan are held separately from those of the Group, and are under the control of the scheme trustees. This plan began operation during 2006.

The total cost charged to income in respect of this plan in the current period of £0.7m (2020: £1.3m) 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 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 5 April 2020 by the plan actuary. The actuary advising the Group has subsequently rolled forward the results of the 5 April 2020 valuation to 25 December 2021. 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 25 December 2021. We are using CMI 2020 mortality tables, being the most recent tables available.

Notes to the consolidated financial statements continued

Funding and estimated contributions

The Goup's contributions in the current and prior periods are shown in the tables below. 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. Under the agreement, the scheme's funding position is monitored on a monthly basis and deficit contributions are to be suspended if the scheme's funding position is 100% or greater for two consecutive months on a Technical Provisions basis, and is resumed if the funding position subsequently falls back to below 100%.

The scheme's funding reached 100% on a Technical Provisions basis part way through 2021 and remained in surplus on that basis until the year end. Additional deficit contributions were suspended throughout this time.

The Group's estimated total cash contributions to the defined benefit plan in the 52 weeks ending 24 December 2022 are £3m. This is on the assumption that the scheme remains in surplus on the Technical Provisions basis and that there are no additional deficit contributions in the year.

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 surplus at the current period end is £140.8m. 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 surplus at the current period end is estimated at £65.6m, this estimate being based on an approximate roll-forward of the 2020 triennial funding valuation, updated for market conditions.

(b) Total amounts charged in respect of pensions in the period

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Charged to the income statement:		
Defined benefit plan - current service cost	4.8	20.8
Defined benefit plan - past service cost	-	0.3
Defined benefit plan - administration costs	2.0	2.7
Defined benefit plan - total operating charge	6.8	23.8
Defined benefit plan - net finance charge	0.4	0.6
Defined contribution plans - total operating charge	27.2	13.5
Total net amount charged to profit before tax	34.4	37.9
Charged to equity:		
Defined benefit plan - actuarial (gains)/losses	(170.4)	12.7
Total (credit)/charge	(136.0)	50.6

(c) Other information - defined benefit pension plan

Key assumptions used in the valuation of the plan	52 weeks to 25 December 2021	52 weeks to 26 December 2020
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.85%	2.45%
Rate of CARE revaluation capped at lower of RPI and 3%	2.55%	2.35%
Rate of increase of pensions in payment:		
- pensions with increases capped at lower of CPI and 5%	2.80%	2.45%
- pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.50%	3.35%
- pensions with increases capped at the lower of LPI and 2.5%	2.20%	2.10%
Rate of increase in salaries	4.30%	3.95%
Inflation assumption - RPI	3.30%	2.95%
Inflation assumption - CPI	2.85%	2.45%
Discount rate	1.90%	1.30%
Life expectancy (years): pensioner aged 65		
- male	86.6	86.5
- female	88.4	88.3
Life expectancy (years): non-pensioner aged 45		
- male	87.6	87.8
- female	90.3	90.5

Sensitivities

		Projected 2022 pension cost		
	Present value of scheme liabilities at 25 December 2021	Total service cost £m	Net interest (credit)/cost £m	Net pension (credit)/expense £m
Assumption				
Current valuation, using the assumptions above	(1,513)	2.5	(2.7)	(0.2)
0.5% decrease in discount rate	(1,675)	2.5	0.3	2.8
0.5% increase in inflation	(1,600)	2.5	(1.0)	1.5
1 year increase in longevity	(1,566)	2.5	(1.6)	0.9

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period, and the projected total service cost for 2022. 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.

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Analysis of plan assets

	25 December 2021		26 December 2020	
	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	435.7	-	423.0	-
Equities				
- passive equities	172.5	-	141.3	-
Private equity	-	0.6	-	2.6
Alternative growth assets				
- fund of hedge funds	-	148.6	-	137.8
- absolute return fund	91.4	--	85.0	-
Insurance-linked securities	-	100.9	-	71.6
Corporate bonds	232.2	-	237.5	-
Commercial property fund	114.0	175.6	103.0	117.7
Other secure income	-	150.1	-	128.7
Asset-backed securities	10.6	-	104.9	-
Cash and cash equivalents	21.1	-	40.2	-
Total	1,077.5	575.8	1,134.9	458.4

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

As set out in the plan's 2021 Annual Report and Accounts, signed in September 2021, the plan trustees' long-term asset allocation strategy is to target a 60% allocation of assets to 'return-seeking assets' and a 40% allocation to 'risk-reducing assets'.

