headlam

The leading, most trusted experts in flooring

Annual Report & Accounts 2022

INTRODUCING OUR 2022 ANNUAL REPORT

Chris Payne, Chief Executive

Operating for over 30 years, we are the UK's leading floorcoverings distributor. We work with suppliers across the globe manufacturing the broadest range of products and give them a highly effective route to market, selling their products into the large and diverse trade customer base.

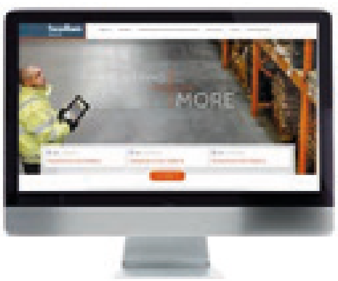
We have an extensive customer base spanning independent and multiple retailers, small and large contractors, and housebuilders. We are focused on growing our customer base and providing great service to all customers through the largest product range, in-depth knowledge, ecommerce and marketing support, and nationwide service.

Our colleagues are at the heart of our business and, alongside supporting our suppliers and customers to grow their businesses, we are focused on all areas of support for them, to make Headlam a great place to work. There have been many advances in colleague engagement and support during 2022 which will continue to be built on during 2023.

Also at the forefront of our minds is the sustainability and long term success of Headlam for the benefit of all our stakeholders. Our strategy of driving growth and gaining market share from a more efficient operating base will support growing returns for shareholders. As importantly, our ESG strategy includes multiple actions to reduce our impact on the environment, continue to support our colleagues, and ensure high levels of governance.

2022 presented very challenging headwinds, not least the well-documented significant operational cost increases and cost of living crisis in the UK, all of which had to be carefully navigated.

We hope you enjoy reading this year's Annual Report which details our many activities during 2022, and our focus areas for 2023.



Visit us online at www.headlam.com

30 YEARS headlam

About Us: Our Vision and Values

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Our Business Model: Supporting Customers and Suppliers

See pages 12–13

Our Strategy: Delivering Growth

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Our People and Sustainability

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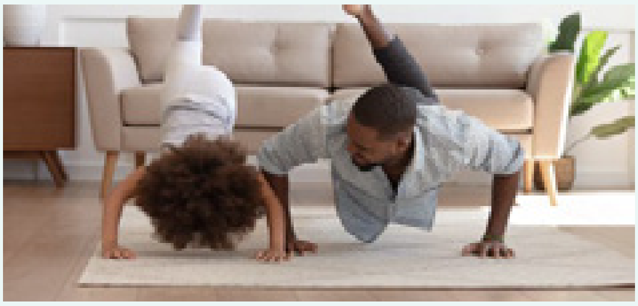
ABOUT US

The UK's leading floorcoverings distributor



Our Purpose

Creating great places for our communities to live, work and play

World class flooring solutions, delivered sustainably. We are flooring experts; sourcing, developing and distributing great product ranges in a sustainable, environmentally responsible way. We work to support local jobs, businesses, and communities. Delivering the right solution every time.

Our Vision

The leading, most trusted experts in flooring

With the reach to truly deliver for every customer. Through our vast product choice, in-depth flooring expertise, nationwide service excellence, and dynamic, inclusive culture. All driven by the collective ingenuity of our people.

Our Values

Every business in the Headlam group brings its own skills and expertise, built on a proud history of serving their customers. The 'Headlam Way' is an expression of the shared values that bring us together. It's why people choose to work with us.

