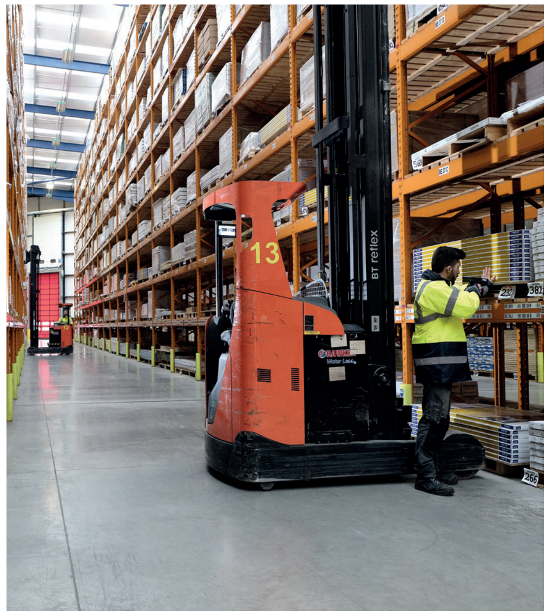
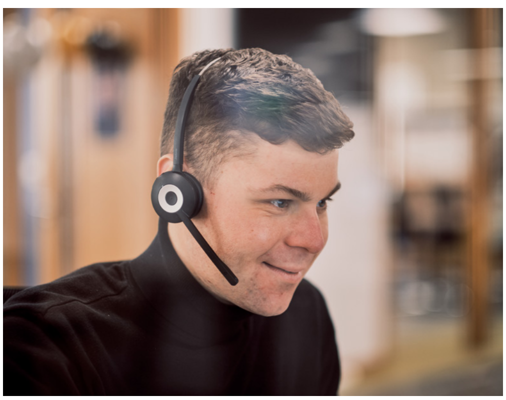
ESG STRATEGY

commitment to developing

EUROPE'S LEADING FLOORCOVERINGS DISTRIBUTOR





headlam
group plc

www.headlam.com

TANGIBLE PROGRESS
being made

Philip Lawrence Non-Executive Chairman | March 2022

This detailed Environmental, Social and Governance ('ESG') Report builds on the Company's initial report published in May 2021, with tangible progress having been made since that time. The ESG strategy supports the long-term sustainability of the business with the Board committed to progressing its development, and will establish a new ESG Committee in 2022 to support this.

Addressing the environmental challenge is much broader than reducing carbon emissions and will require close collaboration across the industry. The transition to a circular economy is a longer term challenge for the floorcoverings industry as there are both technical and market dynamic obstacles to overcome, with the Company prepared to work with partners to lead change. As a basis for its long term ambitions, the Company now has a net zero emissions ambition for 2035, with detailed planning to commence and details of a costed transition plan to be provided within the ESG Report in next year's 2022 Annual Report.

Additionally, the Board believes that business has a positive role to play in society, and has now embarked on a programme to support a more diverse workforce and the benefits that brings to the Company, as well as launching a locally focused community programme.

Introduction

Headlam published its first ESG Strategy Report in 2021, which outlined the Company's initial sustainability ambitions. The following is the Company's first full-form ESG Report.

Through collaboration with its people and external stakeholders, the Company has identified three core focuses under its ESG strategy:

- Reduce the Company's contribution to greenhouse gas ('GHG') emissions and climate change;
- Become a more sustainable business, including through cultural development and by increasing oversight of ESG related risks and opportunities; and
- Increase the sustainability of the overall floorcoverings industry through engagement and example, and support the future transition to a circular economy.

Outlined on pages 4 to 8 are the Company's actions to-date to address these focuses, with metrics, indicators, and targets provided to enable measurement of progress. The Company is committed to providing an update on its ESG actions and future considerations on a bi-annual basis, with a full-form report being published alongside Annual Report and Accounts.

Foundational to the initiation and development of the Company's ESG strategy was the Materiality Assessment which was first published in March 2021, and has been reviewed and updated for this Report (see page 3). It has identified the Company's most material sources of ESG risk and opportunity ('material issues'), and provided the platform for the Company to develop action plans against the issues and establish indicators to measure progress. Detail on the key material issues, and the current main actions and future considerations in relation to each, are given on pages 4 to 6 of this Report. Of the six key material issues, the Company is considered to have a high influence and / or operational control over three. During 2021, multiple actions were focused on these 'high influence' issues alongside the progression of important scoping work on the other three issues where a collaborative approach with other industry participants is required to effect change (namely 'End-of-life disposal', 'Supply chain risk', and to a lesser degree 'Emissions: internal').

Much has been done in the area of protecting and supporting the Company's people, covering the broad spectrum of health and safety, cultural development, engagement, training, and rewards and benefits. Details are given on page 7, with diversity, equity and inclusion ('DEI') to be an area of prominent focus in 2022.