The plan's accounts then goes on to explain these classes of assets as follows:

'Return-seeking' assets target a higher expected return than that of risk reducing/matching assets and typically have a higher associated volatility, relative to liabilities. These assets would typically involve equities and could possibly include alternative asset classes such as different types of absolute return and hedge funds, infrastructure, property and illiquid credit approaches. Assets used to predominantly manage liquidity and cashflows within the Secure Income portfolio are also deemed 'Return-seeking'.

'Risk-reducing' (or matching) assets have characteristics that are broadly similar in nature to the liabilities. These assets are predominantly bonds and could also possibly include other financial instruments such as interest rate and inflation swaps.

Analysis of plan members, scheme liability split and duration

	2021[1]		
	No. of members	% of total liability	Duration (years)
Active members	1,231		
Deferred members	5,305		
Total members	6,536	67%	24
Pensioners	4,031	33%	13
Total No./average duration	10,567	100%	20

1 The membership figures are as given in the plan accounts and are as at 31 March 2021, the date of the latest audited pension plan accounts. Since that date, the plan has closed to further accrual and all non-pensioner members are now deferred members. The duration and % of liability figures are as calculated by the Group's actuary as at the Group's current year end.

	2020[2]		
	No. of members	% of total liability	Duration (years)
Active members	1,342		
Deferred members	5,440		
Subtotal	6,782	66%	25
Pensioners	3,871	34%	14
Total No./average duration	10,653	100%	22

2 The membership figures are as given in the plan accounts and are as at 31 March 2020. The duration and % of liability figures are as calculated by the Group's actuary as at the Group's 2020 year end.

Balance sheet

The amount included in the balance sheet arising from the Group's obligations in respect of defined benefit retirement benefit plan is as follows:

	25 December 2021 £m	26 December 2020 £m
Present value of defined benefit obligations	(1,512.5)	(1,641.0)
Fair value of scheme assets	1,653.3	1,593.3
Surplus/(deficit) in the scheme, recognised in the balance sheet	140.8	(47.7)

Movements in the present value of defined benefit obligations were as follows:

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Present value at start of period	1,641.0	1,485.3
Current service cost	4.8	20.8
Past service cost	-	0.3
Administration cost	2.0	2.7
Interest on obligation	21.1	28.3
Actuarial losses/(gains):		
- changes in financial and demographic assumptions	(132.9)	165.8
- experience	20.5	(19.9)
Benefits paid, including expenses	(44.0)	(42.3)
Present value at end of period	1,512.5	1,641.0

Movements in the fair value of the plan's assets is as follows:

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Fair value at start of period	1,593.3	1,428.7
Interest income on plan assets	20.7	27.7
Contributions from the Group	25.3	46.0
Actuarial gains	58.0	133.2
Benefits paid, including expenses	(44.0)	(42.3)
Fair value at end of period	1,653.3	1,593.3

Notes to the consolidated financial statements continued

Movements in the scheme surplus/(deficit) during the period are as follows:

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Deficit at start of period	(47.7)	(56.6)
Current service cost	(4.8)	(20.8)
Past service cost	-	(0.3)
Administration cost	(2.0)	(2.7)
Employer contributions	25.3	46.0
Other finance charge	(0.4)	(0.6)
Actuarial gains/(losses) gross of deferred tax	170.4	(12.7)
Surplus/(deficit) at end of period	140.8	(47.7)

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 25 December 2021 £m	52 weeks to 26 December 2020 £m
Current service cost	4.8	20.8
Past service cost	-	0.3
Administration cost	2.0	2.7
Total service cost	6.8	23.8

The total service cost is included in the financial statement heading Staff Costs.

Amount credited to other finance charges:

	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Interest income on plan assets	(20.7)	(27.7)
Interest cost on defined benefit obligation	21.1	28.3
Net charge	0.4	0.6

The actual return on plan assets was £78.7m (52 weeks to 26 December 2020: £160.9m).

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 25 December 2021 £m	52 weeks to 26 December 2020 £m
Actuarial gain on plan assets	58.0	133.2
Actuarial gain/(loss) on plan liabilities	112.4	(145.9)
Net actuarial gain/(loss), before associated deferred tax	170.4	(12.7)

21 Provisions

	Property £m	Warranty	Closure costs £m	French post-employment benefits £m	Total £m
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
Additional provision in the period	3.2	7.7	2.2	-	13.1
Provision released in the period	(0.2)	-	-	-	(0.2)
Utilisation of provision in the period	(1.6)	(4.8)	-	-	(6.4)
At 25 December 2021	7.0	10.9	2.2	0.3	20.4

Effect of adopting IFRS 16 on the property provision in 2020

On adopting IFRS 16 in 2020, 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 lease assets.