- Keep each other safe and well, always
- Lead by example, we are all leaders
- Work together, with everyone
- Act sustainably, use less, waste less, give back
- Keep improving, everywhere
- Get it done, brilliantly

And always, do the right thing

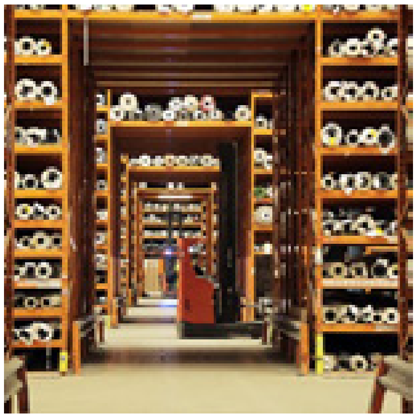
INVESTMENT CASE

Strong Foundations

- Market leader with long established operational expertise and customer servicing
- Strong balance sheet, demonstrated resilience, and track record of cash generation and shareholder returns
- High levels of corporate governance and oversight, and well developed ESG Strategy

Financial Review

For more information see pages 48–57

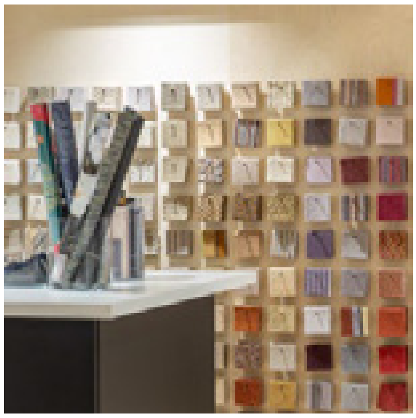


Growth Strategy

- Comprehensive strategy in place to deliver new revenue growth and capture increased market share, with demonstrated progress in 2022 despite weaker UK residential market
- Ongoing focus on operational efficiency, modernisation, and customer servicing to further improve performance
- Investment in people, network (systems, equipment, and sites), and customer propositions to support revenue growth

Our Strategy

For more information see pages 14–17



Delivering Success

- Capturing larger share of £3 billion[1] UK market to extend market leading position, with relatively modest investment required to deliver on the strategy
- Strategy ensuring long term success and sustainability of the business, responding to the evolving market and capturing commercial and ESG related opportunities

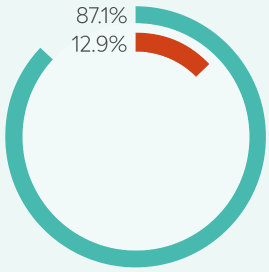
Our Marketplace

For more information see pages 10–11

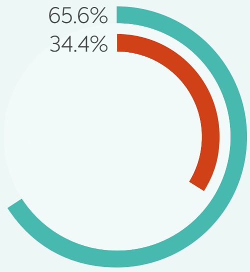
[1] Source: LEK Consulting, 2020, calculated at distributors' selling price and inclusive of sales direct from manufacturers

WHAT MAKES HEADLAM

Revenue



UK
Continental Europe



Residential sector
Commercial sector

To maximise customer reach and sales opportunity, Headlam operates 67 businesses and trade brands across the UK and Continental Europe (France and the Netherlands), which are supported by the group's network, central resources and processes.

30 years of operating expertise

- Knowledgeable and long serving colleagues
- Servicing a large and diverse customer base
- Long established supplier relationships across the globe

Nationwide network and operations

- National and regional businesses
- Next day delivery from extensive distribution network
- Growing number of trade counter collection sites

Broadest and largest product range

- Spanning a wide spectrum of price points and categories
- Exclusive own branded products, and well recognised brands
- New exclusive launches, including sustainable products

Leading customer servicing

- Dedicated sales teams and marketing support
- Tailored service propositions and comprehensive solutions
- Investing in ecommerce and industry leading digital channels

30
Years operating

2,267
People

67
Businesses and trade brands

22
Distribution hubs and centres

58
Trade counters

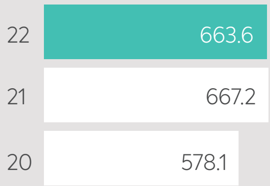
FINANCIAL PERFORMANCE

Revenue

£663.6m

(0.5)%

(2021: £667.2m)

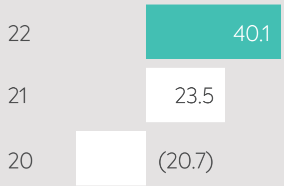


Statutory basic earnings/(loss) per share

40.1p

+70.6%

(2021: 23.5p)



