

Corporate Governance Report continued

COMPLIANCE TABLE

We have complied with all the provisions of the September 2014 version of the UK Corporate Governance Code (the “Code”).

Throughout the 52 weeks ended 24 December 2016, the Company was fully compliant with the main and supporting provisions of the Code. A full version of the Code may be found on the Financial Reporting Council’s website: www.frc.org.uk.

The Code sets standards of good practice in relation to board leadership and effectiveness, accountability, remuneration and relations with shareholders. Below we have stated how we have addressed each of the main principles in turn.

We recognise that Code Provision B.1.1 provides that tenure in excess of nine years is one factor boards should consider when determining the independence of non-executive directors. However, following a recommendation from the Nominations Committee, the Board are satisfied that Michael Wemms, who has served as a Non-Executive Director for ten years, remains independent in character and judgement. Michael will not stand for re-election at the 2017 AGM and will stand down from the Board with immediate effect following the meeting.



SECTION A: LEADERSHIP

A1 THE ROLE OF THE BOARD

“Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.”

- The Board held seven formal meetings during 2016. Individual Directors’ attendance may be found on page 43. The number of meetings and the attendance of each Board Committee may also be found on the following pages:
 - Nominations Committee: page 55
 - Audit Committee: page 61
 - Remuneration Committee: page 67
- A formal schedule of matters which only the Board may take decisions on is available on the Howdens website.

A2 DIVISION OF RESPONSIBILITIES

“There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company’s business. No one individual should have unfettered powers of decision.”

- The roles of Chairman and Chief Executive Officer are separate and clearly defined. They are not exercised by the same individual.
- The responsibilities of each role have been set out in writing and agreed by the Board.
- Further information about the separation of the roles and how they work together for the success of Howdens may be found on pages 48 to 49.

A3 THE CHAIRMAN

“The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.”

- The Chairman was considered independent on appointment.
- The Chairman sets the agendas for all Board meetings and ensures sufficient time is given to each agenda item.
- The Chairman ensures the full Board receives accurate and clear information in a timely fashion (please see B5 ‘Information and Support’ on page 53 for further information).
- All the Directors are encouraged by the Chairman to participate in constructive and open discussions during meetings.

A4 NON-EXECUTIVE DIRECTORS

“As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.”

- The diversity of skills, experience, approach and mindset of our Non-Executive Directors mean that they are well placed to effectively scrutinise both strategy and operational management. In addition to the Executive Directors, members of the Executive Committee are frequently present in person at Board meetings where Non-Executive Directors can hold them directly accountable.
- Michael Wemms is the Senior Independent Director. He provides a valuable sounding board for the Chairman and intermediary for the other Directors. He is also available for shareholders to contact with concerns which cannot be resolved via the Chairman or the Executive Directors. As previously announced, Michael will step down from this role on 20 April 2017 ahead of his retirement from the Board at the 2017 AGM. Effective 20 April 2017, Tiffany Hall, who has been a Non-Executive Director since 2010, will assume the role as Senior Independent Director.

SECTION B: EFFECTIVENESS

B1 BOARD COMPOSITION

“The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.”

- The Nominations Committee regularly reviews the size, composition and structure of the Board and makes recommendations to the Board for all new appointments and reappointments. It considers whether there are any gaps in skill, experience or knowledge on the Board when assessing Board effectiveness.
- Details of the work of the Nominations Committee may be found on pages 55 to 60.
- Further information on Board composition may be found on page 57.

B2 BOARD APPOINTMENTS

“There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.”

- The Nominations Committee is responsible for leading any process of appointing new directors to the Board.
- The Nominations Committee will only recommend individuals for appointment who subscribe to Howdens’ shared values. They must also understand and be sympathetic to our entrepreneurial culture and unique business model.
- Further information on Boardroom diversity may be found on page 57 of the Nominations Committee Report.

B3 COMMITMENT

“All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.”

- Each of the Directors’ external commitments is set out in their biographies on pages 44 to 45.
- None of our Non-Executive Directors currently holds more than three non-executive directorships in other publically-listed companies. Neither of our Executive Directors has any external appointments.
- Each Director’s conditions of appointment is made available for inspection at the AGM and at the Company’s registered office during normal business hours.

B4 DEVELOPMENT

“All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.”