Governance and Net Zero Ambition

As detailed in the Company's first TCFD[1] disclosure on pages 9 to 12, the Board has primary oversight and ultimate responsibility for delivery of the ESG strategy. Reflecting its importance, ESG is considered quarterly by the Board and during 2022 the Company is additionally proposing to establish an ESG Committee to assist with the more detailed aspects of its ESG agenda.

Aligned with the commitment to developing the ESG strategy, the Board is pleased to announce a net zero emissions[2] ambition for 2035, a major milestone for the Company. In support of this, during 2022 the Company will be undertaking associated transition planning work and next year's full-form ESG Report will provide some detail on a costed transition plan. Interim targets will also be expanded upon within the Company's bi-annual updates.

[1] Task Force on Climate-related Financial Disclosures

[2] Scope 1 and Scope 2

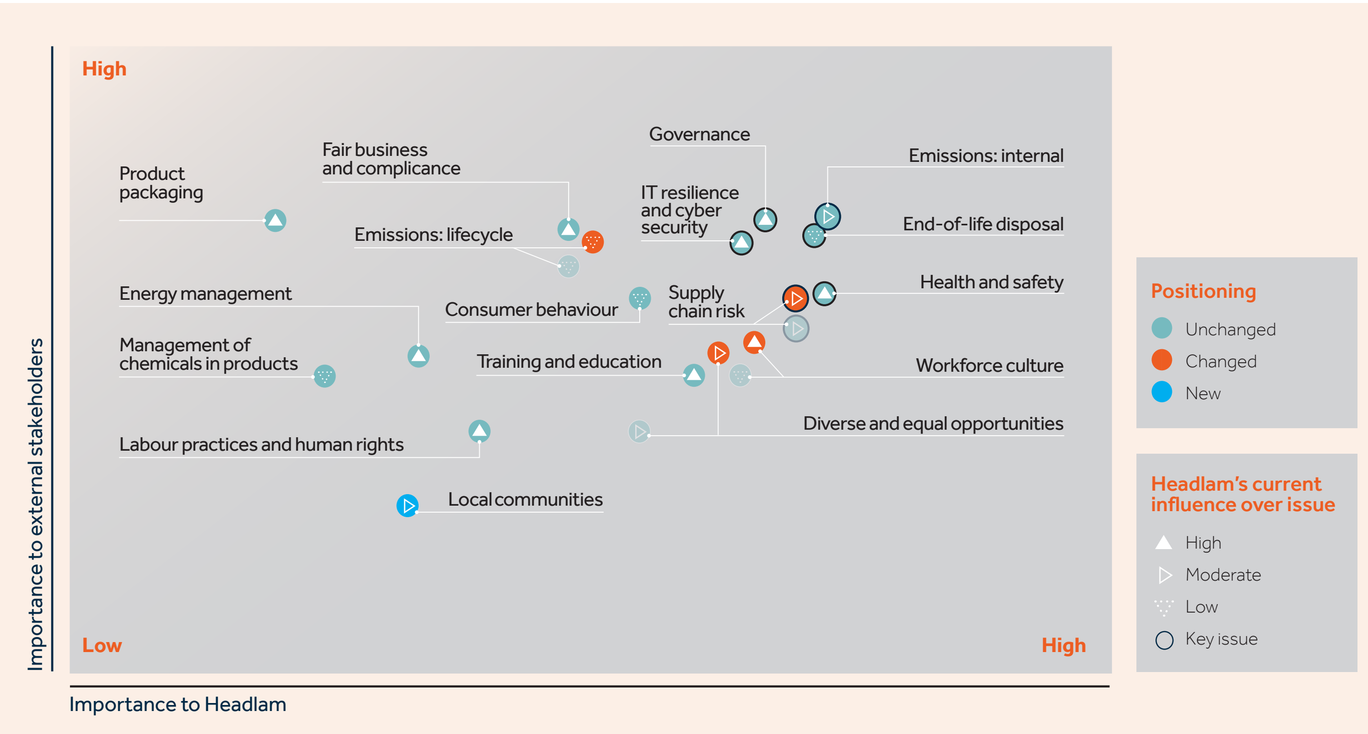
Materiality Assessment and Key Material Issues

The Materiality Assessment below follows accepted reporting frameworks including Sustainability Accounting Standards Board ('SASB') and the Global Reporting Initiative ('GRI'). Changes to that published in 2021 are shown, with changes to the positioning of an issue reflecting a composite of likelihood and potential impact of 'raw' ESG risk (i.e. not considering risk mitigation actions undertaken by the Company during the last twelve months). The key material issues previously identified have not changed, and remain:

1. Emissions: internal
2. Health and safety
3. End-of-life disposal
4. Supply chain risk
5. Governance
6. IT resilience and cyber security

One new issue of 'Local communities' has been added, although not ranked amongst the key material issues. The addition reflects both its importance and the Company's intention to increase its actions in this area with a locally focused community programme to be implemented in 2022 which will build on the current Charitable Donations Policy which supports locally focused charitable giving and involvement (see page 8).