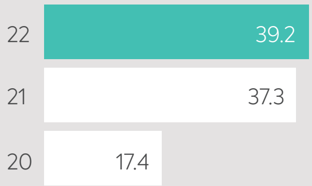
Underlying* operating profit

£39.2m

+5.1%

(2021: £37.3m)

Statutory operating profit: £43.9m (2021: £29.1m)

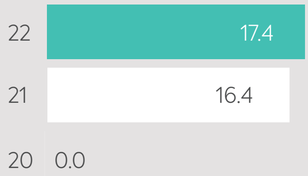


Total ordinary dividend**

17.4p

+6.1%

(2021: 16.4p)

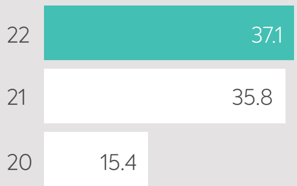


Underlying* profit before tax

£37.1m

+3.6%

(2021: £35.8m)

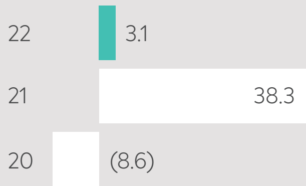


Average net funds/(debt)***

£3.1m

(91.9)%

(2021: £38.3m)

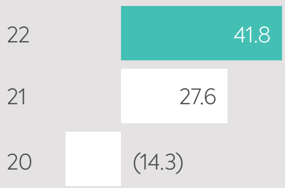


Statutory profit/(loss)before tax

£41.8m

+51.4%

(2021: £27.6m)

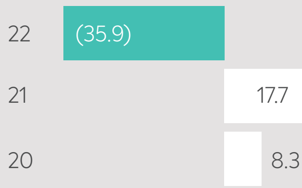


Net (debt)/funds****

£(35.9)m

(302.8)%

(2021: £17.7m)



The financial results for 2020 and 2021 represent continuing operations only and exclude the contribution from the Swiss business, Belcolor AG, in 2020 and 2021 following its disposal in 2021. Commentary on the Company's use of Alternative Performance Measures ('APMs') alongside International Financial Reporting Standards ('IFRS') Measures is given within the Financial Review on pages 48 to 60.

* Underlying is before non-underlying items, which includes i) impairment of intangibles, fixed assets and right of use assets, ii) amortisation of acquired intangibles, iii) property disposal profits, iv) impairment of property, plant and equipment and inventory (following a fire), v) insurance proceeds (following fire) and vi) business restructuring costs in 2021.

** Total ordinary dividend for 2021 includes the 2.0p nominal dividend announced in March 2021

*** Average net funds/(debt) is calculated by aggregating the net debt position, excluding lease liabilities, for each business day and dividing by the total number of business days.

**** Net (debt)/funds is as at 31 December, and includes lease liabilities of £37.7 million in 2022 (2021: £36.0 million; 2020: £43.3 million)

CHAIRMAN'S STATEMENT

Keith Edelman, Non-Executive Chairman

"2022 was a busy year with many achievements, however, it also presented very challenging industry headwinds"

2022 was a busy year, with many achievements including pleasing progress in early stage delivery on the strategy. However, the year also presented very challenging headwinds, not least significant operational cost increases and an inflationary environment which resulted in a cost of living crisis, materially impacting a large proportion of the Company's domestic marketplace.

This served to subdue overall financial performance and mask early contributions from the strategy, although they served as an important counterbalance to the weak UK residential sector so that group revenue was broadly maintained year on year.

The strategy of driving revenue growth and capturing increased market share from a more efficient and modernised operating base is being delivered through various discrete projects. Each has an accelerating contribution profile which will support value creation for all stakeholders. Successes in the year included new larger customer wins with potential to scale up, effective execution of the early stage roll-out of improved trade counters nationwide, and launches / relaunches of own product brands to appeal to a wider customer base.

In support of delivery and oversight of the strategy, the Board was refreshed and enhanced during the year, bringing further relevant expertise and skills. Additionally, significant operational capability has been added throughout the business, mostly notably in customer and digital strategies, IT, trade counter management, and HR support.

