

Chairman's statement

Over the last two decades Howdens has evolved and grown to become the leading supplier of kitchens in the UK, focused on providing good service to small builders and value to all concerned.

BUILDING FOR THE FUTURE

This is my first year as Chairman of Howdens, having succeeded Will Samuel in May, and I am pleased to report that 2016 saw solid progress for the Group. Sales increased by 7% compared to 2015, with an almost unchanged gross margin of 64.2%, despite the impact of a weaker exchange rate, combined with strong cash generation.

Since its inception in 1995, Howdens has grown to become the leading supplier of kitchens in the UK, by focussing on providing a high level of service to local builders and value to all concerned. Its business model has enabled the Group to navigate and develop through varying market conditions, providing a strong platform for expansion.

Your Board believes that there are considerable opportunities for long term growth of the core business, and that in order to fulfil that potential we must continue to invest in both capacity and capability through this economic cycle.

A three-year programme of investment across the Group was initiated in 2015 in areas including manufacturing capability and warehousing capacity. During 2016, we invested in further cabinet manufacturing capacity at our site in Howden, Yorkshire, a new cabinet component line at our site in Runcorn, Cheshire and a new warehouse in Raunds, Northamptonshire. All of these projects are well on track.

This programme of investment resulted in capital expenditure of around £45m in 2015, £65m in 2016, and an anticipated £60m in 2017.

HOWDENS' CULTURE AND BUSINESS MODEL

The business was designed from the start to work around the needs of the small builder, who knows that we are always in stock in our local depots, which are run by experienced and knowledgeable staff. The builder knows that our depot managers are empowered fully to run their depot as they see fit, creating an environment where the individual

can flourish, and performance is recognised and rewarded. At the same time, we also look to deal with our suppliers with integrity, fairness and respect, in order to build long-term relationships.

While we continue to invest to grow the business, cash alone does not create success. As a Board, we understand that the Howdens culture and way of doing business is different from many companies. Your Board believes it is the principal reason for our continued success and that retaining the culture is vitally important.

We are therefore delighted that Howdens has been chosen, for the third time, as one of The Sunday Times "30 Best Big Companies to Work For" in 2017. This award is a reflection of the very strong ethos of the business, built over many years, that its activities should be worthwhile for all concerned.

RETURNS TO SHAREHOLDERS

Earnings for the year were 29.5p per ordinary share, an increase of 8.0% on the prior year (2015: 27.3p). In line with our stated dividend policy, which is set out in detail in the Review of Operations and Finance on page 14, the Board is recommending a final dividend of 7.4p, resulting in a dividend for the full year 2016 of 10.7p, an increase of 8% on the prior year (2015: 9.9p). The increase reflects both the earnings per share performance and the Board's confidence in the prospects for the business.

As a Board we are mindful of the changing economic landscape, which during 2016 saw movements in foreign exchange rates and a change in consumer sentiment. In particular, the pound deteriorated against the US dollar and the Euro, increasing our input costs, and we also saw a slowdown in the kitchen market in the second half of 2016.

Whilst mindful of current economic conditions, given our cash position of £227m at the end of the year, the Board has approved a share repurchase programme of up to £80m to take place during the next two years. This follows similar programmes of £70m and £55m in 2015 and 2016, respectively.



Chairman's statement continued

During 2016, we repurchased £80m of shares, buying £25m remaining from the February 2015 programme and concluded the February 2016 programme. Together with £65m in dividend payments, Howdens returned £145m to shareholders in the year.

BOARD CHANGES

Will Samuel retired from the Board in May 2016, after ten years as Chairman. On behalf of all at Howdens, I would like to thank Will for his significant contribution to this unique business and in particular, for his clear insights after the divestiture of MFI in 2006 and helping steer the Group through the difficult times following the financial crisis of 2008 and 2009.

I would also like to thank our Senior Independent Director, Michael Wemms, who will be retiring at our AGM in May this year. Michael joined the Board in November 2006 and during his tenure, he has been Chairman of our Remuneration Committee and Senior Independent Director. The depth of experience he has brought to Howdens has been valued by all.

I am delighted that Debbie White joined the Board as an independent Non-Executive Director in February 2017, and on joining, became a member of the Audit, Remuneration and Nominations Committees. Debbie brings a wealth of experience to the Board and is currently Global Chief Executive Officer of Sodexo Healthcare, Defence and Justice Services. She is a trustee of the charity Wellbeing of Women and is Chair of its Audit Committee.

As a consequence of me taking up my new role as Chairman, in May 2016, Andrew Cripps has taken over as Chairman of the Audit Committee. Andrew joined the Board in December 2015, brings a wealth of experience to the role, and is currently a Non-Executive Director of Booker Group plc and was Chairman of its Audit Committee.

GOVERNANCE

Having a clear governance framework and operating with integrity in all we do is vital to maintain the trust of investors, customers, our colleagues and other stakeholders. We aim to uphold high standards of governance in a constantly changing environment, where expectations, as well as regulations, continue to evolve. Our Corporate Governance Report, beginning on page 43, sets out our procedures and reports on our compliance record throughout the year.

MARKET ENVIRONMENT

Howdens has a strong track record of dealing with change and facing the challenges of the evolving marketplace. The Board is mindful of the challenges that lie ahead and we continue to evaluate the potential risks that could impact the Group. We address these matters in more detail on pages 22 to 26. In particular, we monitor our market situation closely, in order to ensure timely responses to potential changing conditions.

PEOPLE AND RESPONSIBILITY

Howdens' is a local company and our people embody the idea of local service, both for our customers and for the wider community. In 2016, the Group donated around £2.5m to good causes, including doubling our commitment to Leonard Cheshire Disability.

Our approach to corporate responsibility takes into account our values and our wish to fulfil our responsibilities, and is shaped by our engagement with a wide range of stakeholders, including our customers, colleagues and local communities. Reflecting these aims, Howdens looks to promote safety, energy efficiency and environmental awareness, and recognises the importance of training, development and opportunities for young people. More detail can be seen in the Corporate Social Responsibility Report, beginning on page 27.

On behalf of the Board, I would like to thank everyone in Howdens for their contribution to the business and their local communities throughout the year.

LOOKING AHEAD

2016 saw Howdens grow and continue to invest for the future. We remain confident in the Group's potential. At the same time, we continue to be watchful, given the uncertainty surrounding the economic outlook. We believe that the business has the financial capability, the culture and the skills, to enable us to look to the future from a position of stability and strength.

Richard Pennycook
Chairman

22 February 2017