All of the issues identified by the Materiality Assessment continue to be monitored, and subject to various actions as appropriate as part of the overall ESG strategy, with some of them described later in this Report.



Headlam's current influence over issue	
△ High	▽ Low
▷ Moderate	○ Key ESG issue

Positioning
● Unchanged
● Changed

Key Material Issues – Actions to Address

1. Emissions: internal

GHG emissions from transportation activities (commercial and non-commercial fleet), and natural gas usage and electricity consumption at sites

Main actions

- Transport Integration project resulting in more efficient delivery fleet (commercial vehicle) utilisation, and associated reduction in fleet number
- Increasing the availability of plug-in hybrid and low emission vehicles across non-commercial fleet
- Promotion of energy saving actions ('good energy behaviours') across the group
- Auditing of sites, and upgrading of sites with more energy efficient technologies and equipment
- Promotion of less carbon intensive ordering and delivery options (i.e. online ordering, trade counter network)

A full list of the Company's actions in relation to reducing its internal emissions are given within its publicly available Environmental Policy (www.headlam.com).

Measurement of progress

- Transportation (Scope 1) emissions[1] per £ of revenue (tCO_2e)
  → 2021: 33; 2020: 29; 2019: –
- Deliveries per commercial vehicle (see page 33 of the 2021 Annual Report and Accounts)
- Target of 50% of non-commercial fleet plug-in hybrid or low emission by end of 2022 (2021: 13.5%)

Future considerations

- Initial reduction target for internal emissions
- Net zero emissions ambition for 2035, with associated transition planning work
- No viable options currently to move commercial fleet to electric powered vehicles, but will continue to actively monitor the situation

2. Health and safety

Safety and protection of its people, customers and necessary visitors to site. Best practice low accident rates, and leading occupational health

Main actions

- Implementing the recommendations arising from a commissioned independent audit
- Enhancing cultural awareness, including through the dedicated health and safety team, training and regular audits
- ISO 45001 audits undertaken across all the UK's main sites as part of the Company's ongoing certification
- Removal from sale of certain hazard products
- Progressing of work towards achieving ISO 14001 environmental accreditation

The Company's risk mitigation actions in relation to health and safety are given within Principal Risks and Uncertainties on page 36 of the 2021 Annual Report and Accounts.

Measurement of progress

- Number of incidents ('RIDDORs') (see page 33 of the 2021 Annual Report and Accounts)
- Number of road traffic accidents ('RTAs') where 'at fault'
  → 2021: 201; 2020: 197; 2019: 122 [2]
- Target of achieving ISO 14001 environmental accreditation by Q1 2023

Future considerations

- Increasing number of mental health first-aiders at all main sites
- Development of internal management performance measures

[1]Defined as emissions from the Company's UK distribution commercial vehicles. Scope 1 emissions published for the first time in 2020.

[2]From May 2019 when accident management was introduced.

3. End-of-life disposal

Support the promotion of sustainable products, with associated reduction in industry waste. Through engagement and example, increase the sustainability of overall industry, and support future transition to a circular economy

Main actions	• Working with suppliers to promote more sustainable products into the industry, and increase awareness by the end consumer • Supporting and engaging with industry bodies and suppliers focused on the recyclability / recycling of floorcovering products, and reduction of floorcovering waste to landfill (including membership of Carpet Recycling UK and Recoflor) • Bi-annual customer survey to better understand sustainability requirements and preferences • Using recycled plastic packaging for product across operations (i.e. all locations using regranulated polythene packaging manufactured from 100% recycled polythene) • Reusing of other product protective packaging (cardboard poles and wooden pallets) A full list of the Company's actions in relation to reducing its waste, and supporting increased sustainability in the floorcoverings industry, are given within its publicly available Environmental Policy (www.headlam.com)
Measurement of progress	• Recycled protective plastic packaging (see page 33 of the 2021 Annual Report and Accounts) • Launch of sustainable 'Wool Britannia' product range, with further sustainable product launches in 2022
Future considerations	• Review of office waste management options across the group • Enlarged sustainable product offering, and education of sales teams • Following advances and identification of viable solutions, investment to support recycling technologies and infrastructure (including in relation to EPR[1] scheme, see TCFD on pages 9 to 12)

4. Supply chain risk

Ensuring supply chains are free from modern slavery and human trafficking. Engaging on industry issues (including changes in regulation and sustainability). Capturing opportunity through strategic partnerships and improving supply chain efficiencies