Due to the economic backdrop, support for the Company's people of both a financial and non-financial nature was a particular focus. A tiered annual pay award and commitment to the National Real Living Wage has sought to provide additional support for more junior colleagues, and investment in the HR team will allow enhancements in the areas of wellbeing and colleague development opportunities.

Despite the inflationary cost pressures in the year, the Company continued to invest across the business to strengthen its position, support revenue growth, and build foundations for future opportunities. Alongside investment in people, the Company invested in sites, systems and customer service propositions, all of which support the strategy. As the investment required to deliver on the strategy is relatively modest, the Board can fulfil this priority and maintain a strong balance sheet while continuing its focus on shareholder returns.

The Company's well developed ESG strategy is an important framework to ensure the sustainability and long-term success of Headlam, and is closely aligned with the overall strategy. Importantly, it will allow the Company to capture commercial opportunities, advance efficiency and modernisation measures, as well as support colleagues and local communities. Of note, the Company is actively engaged in many decarbonisation actions in support of its Net Zero emissions target (Scope 1 and 2) by 2035[1], including investing in solar panels to both reduce emissions and defray future energy costs. Furthermore, the Company anticipates launching sustainable products during 2023 to capture growing customer demand.

Headlam is a long-established market leading business with solid foundations that have been strengthened through the development and increasing implementation of the strategy.
The Company is now engaging with a far larger proportion of the overall market and has significant growth ambitions. Whilst there will be a lag to this translating into overall financial performance given the economic backdrop and upfront investment required for some projects, the Board is highly confident in the strategy and its future success.
The Board wishes to thank all its stakeholders, especially its people, and looks forward to updating on demonstrable progress under both the overall and ESG strategies as 2023 progresses.

Keith Edelman

Non-Executive Chairman
8 March 2023

[1] Full detail on the Company's emissions targets can be found within the Sustainability Report on pages 61 to 80.

STRATEGIC REPORT

OUR MARKETPLACE AND THE CUSTOMER SEGMENTS

Marketplace during 2022

The marketplace was affected by a number of external factors during 2022, which evolved as the year progressed.

Industry wide supply issues evident in the second half of 2021 continued into the first half of 2022. These in large part stemmed from the consequences of COVID-19, with upstream raw material shortages and cost inflation leading to product availability issues. This in turn led to manufacturers implementing significant price increases across many product categories. However, as is a feature of the marketplace in part due to infrequency of purchase, these increases were passed directly through and readily absorbed.

As the year progressed, the inflationary environment in the UK that had been evident at the beginning of the year continued to worsen, leading to a cost of living crisis.

£3 billion[1] UK market

Existing Headlam Weighting

High

Traditional Retailers

Description

Mix of large and small warehouse style physical stores and traditional carpet / flooring shops, plus some online retailers with a salesforce

Key needs from Headlam

- Product availability, and delivered next day
- Customer service relationships and touchpoints, fast response to queries
- Reliable quality
- New product launches, sampling, and promotions

Tradespeople and Fitters

Description

Flooring fitters or other trades who supply and fit on occasions, often as part of a larger project (i.e. kitchen). May be self-employed without a delivery address or premises

Key needs from Headlam

- Nearby trade counter for collection
- Quick, one-stop shop
- Product advice and sampling to showcase to end-consumer
- Ability to check stock, and order out of hours and on the move

See Trade Counter case study on pages 22–23

Progressive Retailers

Description

Showroom style stores, more interior design and lifestyle focused with less volume of product on display than traditional retailer. May sell other home décor products

Key needs from Headlam

- On trend, design-led products and product brands
- Advice and insight into end-consumer buying trends
- Point of sale materials to showcase options to end-consumer
- Digital ordering and stock checking

Contractors (including government)

Description

Large contracting companies with premises. Undertake large scale projects which may include government contracts, hotels, office and retail refurbishments, care homes

Key needs from Headlam

- Quick ordering and delivery lifecycle
- Able to supply nationwide, and to site
- Account management, and contracts in place
- Sustainability credentials

This economic backdrop particularly impacted consumer spending on 'discretionary' items, and as a consequence the residential sector was notably weak in the year with underlying volumes significantly down. However, the product price increases provided support to revenue.