Property provision

The property provision covers obligations to make dilapidation payments to landlords of leased properties. Following the guidance in the IFRSs governing leases and provisions, our assessment is that, in general, the likelihood of a cash outflow for dilapidations at the time of signing a lease is remote, and therefore it would be unusual for us to recognise any costs relating to dilapidations at that time.

The point at which we change our assessment of the likelihood of a cash outflow for dilapidations from being remote to being probable, and which therefore triggers our recognition of a provision for that probable outflow, typically occurs as we draw towards the end of a lease. However, we monitor the condition of our properties and the need for dilapidation provisions on an ongoing basis throughout the length of our tenancies, and we carry out regular repairs, maintenance and capital works.

The timing of any outflows from the provision is variable, and is dependent on the timing of dilapidations assessments and works. Although circumstances will differ from property to property, a typical pattern would be that the outflow would occur within 1-3 years of the provision being made. The amounts provided are specific to each property and are based on our best estimate of the cost of performing any required works or, in cases where we will not be directly contracting for the works to be done, our best estimate of the outflow required to settle any claim from the landlord. Where the amounts involved are significant, we would typically take advice on the likely costs from third-party property maintenance specialists.

Warranty provision

The warranty provision relates to the estimated costs 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 the historical data on the rate and amount of claims to periodically revise our expectations of the amount of future warranty outflows and therefore the rate at which it is appropriate to provide for warranty costs on each sale in the future.

Utilisation of the provision depends on the timing and amount of any warranty claims. As such, it can be variable from year to year.

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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. There will only be an outflow from this provision 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. The calculation to arrive at the best estimate of the required provision is revised periodically by third-party specialists and our provision is adjusted in line with the results of this calculation if necessary.

Closure costs

Closure costs in 2021 relate to closing 5 depots in France, which did not align with our depot expansion plans. The commitment to close the depots was made and communicated before the end of the current year. The closures and the related cash outflows from the provision, are expected to complete during 2022.

22 Share capital and reserves

Ordinary shares of 10p each:	52 weeks to 25 December 2021 No.	52 weeks to 26 December 2020 No.	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	602,863,861	604,663,861	60.3	60.5
Bought back and cancelled during the period	(5,290,034)	(1,800,000)	(0.5)	(0.2)
Balance at the end of the period	597,573,827	602,863,861	59.8	60.3

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All shares rank equally.

Description of the nature and purpose of each reserve shown in the balance sheet

The share premium represents the amounts above the nominal value received for shares sold. The capital redemption reserve represents the nominal value of share capital bought back and cancelled. The share premium reserve represents the premium above nominal value for any shares sold. The ESOP reserve relates to share-based payments and is explained at the foot of the statement of changes in equity. The treasury share reserve represents the cost of shares bought from the market and held in treasury. The retained earnings reserve represents the Group's cumulative results.

23 Notes to the cash flow statement

Analysis of net cash	Cash at bank and in hand £m	Current asset investments £m	Cash and cash equivalents, and net cash £m
At 26 December 2020	400.7	30.0	430.7
Cash flow	89.6	(5.0)	84.6
At 25 December 2021	490.3	25.0	515.3

The current asset 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 17.

24 Financial commitments

Capital commitments	25 December 2021 £m	26 December 2020 £m
Contracted for, but not provided for in the financial statements:		
- Tangible assets	16.1	13.8
- Intangible assets	2.1	0.7
	18.2	14.5

25 Share-based payments

1) Details of each scheme

The Group recognised a charge of £10.1m (2020: charge of £3.6m) 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.

Share Incentive Plan ('SIP')

This is a UK tax-advantaged 'all-employee' share plan under which the Company may grant the following types of awards to eligible UK employees:

(i) **Free Shares**, the vesting and forfeiture period is three years commencing on the date of grant and subject to continued employment. The shares are not subject to any performance conditions. Dividends are payable on the Free Shares during the vesting period. Voting rights are attached to Free Shares during the vesting period.

(ii) **Partnership Shares,** which do not have a vesting period as they are purchased using deductions from the gross pay of participating employees. The shares are not subject to any performance conditions. Dividends are payable on the Partnership Shares from grant. Voting rights are attached to Partnership Shares from grant.

(iii) **Matching Shares,** the vesting and forfeiture period for which is three years commencing on the date of grant and subject to continued employment and retention of the associated Partnership Shares in the SIP trust. Matching Shares are granted to participants in a ratio determined by the Company up to a maximum of two free Matching Shares for each Partnership Share purchased. Matching Shares are not subject to any performance conditions. Dividends are payable on the Matching Shares during the vesting period. Voting rights are attached to Matching Shares during the vesting period.