Main actions	• Engagement programme with suppliers on industry sustainability issues, including changes to regulation and potential sustainability partnerships • Supply Chain Risk Assessment being conducted by an independent party • Working closely with suppliers to mitigate the industry wide supply issues evident in 2021 and 2022 (as of the date of this Report) • Improved inventory management • Increasing supply chain efficiencies, including through joint business plans, buying and deliveries The Company's risk mitigation actions in relation to supply chain are given within Principal Risks and Uncertainties on page 36 of the 2021 Annual Report and Accounts.
Measurement of progress	• Target of the top 50 suppliers[2] assessed under the independent Supply Chain Risk Assessment by end of 2022 • Inventory turn (see page 33 of the 2021 Annual Report and Accounts)
Future considerations	• Implementation of a Supplier Sustainability Procurement Charter (includes defining a common set of minimum standards and principles) • Updated Scope 3 assessment (includes engagement with suppliers on their Scope 1 and 2 emissions, sustainability actions, and ambitions)

[1]Extended Producer Responsibility

[2]By purchases, and accounting for approximately 80% of the Company's spend with suppliers

Headlam's current influence over issue		Positioning
△ High	Low	Unchanged
▷ Moderate	○ Key ESG issue	Changed

5. Governance

Strong governance and oversight, with effective structures for communicating throughout the business. Robust processes in place to both limit any potential risks to the business and operate as effectively as possible. Openness and transparency in all dealings and communications

Main actions	• Continued focus on, and improvements to, risk management and internal control • Increased evaluation and oversight of governance, strategic and corporate objectives though new Non-Executive Director appointments • Multiple actions focused on all the identified key material issues (as detailed in this Report) • Increased oversight and development of ESG strategy, with timetables articulated on certain disclosures (see TCFD on pages 9 to 12) • Third-party expert appointed to conduct a full diversity review, including a Board debate, and subsequent engagement with internal stakeholders • Shareholder engagement on areas including remuneration and capital allocation A full list of the Company's actions in relation to corporate governance are given within Corporate Governance and the Committee Reports on pages 62 to 120 of the 2021 Annual Report and Accounts.
Measurement of progress	• ESG Committee being established in 2022 to assist the Board with the implementation of ESG strategy • Delivery on stated strategic and corporate objectives
Future considerations	• Emission targets and commitments, and climate-related scenarios under TCFD • Introduction of ESG metrics into Executive Directors flexible remuneration • Improve diversity at Board level and devise a Diversity, Equity and Inclusion ('DEI') strategy for the wider business

6. IT resilience and cyber security

Robust and flexible infrastructure to ensure protection whilst also providing operational gains. Digital enhancements and enablers to capture customer opportunity

Main actions	• Independent security assessments, with recommendations completed • Increased Board and Committee briefings and / or oversight • New online employee training, including increasing the ability to identify and reduce cyber security risks, +1,300 individual courses completed through online portal since launch in April 2021 (to March 2022, the date of this Report) • Relaunched B2B websites, with improved functionality • Launch of new industry-leading app (myheadlam) The Company's risk mitigation actions in relation to IT resilience and cyber security are given within Principal Risks and Uncertainties on page 36 of the 2021 Annual Report and Accounts.
Measurement of progress	• Percentage of orders placed online, with target of 30% for digital channels (B2B websites and app) → 2021: 22%; 2020: 19%; 2019: 11% • Number of reportable cyber incidents → 2021: 0; 2020: 1; 2019: 0
Future considerations	• New functionality added to digital products • Further digital support and enablers, including Order Management System ('OMS')

People

The Company is focused on improving the support to its people, including through cultural development, engagement, and review of rewards and benefits. During 2021, investment was made in internal communications, training and workshops. 'Values and Behaviours' and 'Leading through Change' workshops were rolled out across the group, as well as conferences and training held on projects forming part of the Company's strategy. These workshops and new performance management training will continue throughout 2022, with a target of all line managers having received training by end of Q1 2022.

Importance was placed on utilising and promoting the 'MyHub' engagement portal that was launched in 2021, and considering all the feedback available to the Company including from the established Employee Forum which acts as the formal workforce advisory panel to the Board and met five times in 2021. More detail on the Employee Forum is given on page 68 of the 2021 Annual Report and Accounts.

Throughout 2022, several changes and improvements to rewards and benefits for the Company's people will be implemented, including:

- Moving to one pension for all employees (Master Trust Pension, effective 1 April 2022), providing a more generous and flexible contribution structure, and creating consistency and fairness across the group;
- Introduced a common approach to bonus provisions[1] for senior management and sales leadership roles, driving a more collaborative and 'group success' approach;
- Enhanced and harmonised holiday entitlement;
- Equal sick pay for all colleagues; and
- Cost of living pay increase for all employees (effective 1 January 2022).