COVID-19 lockdowns and restrictions in 2020 and 2021 caused the fortunes of the residential and commercial sectors to fare very differently. While the residential sector had been a beneficiary of limited opportunities for spend, the commercial sector experienced prolonged closures with large levels of expenditure deferrals. However, 2022 saw a good recovery for the commercial sector as activity rebounded from low levels, with this sector being less exposed to inflation and reduced discretionary spend, due in part to being underpinned by health and safety requirements.

Low

Multiple Retailers Larger Customers

Description

Mix of flooring specialists and generalists selling flooring with multiple premises, typically in several regions or nationwide

Key needs from Headlam

- Fast and accurate deliveries nationwide (any location / frequency)
- Digital systems allowing real-time data sharing and automated ordering
- Supply chain management and stockholding
- Sustainability credentials, exclusive products and product insight

See Homebase case study on page 46

Larger Housebuilders

Description

Typically national housebuilding companies, responsible for multiple developments

Key needs from Headlam

- Account management, and contracts in place
- Able to supply nationwide at scale and to site
- Product insight and tailored range, point of sale materials to showcase options to end-consumer
- Supply chain management and stockholding

See Leading Housebuilder case study on page 47

Online (pure online)

Description

Website the only selling channel, with no other means of selling (no physical retail premises)

Key needs from Headlam

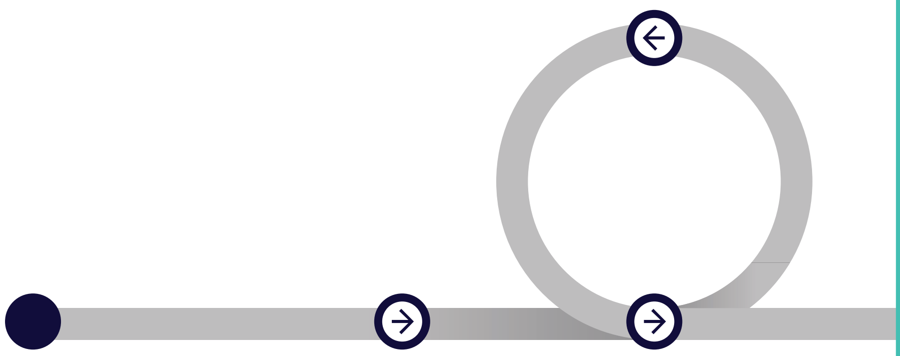
- Delivery to fulfilment centre and / or DSV[1]
- Well recognised product brands, with good social media appeal
- Direct to end-consumer sampling fulfilment
- Digital systems allowing real-time data sharing and automated ordering

See Melrose Interiors case study on page 47

[1] Drop Ship Vendor

OUR BUSINESS MODEL: SUPPORTING CUSTOMERS AND SUPPLIERS

How we work to **support our value chain**



Purchasing

Using our unrivalled product insight and knowledge to have the broadest and most innovative inventory position that fulfils customers' orders rapidly, with low risk of obsolescence.

Supporting our suppliers

Working closely with our suppliers across the globe to launch innovative and successful products into the marketplace, sharing data and ensuring an efficient and ethical supply chain.

Solutions

Providing an array of solutions across the value chain, spanning anything from stockholding and storage solutions, to curated exclusive product ranges, through to national distribution (any location / frequency).

Key competitive advantages

Long established relationships

Operating for over 30 years, with many of the businesses in the group having longer heritages. This has resulted in long-standing relationships with both suppliers and customers.

Extensive distribution network

The only truly nationwide business, with 67 national and regional businesses and brands. Next day delivery and growing number of trade counter collection sites. Continuing to invest in and expand the network to improve customer service.

Material handling and processing capabilities

Largest inventory holding amongst peers, and across all main product categories. Able to process a high volume of orders for next day delivery. Further investment made in sortation units and cutting tables during 2022, and 2023.