(iv) **Dividend Shares,** which do not have a vesting period as they are purchased using dividend monies payable on existing SIP shares held in the SIP trust. The shares are not subject to any performance conditions. Dividends are payable on the Dividend Shares from grant. Voting rights are attached to Dividend Shares from grant.

Free Shares, Partnership Shares, and Matching Shares must be kept in the SIP trust for five years from the date of grant to be capable of being sold or transferred out of the SIP trust free of income tax and National Insurance contributions (exceptions apply for 'good leaver' scenarios). Dividend Shares must be held in the SIP trust for three years from the date of grant to be capable of being sold or transferred out of the SIP trust free of income tax liability.

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.

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(ii) **Market value options,** the vesting period for which was 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 were as follows:

Date of award	2012	2013
Vesting based on growth in profits - from year ended December	2011	2012
- to year ended December	2014	2015
Award vests at 25% if profits over the vesting period grow by	6%	6%
Award vests at 100% if profits over the vesting period grow by	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	2018	2019
Vesting based on growth in profits - from year ended December	2017	2018
- to year ended December	2020	2021
Award vests at 15% if profits over the vesting period grow by	5%	5%
Award vests at 100% if profits over the vesting period grow by	15%	15%

Date of award	2020	2021
Performance Period - from year ended December	2019	2020
- to year ended December	2022	2023
Performance Conditions:		
Total shareholder return (the 'TSR tranche') represents the following proportion of the Award	67%	33%
- TSR tranche vests at 15% if the Company is ranked compared to comparators at	Median	Median
- TSR tranche vests at 100% if the Company is ranked compared to comparators in the	Upper quartile	Upper quartile
Growth in pre-exceptional profit before tax (the 'PBT tranche') represents the following proportion of the Award	33%	67%
- PBT tranche vests at 15% if profit grows over the Performance Period grow by	5%	5%
- PBT tranche vests at 100% if profit grows over the Performance Period grow by	15%	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.

2) Movements in the period

52 weeks to 25 December 2021	SIP (i) Number	LTIP (i) Number	LTIP (iii) Number	LTIP (iv) Number
In issue at start of period	2,685,127	10,000	4,203,998	64,942
Granted in period	329,076	-	997,693	-
Lapsed in period	(118,566)	(600)	(1,877,012)	-
Exercised in period	(642,008)	(9,400)	-	(51,296)
In issue at end of period	2,253,629	-	3,324,679	13,646
Exercisable at end of period	854,403	-	32	-
Number of options in the closing balance granted before 7 November 2002	15,264	-	-	-
Weighted average share price for options exercised during the period (£)	7.96	7.47	N/A	7.33
Weighted average life remaining for options outstanding at the period end (years)	1.0	N/A	1.4	0.3
Weighted average fair value of options granted during the period (£)	7.45	N/A	6.18	N/A
Exercise price for all options (£)	0.00	0.00	0.00	0.00

	LTIP (ii)		SIP (iii)
	Number	WAEP (£)	Number
In issue at beginning of period	412,962	3.25	-
Granted in period	-	N/A	18,806
Lapsed in period	(7,926)	3.79	(229)
Exercised in period	(97,607)	3.46	-
In issue at end of period	307,429	3.17	18,577
Exercisable at end of period	307,429	3.17	-
Number of options in the closing balance granted before 7 November 2002	-		-
Weighted average share price for options exercised during the period (£)	8.34		N/A
Weighted average life remaining for options outstanding at the period end (years)	-		2.9
Weighted average fair value of options granted during the period (£)	N/A		8.68
Exercise price for all options (£)	1.28 to 3.79		0.00

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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)	1.14	0.25	1.42	0.47
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) Number	WAEP (£)	Recruitment 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)	0.00		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

3) Fair value of awards 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 25 December 2021	52 weeks to 26 December 2020
Dividend yield (%)	2.2	2.2
Expected life of options (years)	1.6 to 3.0	3.0
Expected share price volatility (%)	22.0 to 31.6	30.90

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.

	25 December 2021 £m	26 December 2020 £m
Short-term employment benefits	6.6	9.6
Termination benefits	0.4	0.6
Share-based payments	0.5	0.6
	7.5	10.8

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.

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(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

	25 December 2021 £m	26 December 2020 £m
Financial assets (current and non-current)		
Trade receivables	166.5	132.4
Cash and cash equivalents	515.3	430.7
Financial liabilities (current and non-current)		
Trade payables	193.8	161.0

(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, and 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 in hand together with demand deposits, and other short-term highly liquid current asset 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.

(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, and credit agency ratings.