Alongside the rewards and benefits above, the Company continues to provide death in service benefits through the Headlam Group Life Assurance scheme, a HM Revenue & Customs approved Save-As-You-Earn Sharesave scheme ('SAYE'), and an Employee Assistance Programme which includes mental health support. The Company will also review National Living Wage ('NLW') in line with the 2022 rise, and anticipates it will only be necessary to increase a very small number of its peoples' base pay.

A key focus for 2022 is developing a DEI strategy, as detailed in the Nomination Committee Report on page 79 of the 2021 Annual Report and Accounts. In order to increase diversity the Committee has appointed a third-party expert to conduct a comprehensive baseline review across the Company during the first half of 2022. Outcomes of this review will be discussed by the Board, and a strategy put in place to address areas where improvement is needed. The below table shows the gender diversity of the Company as at 31 December 2021:

Table showing gender diversity:

Employees	Executive Directors	Executive Team	Managers	Other	Total
Male	1	1	249	1,499	1,750
Female	0	3	61	425	489
Number of employees at 31 December 2021	1	4	310	1,924	2,239

Gender Pay Gap Report

In line with the UK Government's regulations which introduced gender pay gap reporting, the Company has published its most recent report dated 5 April 2021 on the gov.uk website and its own website. The report fully complies with the legislation and an abridged summary is given below which includes the Company's two legal entities required to report ('HFD' and 'MCD') and additionally the ultimate holding company ('PLC') not required to report.

- The Company's overall median pay gap was lower than the UK national average at 1.8% (national average: 15.4%)

- The proportion of men and women receiving bonuses:
  - HFD – men 88.9%, women 81.2%
  - MCD – men 97.2%, women 93.6%
  - PLC – men 0.0%, women 0.0%

[1] 95% of the workforce have a performance-related bonus opportunity available to them without subscription, and bonus opportunities cover areas including sales and operating profit.

RIDDORs Detail

None of the 19 RIDDORs in 2021 resulted in serious or ongoing life-changing injury. The below table details the type of incidents in 2021, and the prior year[1].

	RIDDORs	
Type of Incident	**2021**	**2020[1]**
Handling	6	3
Struck by moving vehicle	5	2
Slip, trip, fall	4	6
Struck by stationary object	–	–
Fall from height	4	–
Other	–	1
Total	19	12

As an indicator of the Company's performance against an industry standard, below is the Company's RIDDORs incidence rate and frequency rate compared against an HSE benchmark:

- Headlam's RIDDOR incidence rate – 950 RIDDORs per 100,000 employees (compared against an HSE benchmark (from 2020/21) of 1,104 RIDDORs per 100,000 employees for 'Warehousing and support activities for transportation')
- Headlam's RIDDOR frequency rate – 4.86 RIDDORs for every 1,000,000 hours worked (compared against a HSE benchmark of 3.77 RIDDORs per 1,000,000 hours worked in 'Transportation and storage')

Source: www.hse.gov.uk

Local Communities

In a new initiative to be launched in 2022, it is proposed that each site across the group will be allocated a certain monetary amount per employee on site by the Company, with the total to be donated to a local cause from a voted-upon shortlist, and that this will be replicated annually. In addition to monetary donations, charitable giving will also continue to be undertaken through donations of floorcovering products to identified local good causes.

[1] The majority of the Company's operations were subject to COVID-19 related temporary closures during the first half of 2020.

Environment

Task Force on Climate-related Financial Disclosures ('TCFD')

This TCFD disclosure forms part of the Company's full-form ESG Report. The table below and on pages 9 to 12 details Headlam's responses in alignment with the TCFD recommendations. The Company has provided responses across the TCFD pillars, and aims to advance the maturity of its climate-related actions and disclosures on an annual basis. In this regard, the Company anticipates providing a full qualitative scenario analysis within its next full-form ESG Report published alongside the 2022 Annual Report and Accounts, followed by a quantitative scenario analysis published alongside the 2023 Annual Report and Accounts.