- A tailored induction programme is undertaken by all new Directors. Further information on inductions can be found on page 59.
- Non-Executive Directors are invited to attend Howdens’ events at different locations and to meet with employees of all levels. This serves to underpin the Board’s understanding of Howdens’ unique culture.
- Individual training and development needs are considered as part of the annual Board evaluation process. Formal training is also provided when there are specific legal and regulatory developments.

B5 INFORMATION AND SUPPORT

“The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.”

- With the support of the Company Secretary, the Chairman ensures accurate and quality information is available to the Board via an electronic portal. The use of an electronic portal ensures information is disseminated quickly and securely.
- The Company Secretary, under the Chairman’s direction, ensures information flows effectively within the Board and its Committees and between the Executive Committee and the Non-Executive Directors. He also ensures that all Board procedures are complied with.

B6 EVALUATION

“The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.”

- The 2016 Board evaluation was externally facilitated by Independent Board Evaluation. Details of the evaluation, including recommendations, may be found on page 58.

B7 RE-ELECTION

“All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.”

- At the 2017 Annual General Meeting, each Director will stand for re-election, with the exception of Michael Wemms who will stand down at the conclusion of the meeting.

SECTION C: ACCOUNTABILITY

C1 FINANCIAL AND BUSINESS REPORTING

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

- Howdens’ annual performance, business model and strategy may be found within the Strategic Report (pages 3 to 19).
- The Directors’ going concern and viability statements may be found on page 20.

C2 RISK MANAGEMENT AND INTERNAL CONTROL

“The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.”

- 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.
- The principal risks and uncertainties facing Howdens may be found on pages 24 to 26.

C3 AUDIT COMMITTEE AND AUDITORS

“The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company’s auditors.”

- The Audit Committee is comprised of five independent Non-Executive Directors. The Chairman is not a member of the Audit Committee.
- The Audit Committee has at least one Audit Committee member with recent and relevant financial experience (please see page 66 of the Audit Committee Report for more information).
- The Audit Committee has recommended that the auditor, Deloitte LLP, be reappointed at the 2017 Annual General Meeting. Information about audit rotation can be found on page 65.

Corporate Governance Report continued

COMPLIANCE TABLE

SECTION D: REMUNERATION

D1 LEVEL AND COMPONENTS OF REMUNERATION

“Executive directors’ remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.”

- Our remuneration policy is designed to incentivise our Executive Directors by aligning the way we reward them with the long-term strategic ambitions of Howdens. This in turn aligns the interests of the Executive Directors with those of our shareholders.
- Howdens’ executive remuneration policy is predicated on the principles of fairness and proportionality. It has been designed with the intention that it is easy to understand, that it is aligned with the wider reward practices for the wider workforce and provides safeguards against payment for sub-standard performance.

D2 PROCEDURE

“There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.”

- The Remuneration Committee is responsible for setting the remuneration of our Executive Directors. The Remuneration Committee Report may be found on pages 67 to 78.
- The Remuneration Committee is made up of five independent Non-Executive Directors. The Chairman is not a member of the Remuneration Committee.
- No Director is involved in deciding his or her remuneration.
- PwC provides remuneration consultancy services to the Remuneration Committee.

SECTION E: RELATIONS WITH SHAREHOLDERS

E1 DIALOGUE WITH SHAREHOLDERS

“There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.”

- Both Executive and Non-Executive Directors met with shareholders during the year to discuss strategy, performance and governance matters.
- The Chairman of the Remuneration Committee met with a number of shareholders and shareholder body groups ahead of the presentation of the updated Remuneration Policy at the Annual General Meeting.
- Non-Executive Directors receive regular updates from the Deputy Chief Executive and Chief Financial Officer at Board meetings as to share price movement, shareholder sentiment and significant changes to the share register. The Company Secretary updates the Board at regular intervals as to wider Corporate Governance developments.

E2 CONSTRUCTIVE USE OF GENERAL MEETINGS

“The board should use general meetings to communicate with investors and to encourage their participation.”

- The Annual General Meeting provides an opportunity for shareholders to meet with the Board and to ask questions pertaining to the business of the meeting, as well as about the business more generally.
- Where shareholders cannot attend the Annual General Meeting, we encourage them to submit their votes via a proxy.
- The full Board attends the Annual General Meeting and the Chairs of the Board committees are available to answer questions.

By order of the Board

Richard Pennycook
Chairman

22 February 2017