Our maximum exposure to credit risk is presented in the following table:

	25 December 2021 £m	26 December 2020 £m
Trade receivables (net of allowance)	166.5	132.4
Cash	490.3	400.7
Current asset investments	25.0	30.0
Total credit risk exposure	681.8	563.1

(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, other than leases, are our trade creditors. These are capital liabilities, with no associated interest, and are payable within one year. Our lease liabilities are disclosed at note 14.

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(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 the our financial assets and liabilities to currency risk is as follows:

	25 December 2021 £m	26 December 2020 £m
Euro		
Trade receivables	6.5	5.5
Other receivables	2.7	2.7
Cash and cash equivalents	59.7	14.8
Trade payables	(39.3)	(32.9)
Other payables	(7.5)	(5.2)
	22.1	(15.1)
US Dollar		
Cash and cash equivalents	23.3	0.5
Trade payables	-	(0.2)
	23.3	0.3
TOTAL	45.4	(14.8)

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:

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 £1.1m (2020: increase by £1.3m).

For a decrease of 50 basis points, the current year figures would decrease by £1.1m (2020: decrease by £1.3m).

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.

	25 December 2021 £m	26 December 2020 £m
10% weakening of sterling to euro	2.4	(1.7)
10% strengthening of sterling to euro	(2.0)	1.4
10% weakening of sterling to US dollar	2.6	0.0
10% strengthening of sterling to US dollar	(2.1)	-

Howden Joinery Group Plc Annual Report & Accounts 2021

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 25 December 2021 and of the Group's profit for the period 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 27 and Company Notes 1 to 5

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" (United Kingdom Generally Accepted Accounting Practice).

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 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.

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 the net pension surplus Within this report, all key audit matters have a similar level of risk when compared to the prior year as identified by the following symbol: ◀▶
Materiality	The materiality that we used for the Group financial statements was £15.0m which was determined on the basis of profit before tax.
Scoping	Full audit procedures were performed over the Group's UK trading and corporate entities, consistent with 2020.
Significant changes in our approach	The basis for determining materiality was changed back to profit before tax. In FY20 a number of different metrics used by investors and other readers of the Financial Statements were considered in order to reflect the volatility in the Group's FY20 results 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 October-November (Period 21) 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;
- 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.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

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, which principally relates to the UK is £344.5 million (2020: £289.1 million), of which there is a £42.9million (2020: £34.1 million) allowance against the carrying value. Whilst the Group continues to retain extra stock levels to mitigate against any impact of the coronavirus pandemic and supply chain disruption, these stock lines relate to faster moving items which under the Group's policy do not attract a provision. However, 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 136 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.

5.2. Appropriateness of the actuarial assumptions underlying the valuation of pension surplus

Key audit matter description	There is a significant management judgement involved in the assessment of the actuarial assumptions used to measure the net defined benefit pension surplus of £140.8 million (2020: deficit - £47.7 million), particularly in respect of the discount rate, inflation and mortality rates applied. The valuation of gross pension liabilities of £1,512.5 million (2020: £1,641.0 million) is materially sensitive to changes in these underlying assumptions. The defined benefit scheme closed to future accrual on 31 March 2021. 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 136 also refers to the valuation of the defined benefit arrangements 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 gross liabilities; • 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 rate. 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 schemes as at December 2021; • considering whether, individually and in aggregate, the assumptions are appropriate; • evaluating, together with our pension specialists, the impact of IFRIC 14 to determine the Group's right to recognise a defined benefit surplus; • assessing the competence, capability and objectivity of the Group's external actuaries, and • 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.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