Governance	Disclosure
The Board's oversight of climate-related risks and opportunities	The Board has primary oversight and ultimate responsibility for ESG strategy and performance, which includes the approach and actions in relation to climate-related issues. ESG is considered quarterly by the Board, and four discussions took place at Board Meetings during 2021. During 2022, the Company is proposing to establish a ESG Committee to assist the Board with the more detailed aspects of its ESG agenda, and to hold management to account on the implementation of the ESG strategy approved by the Board. While ultimate responsibility for risk governance sits with the Board, the Audit Committee assists in risk oversight (as described within Risk Management on page 34 of the 2021 Annual Report and Accounts). During 2022, ESG material issues will be reported to the Audit Committee by the Executive Risk Committee (detailed below) and discussed at each of their quarterly meetings, with management's approach to mitigating risk and capturing opportunity challenged appropriately.
Management's role in assessing and managing climate-related risks and opportunities	The Company has an established Executive Risk Committee which meets quarterly and comprises the Chief Financial Officer, members of the Executive Team, senior managers and heads of departments (including from operations and finance). Its role is to review identified risks, including the likelihood and potential impact of each risk, establish and monitor the effectiveness of mitigating and opportunistic actions, and consider emerging risk. During 2021, the Committee, which is supported by an external risk management specialist, expanded its remit to include monitoring of ESG material issues (including climate-related). During 2021, an ESG Working Group was also established. The Working Group meets monthly and is comprised of members of the Executive Team, senior managers and department heads, with representatives reporting to the Chief Executive on outputs. Its principal activity is the day-to-day management and delivery of projects in relation to the Company's ESG strategy, with projects covering actions to both mitigate climate risk and capture opportunity.

Strategy and Risk Management	Disclosure
The organisation's processes for identifying and assessing climate-related risks	The Company's risk governance and management processes are detailed within Risk Management, and Principal Risks and Uncertainties on page 36 of the 2021 Annual Report and Accounts. Additionally, the Company publishes an annually updated Materiality Assessment (on page 3 of this Report). Its preparation includes a qualitative assessment of ESG risks, inclusive of climate-related, on the composite bases of likelihood and potential impact of 'raw' risk. Risks considered include Transition Risks, such as market, policy and legal (both existing and emerging), technology, and reputation, and Physical Risks (both acute and chronic). This process allows the Company to both identify climate-related risks and opportunities and determine their relative significance to the business.

Strategy and Risk Management continued	**Disclosure**
How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Climate-related risks are considered as part of the identified 'Environmental (incorporating climate change)' Principal Risk (see page 38 of the 2021 Annual Report and Accounts) and, therefore, integrated into the Company's overall risk management process. However, notwithstanding the Company's considered relatively low exposure in the medium-term to climate-related risk as set-out in the risk table below, the Company recognises there is more that can be done to assess and integrate specific climate-related risks into its risk management, and will undertake work in this regard during 2022.
The climate-related risks and opportunities the organisation has identified over the short, medium and long term The impact of climate-related risks and opportunities on the organisation's business(es), strategy and financial planning The organisation's processes for managing climate-related risks	The below table details the Company's key climate-related risks. Risks have been categorised in alignment with the TCFD recommendations and with associated time horizons. Time horizons have been defined by the Company as short term (< 2 years), medium term (2–5 years), and long term (> 5 years) for the purpose of this TCFD disclosure. This is the Company's first TCFD disclosure, and in future years the Company aims to explore the financial materiality of identified risks in greater detail. Currently only the 'Transition: Policy and Legal: EPR* scheme' risk listed below is judged to potentially have any material financial impact when taking into account all factors, including likelihood and potential impact.

Risk categories	Description	Impact	Mitigation actions
Transition: Market	Transitioning to more sustainable business and operating practices. Time horizon: short / medium term Likelihood: high Impact: low	Introduces transition risk into the business, including through implementing new ways of operating. A large proportion of the 'change' projects are already underway, with a number resulting in operating efficiencies and associated cost savings which will help offset any related costs, although not material.	Dedicated internal team and control framework in place that oversees change projects in the business. Actions required to implement ESG strategy considered as part of the annual budgeting process. List of projects include changes to commercial and non-commercial fleet and operations to reduce GHG emissions (see page 4 of this Report).
Transition: Policy and Legal	Financial impact of potential new legislation / regulation. Time horizon: medium / long term Likelihood: high Impact: high	Implementation of a potential EPR* scheme on bulky waste could reduce the profitably for the Company of certain products it sells. Likely the government will undertake a consultation within the next five years (although it is considered unlikely that the scheme would be implemented within that period).	Likely increase in sustainable products available, and ongoing advances in recycling technologies and infrastructure, increasing the proportion of products able to be recycled over the next few years. With associated lowering of recycling-related costs. Company able to use its scale and network to be the preferred strategic partner for suppliers, and defray costs.

*Extended Producer Responsibility

Task Force on Climate-related Financial Disclosures ('TCFD') continued

<table>
<tr><th>Strategy and Risk Management
continued</th><th colspan="4">Disclosure</th></tr>
<tr><td rowspan="5"></td><td>Risk categories</td><td>Description</td><td>Impact</td><td>Mitigation actions</td></tr>
<tr><td>Transition: Market</td><td>Changing consumer preferences.

Time horizon: medium / long term
Likelihood: high
Impact: medium</td><td>Low current interest among a large proportion of consumers in paying a premium for sustainable flooring products, with sustainable products making-up a small proportion of overall offering. This is anticipated to change over the coming years.

Potential increase in demand for 'hard' flooring as a result of any rise in climate temperature.</td><td>Working closely with suppliers on examining and promoting sustainable product offerings.

Due to leading position, the Company is best placed to promote suppliers' products into the market, and can quickly alter its offering to reflect consumer preferences.</td></tr>
<tr><td>Physical: Chronic and Acute</td><td>Supply chain disruption.

Time horizon: long term
Likelihood: medium
Impact: medium</td><td>Potential raw material shortages due to effects of climate change, with knock-on impact on product supply / availability.</td><td>Scale and close strategic partnerships with suppliers should enable the Company to preserve levels of availability (as demonstrated during the recent period of industry wide supply issues).

Proliferation and homogeneous nature of certain products allowing for substitution options.</td></tr>
<tr><td>Physical: Chronic and Acute</td><td>Asset damage.

Time horizon: long term
Likelihood: low
Impact: low</td><td>Damage to physical assets as a result of storm or flooding.</td><td>The Company's assets are not expected to be exposed to high physical climate-related risk due to geographies it operates in. Issue to continue to be monitored.</td></tr>
<tr><td colspan="4">As referenced above, a number of the risk mitigation actions can translate into opportunities for the Company, for example: cost savings from efficiency-related 'change' projects; exclusive sustainable product offerings; ability to manage costs due to network and scale; and being the preferred strategic partner for suppliers and other industry bodies (including recycling technology providers) due to market leading position.</td></tr>
<tr><td>Resilience of the organisation's strategy, taking into consideration different climate-related scenarios</td><td colspan="4">The Company's main focus to date has been on the fundamentals of risk identification and development of associated mitigating actions. Given this focus, alongside resource requirements and the considered relatively low exposure in the medium-term to climate-related risk per the risk table disclosure above, climate-related scenarios have not been considered for this first TCFD disclosure. The Company will continue to develop its reporting and anticipates providing a full qualitative scenario analysis within its next full-form ESG Report published alongside the 2022 Annual Report and Accounts, followed by a quantitative scenario analysis published alongside the 2023 Annual Report and Accounts.</td></tr>
</table>

Metrics and Targets	Disclosure
Metrics used by the organisation to assess climate-related risks and opportunities	To provide a tool to assess the Company's progress in relation to climate-related risks and opportunities, certain KPIs and Targets have been introduced. These are: KPIs • Recycled protective plastic packaging usage • Deliveries per commercial vehicle (with associated reduction in fleet number) • Transportation (Scope 1) emissions* per £ of revenue Targets • Net zero emissions ambition for 2035 • Percentage of non-commercial fleet plug-in hybrid or low emission • ISO 14001 environmental accreditation • 30% of sales coming from digital channels (less carbon intensive ordering method) Details of the listed KPIs and Targets can be found elsewhere in this Report and / or in the 2021 Annual Report and Accounts. An intensity metric is additionally given within the Company's SECR Disclosure (page 56 of the 2021 Annual Report and Accounts). Further KPIs and Targets will be introduced in subsequent full-form ESG Reports.
Scope 1, Scope 2 and Scope 3 greenhouse ('GHG') emissions, and the related risks	The Company's Scope 1, 2 and 3 emissions, and detail of, are summarised on page 13 of this Report, giving comparative years where available.
Targets used by the organisation to manage climate-related risks and opportunities and performance against targets	The targets introduced by the Company to date are detailed above, with further targets to be introduced in subsequent reports. The Company anticipates introducing an initial reduction target for direct internal (Scope 1 and Scope 2) GHG emissions, as well as a costed decarbonisation transition plan to support the net zero emissions ambition, with its next ESG Report to be published alongside the 2022 Annual Report and Accounts.

*Defined as emissions from the Company's UK distribution commercial vehicles

GHG emissions

Over 80% of the Company's direct internal emissions arise from fuel sources used in its transportation commercial fleet, with the remainder mainly accounted for by natural gas usage and electricity consumption at sites.

Scope 3 emissions are GHG emissions that the Company is indirectly responsible for outside its own operations – from the goods the Company purchases, to the disposal of floorcoverings once sold. In 2021, the Company conducted its first Scope 3 emissions assessment following the GHG Protocol Corporate Value Chain (Scope 3) Accounting Standard methodology in conjunction with its top 15 suppliers. The assessment is available to view at www.headlam.com and is summarised below. From this assessment the Company estimates that the sources of its indirect GHG emissions were: 1) Manufacture of purchased goods and services (70%); 2) End-of-life sold products (23%); and 3) Other plus Upstream transport (7%). Also from this assessment alongside the SECR Disclosure (see page 56 of the 2021 Annual Report and Accounts), the Company's indirect emissions far exceed its direct internal emissions:

- Scope 3: 97.3% of total emissions*
- Scope 1 and 2: 2.7% of total emissions*

The Company will next engage with suppliers on a Scope 3 emissions assessment in late 2022, and this will be performed annually thereafter. Undertaking this work is a valuable tool to understand supply chain emissions, and importantly engage with individual suppliers on their own environmental / sustainability ambitions and supply chain efficiencies. It serves as an important framework, amongst other forms of engagement, to deepen the partnership approach with suppliers most able to demonstrate responsible business conduct and supply chain efficiencies.