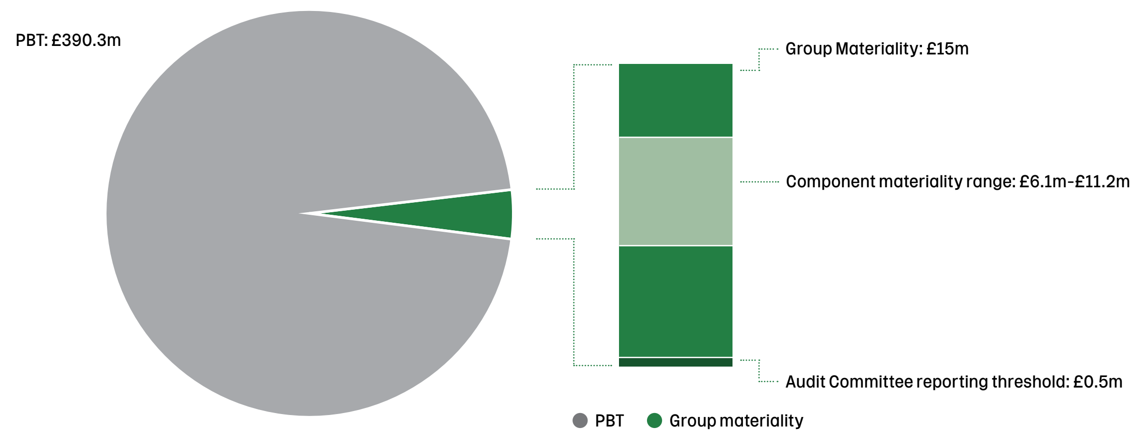
6. Our application of materiality

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	£15.0 million (2020: £11.0 million)	£10.5 million (2020: £5.1 million)
Basis for determining materiality	3.8% of profit before tax	0.9 % (2020: 0.4%) of net assets
Rationale for the benchmark applied	Profit before tax has been used as the basis for determining materiality as it is one of the most relevant benchmarks for users of the accounts.	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	70% (2020: 65%) of Group materiality	70% (2020: 65%) of Group materiality
Basis and rationale for the benchmark applied	Our risk assessment, including our assessment of the Group's overall control environment; and history of prior period errors of which there were a low number of corrected and uncorrected misstatements. A lower performance materiality was used in the prior year to reflect changes in the control environment in response to the coronavirus pandemic.	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 (2020: £500,000), 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.

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 £6.1 million and £11.2 million. These locations represent the principal business units and account for 97% (2020: 97%) of the Group's net assets, 98% (2020: 98%) of Group revenue and 97% (2020: 96%) of Group profit before tax for the 52 weeks ended 25 December 2021. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

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. Where control improvements are identified, these are reported to management and the Audit Committee as appropriate.

As noted on page 136 in the Audit Committee Report, the Group's key controls project is on-going with the aim of reviewing the key controls across the business to focus and further strengthen its overall control framework, specifically the Group's operational, IT and financial controls.

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.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

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, the Company Secretary 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 their 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 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 framework 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, 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 health and safety regulations and employment legislation.

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, the company secretary 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 67;
- 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 69;
- the directors' statement on fair, balanced and understandable set out on page 71;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 68;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 94; and
- the section describing the work of the audit committee set out on page 135.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

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.

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 period ending 28 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the periods ending 26 December 2020 and 25 December 2021.

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
23 February 2022

Company balance sheet

	Notes	25 December 2021 £m	26 December 2020 (restated) £m
Non-current assets			
Investments in subsidiaries	3	699.0	699.0
Prepaid credit facility fees		0.3	0.6
		699.3	699.6
Current assets			
Amounts owed by wholly-owned subsidiary companies		2,254.2	1,870.1
Other debtors	4	9.2	7.4
Cash and cash equivalents		430.4	413.1
		2,693.8	2,290.6
Total assets		3,393.1	2,990.2
Current liabilities			
Amounts owed to wholly-owned subsidiary companies		(2,252.7)	(1,833.4)
Total liabilities		(2,252.7)	(1,833.4)
Net assets		1,140.4	1,156.8
Equity			
Called up share capital	5	59.8	60.3
Capital redemption reserve		5.4	4.9
Share premium		87.5	87.5
Treasury shares		(27.1)	(28.2)
Retained earnings		1,014.8	1,032.3
Total equity		1,140.4	1,156.8

2020 comparatives for amounts due from and to wholly-owned subsidiary companies have been re-presented to show gross amounts receivable and payable. There is no impact on the net assets or reserves of the Company.

The Company profit after tax for the 52 weeks to 25 December 2021 was £164.1m (52 weeks to 26 December 2020: profit after tax of £233.7m).

The financial statements were approved by the Board and authorised for issue on 23 February 2022 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

	Called up share capital £m	Capital redemption reserve £m	Share premium account £m	Treasury shares £m	Retained earnings £m	Total £m
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
At 26 December 2020	60.3	4.9	87.5	(28.2)	1,032.3	1,156.8
Retained profit for the period	-	-	-	-	164.1	164.1
Reclaim of forfeited dividends	-	-	-	-	0.2	0.2
Proceeds from sale of forfeited shares	-				1.8	1.8
Buyback and cancellation of shares	(0.5)	0.5	-	-	(50.0)	(50.0)
Transfer of shares from treasury into share trust	-	-	-	1.1	-	1.1
Dividends declared and paid	-	-	-	-	(133.6)	(133.6)
At 25 December 2021	59.8	5.4	87.5	(27.1)	1,014.8	1,140.4

	25 December 2021 £m
The Company's distributable reserves at period end are:	
Retained earnings	1,014.8
Treasury shares	(27.1)
Distributable reserves	987.7

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 200.