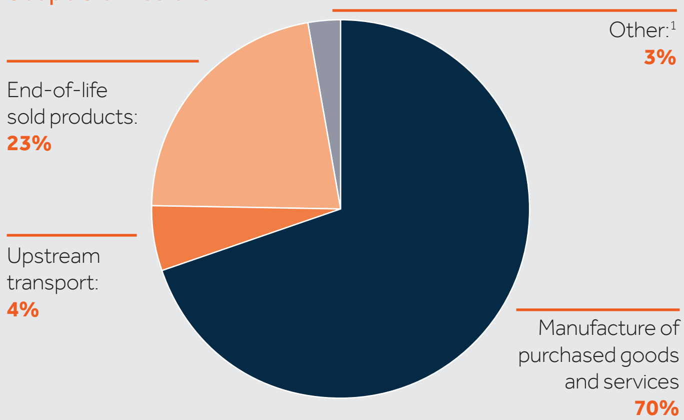
Water

The Company is not a large consumer of water, which it primarily uses for cleaning its commercial vehicles, and is engaged in limiting usage where possible. Water consumption in 2021 was 31,422 cubic metres** (2020: 36,640 cubic metres).

* Scope 1 and 2 emissions data is 2021 re-stated to remain consistent with re-classification of grey fleet within Scope 3. Scope 3 is 2020 data, also re-stated for consistency.

**Excludes water consumption by the Company's Swiss operations disposed of in 2021.

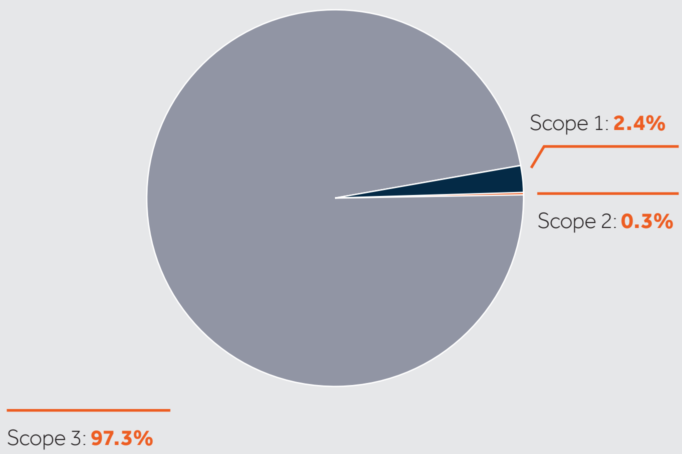
Scope 3 emissions*:



[1] Waste generated in operation, employee commuting, capital goods, and fuel-related activities not included in Scope 1 and 2.

Category percentages re-stated to remain consistent with reclassification of grey fleet within Scope 3.

Headlam's Scope 1, 2 and 3 emissions*:



Key

Scope 1	Direct GHG emissions, predominantly arising from Headlam's transportation activities
Scope 2	GHG emissions generated from purchased electricity at Headlam's sites
Scope 3	Indirect GHG emissions produced outside Headlam's own operations

ABOUT US
market leader

Operating since 1992, Headlam works with suppliers across the globe manufacturing a diverse range of floorcovering products, and provides them with a cost efficient and effective route to market for their products into the highly fragmented trade customer base.

To maximise customer reach, Headlam operates 66 businesses across the UK and Continental Europe (France and the Netherlands). Each business operates under its own trade brand and utilises individual sales teams while being supported by the group's network, central teams and resources.

The Company's extensive customer base covers both the residential and commercial sectors, with principal customer groups being independent retailers and smaller flooring contractors alongside other customer segments such as larger (multiple) retailers, housebuilders, specifiers, and larger contractors (including local government / authorities).

Headlam provides customers with a market leading service through:

- the broadest product offering;
- unrivalled product knowledge;
- tailored service propositions and solutions;
- sales team and marketing support;
- ecommerce support and digital applications;
- nationwide delivery; and
- trade counter and collection service.

Years operating

30

Businesses

66

Customer accounts

24,830

SKUs

39,000

Headlam Group Plc
PO Box 1
Gorsey Lane
Coleshill
Birmingham
B46 1LW
UK

Tel: 01675 433 000
Fax: 01675 433 030
Email: headlamgroup@headlam.com
Sat Nav: B46 1JU

www.headlam.com

Company number: 00460129