Basis of presentation

The Company's accounting period covers the 52 weeks to 25 December 2021. The comparative period covered the 52 weeks to 26 December 2020.

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 (2020: none), did not pay Directors' emoluments (2020: £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 26 December 2020 and 25 December 2021	262.1	436.9	699.0

Details of all subsidiary companies are given on page 200.

4 Other debtors

	25 December 2021 £m	26 December 2020 £m
Other debtors	0.3	0.3
Other tax and social security	8.9	7.1
	9.2	7.4

5 Share capital

Ordinary shares of 10p each:	52 weeks to 25 December 2021 No.	52 weeks to 26 December 2020 No.	52 weeks to 25 December 2021 £m	52 weeks to 26 December 2020 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	602,863,861	604,663,861	60.3	60.5
Bought back and cancelled during the period	(5,290,034)	(1,800,000)	(0.5)	(0.2)
Balance at the end of the period	597,573,827	602,863,861	59.8	60.3

Additional information

Parent company and all subsidiary undertakings

as at 25 December 2021

	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
Howdens Cuisines SAS	France	1 Rue Calmette, ZA Du Bois Rigault Nord, 62880 Vendin-Le-Vieil
Howdens Cuisines SRL	Belgium	Rue Des Emailleries 4, 6041 Gosselies
Howden Joinery (Ireland) Limited	Republic of Ireland	Suite 3, One Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland
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	33-37 Athol Street, Douglas, Isle of Man, IM1 1LB
Howden Joinery Properties Limited	Isle of Man	33-37 Athol Street, Douglas, Isle of Man, IM1 1LB

The Company ultimately owns 100% of the ordinary share capital of all of the companies listed above.

Five year record

	Dec 2021 52 weeks £m	Dec 2020 52 weeks £m	Dec 2019 52 weeks £m	Dec 2018 52 weeks £m	Dec 2017 53 weeks £m
Summarised Income Statement					
Revenue	2,093.7	1,547.5	1,583.6	1,511.3	1,403.8
Operating Profit	401.7	195.7	260.0	240.1	234.4
Profit before tax	390.3	185.3	260.7	238.5	232.2
Full year dividend per share (pence)	19.5	18.2	3.9	11.6	11.1
Basic EPS (pence)	53.2	24.9	35.0	31.3	29.9
Summarised Balance Sheet					
Non-current assets excluding leases and pension asset	332.1	290.7	251.7	221.4	221.3
Non-current lease right-of-use assets	555.8	544.2	-	-	-
Inventories	301.6	255.0	231.8	226.3	208.3
Receivables	205.8	166.6	193.1	186.0	137.8
Payables and provisions	(468.7)	(338.2)	(272.2)	(261.9)	(245.0)
Pension asset/(liability)	140.8	(47.7)	(56.6)	(36.0)	(109.3)
Total lease liabilities	(591.2)	(580.5)	-	-	-
	(411.7)	(544.8)	96.1	114.4	(8.2)
Net cash & short-term investments	515.3	430.7	267.4	231.3	241.1
Total net assets	991.5	720.8	615.2	567.1	454.2
Number of depots at end of year					
UK	778	748	732	694	661
France	38	28	25	20	20
Belgium	2	2	2	2	2
Netherlands	-	-	-	1	1
Germany	-	-	-	1	1
TOTAL	818	778	759	718	685
Capital expenditure	86	70	61	44	49

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-19 in early 2021, the 2019 final dividend of 9.1p/share was not paid. In 2021 there was no interim dividend declared, but (see note 11 of these financial statements), there was a 2020 final dividend of 9.1p/share and also a special dividend of 9.1p/share, making a total of 18.2p/share for 2020.

Shareholder and share capital information

Annual General Meeting

The 2022 Annual General Meeting ('AGM') will be held at Freshfields Bruckhaus Deringer LLP, 100 Bishopsgate, London, EC2P 2SR on 12 May 2022 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.

Dividend

Subject to the 2021 final dividend payment being approved by shareholders at the AGM on 12 May 2022, the following timetable will apply:

2021 Final Dividend	
Ex-Dividend date	7 April 2022
Record Date	8 April 2022
Payment Date	20 May 2022

Dividend reinvestment plan ('DRIP')

Howden Joinery Group Plc ('Howdens') offers a DRIP for our shareholders in eligible countries who wish to elect to use their dividend payments to purchase additional ordinary Howdens shares, rather than receive a cash payment. The DRIP is provided and administered by Equiniti Financial Services Limited ('Equiniti'). Further details regarding the DRIP can be found on Equiniti's website: www.shareview.co.uk/info/drip

Dividend payments directly to a bank or building society account

If you are a shareholder with a UK bank or building society account, you can arrange through our registrar, Equiniti, to have dividends paid directly to your account using a bank or building society mandate. You can arrange this by completing the form attached to a previous dividend confirmation you have received, through Equiniti's Shareview Portfolio website, portfolio.shareview.co.uk (registration is required), or by calling Equiniti on +44 (0) 333 207 6558.

Existing dividend mandate details can be amended to have dividends paid to a different UK bank or building society account. Dividend mandate details can also be de-selected if you would prefer to receive payments by cheque.

Share Capital

As at 25 December 2021 the Company had only fully paid up ordinary 10 pence shares in issue ('Shares'). Below sets out the share capital position at 25 December 2021 and at 26 December 2020:

		Number of Shares	
	% change	25 Dec 2021	26 Dec 2020
Total Shares in issue	(0.88)%	597,573,827	602,863,861
Treasury Shares	(3.60)%	5,567,555	5,775,230
Shares with voting rights	(0.85)%	592,006,272	597,088,631

Shares held in Treasury have no voting or dividend rights and are used solely for the satisfaction of 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 Benefit Trust abstain from voting at the Company's general meetings and waive dividends. Shares held in the Share Incentive Plan Trust, which have been allocated to employees through UK all-employee shares plans, have both voting and dividend rights.

Shares in public hands[1] ('Free float' shares)

As at 31 December 2021, 0.93% of the Company's issued share capital was held in Treasury, 0.22% was held by Directors, persons discharging managerial responsibility (PDMRs), or connected persons of those Directors or PDMRs, 0.63% was held in employee share trusts (excluding any allocated shares which are not forfeitable), and 5.3% was held by major shareholders (those with holdings above 5%).

Free float shares therefore accounted for 92.94% of the Company's issued share capital at the 31 December 2021.

Acquisition of the Company's own shares

During 2021, the Company repurchased and cancelled 5.3 million shares worth a total of £50m under its 2021 share repurchase programme. The repurchased shares represented a nominal value of £530,000 and equated to 0.9% of the called up share capital of the Company at the beginning of the period (excluding Treasury shares).

At the AGM on 6 May 2021, the Directors were granted authority by shareholders to purchase up to 59,708,863 of the Company's ordinary shares through the market[1]. The authority expires at the conclusion of the 2022 AGM or within 15 months from the date of passing the resolution (whichever is earlier).

1 The definition of 'Shares in public hands' may be found in Listing Rule 6.14.3R. The Company considers shares which meet the definition of 'shares in public hands', as set out in the Listing Rules, to be 'free float' shares.

Rights and restrictions

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[2]:	None
Transfer restrictions[2]:	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.

Substantial shareholdings

As at 23 February 2022, 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	5.01%	28 January 2022

The percentage interest is as stated by the shareholder at the time of notification and current interests may vary.

1 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.

2 Governed by the general provisions of the Articles of Association (which may be amended by special resolution of the shareholders) and prevailing legislation.

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 25 December 2021

	Number of holders	Number of shares	Percentage of holders	Percentage of shares
Corporate holders				
0 to 1,000	160	74,671	2.13	0.01
1,001 to 5,000	127	307,904	1.69	0.05
5,001 to 10,000	55	398,563	0.73	0.07
10,001 to 50,000	180	4,641,974	2.39	0.78
50,001 to 100,000	65	4,627,176	0.86	0.77
100,001 to 250,000	111	17,863,430	1.48	2.99
Over 250,000	229	562,304,549	3.04	94.10
	927	590,218,267	12.32	98.77
Individual holders				
0 to 1,000	5,374	1,904,098	71.42	0.32
1,001 to 5,000	1,044	2,351,555	13.87	0.39
5,001 to 10,000	113	804,571	1.50	0.13
10,001 to 50,000	60	1,165,070	0.80	0.19
50,001 to 100,000	4	311,989	0.05	0.05
100,001 to 250,000	1	126,277	0.01	0.02
Over 250,000	2	693,000	0.03	0.12
	6,598	7,356,560	87.68	1.23
Total	7,525	597,574,827	100.00	100.00

Corporate timetable

2022	
Trading update	28 April
Annual General Meeting	12 May
Half-Yearly Report	21 July
Trading update	3 November
End of financial year	24 December

Advisors and registered office

Principal Banker

Lloyds

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London
EC2V 7HN

Joint Financial Advisors and Stockbrokers

Numis Securities Ltd

45 Gresham Street
London
EC2V 7BF

UBS LTD

5 Broadgate
London
EC2M 2QS

Solicitors

Freshfields Bruckhaus Deringer LLP

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Auditor

Deloitte LLP

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Registrar

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Registered Office

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