Customer Service

Providing our extensive customer base with comprehensive service propositions tailored to their specific needs, with a focus on evolving these propositions to respond to any changes in the marketplace.

Delivery

Providing a truly nationwide service with next day delivery and a trade counter collection network, and ongoing improvements to both to enhance the delivery proposition.

Supporting our customers

Helping our customers grow their businesses through understanding their needs, offering the broadest product mix supported by expert knowledge and solutions, and giving them competitive advantages.

Product knowledge and ranging

Unrivalled product knowledge and technical expertise. Able to provide valuable product insight to both customers and suppliers. Continuing to invest in and launch new products and ranges to capture further market share.

Customer service

Broadest product offering with next day delivery and trade counter collection service. Improved customer service propositions including: industry-leading app, improved B2B websites, and growing DSV[1] capabilities.

1 Drop Ship Vendor

OUR GROWTH STRATEGY

How we are achieving **our vision to deliver success together**

"Strategy of driving revenue growth and capturing increased market share from a more efficient and modernised operating base, being delivered through various discrete projects. Each has an accelerating contribution profile which will support value creation for all stakeholders"

Maximising sales through great service, solutions, pricing and range

Excel with existing customers

- Secure and increase share with independent and progressive retailers through service, price and range offerings
- Tailored fitter and contractor propositions
- Expand own product brands offering

Buying and products

- Better range curation and pricing, buying and supplier engagement
- Product development, (re)launches and innovation

Link to Risks

1 2

See pages 81–86

Link to KPIs

1 2 3 4 5

See pages 24–27

Developing new opportunities for future growth

Expand customer base

- Expand share through tailored propositions for larger customers, contractors and housebuilders
- Deliver and expand the trade counter concept

Routes to market

- Online brand awareness and engagement
- Digital/ecommerce offering

New opportunities

- Explore M&A opportunities in adjacent products and/or new market segments

Link to Risks

1 2 3 10

See pages 81–86

Link to KPIs

1 2 3 4 5 6

See pages 24–27

Improving our operational capabilities and effectiveness

Operational excellence

- Optimise the branch network and transport
- Develop sales force effectiveness and efficiency
- Invest in sites and equipment to support growth

Expand existing capabilities

- Consumer and market insights
- Build core capabilities in digital, data and tech

Link to Risks

1 2 3

See pages 81–86

Link to KPIs

2 3 4 5 7 8 9 11

See pages 24–27

Leading on sustainability and environmental responsibility

Environmental

- Reduce greenhouse gas emissions across building footprint and fleet
- Reduce waste, and promote sustainable products
- Work with the industry to improve recycling and end-of-life treatment of sold products

Business with integrity

- Reliable business processes, systems, and controls in place
- Ethical business conduct in all areas, both internally and oversight of supply chain
- Manage risk, and ensure the continuity of the business

Link to Risks

8 9 10

See pages 81–86

Link to KPIs

11 12

See pages 24–27

Making Headlam a great place to work for everyone

People

- Provide safe place to work
- Build skills to succeed now and in the future
- Support wellbeing
- Fair and competitive reward and benefits
- Support local community programmes

Culture

- Build inclusive and collaborative performance culture
- Recognise and celebrate success
- Open and frequent communication

Link to Risks

5 6 10

See pages 81–86

Link to KPIs

9 10

See pages 24–27

DELIVERING ON THE STRATEGY: **PROGRESS IN 2022**

Despite the weak UK residential sector in 2022, pleasing progress was made in the early stage delivery on the strategy.

	Larger Customers	Trade Counters
Key aims	Targeting multiple retailers and other larger customers	Roll-out of new and improved trade counters nationwide
Why important	Traditionally been very underweight in this customer segment which accounts for c £1 billion of overall £3 billion UK market	Will increase geographic coverage and density, filling areas where no physical presence currently, and appealing to wider range of customers
Progress made	☑ New customer wins, with considerable potential for scalability. Aim to grow revenue in this area by £100m within 5 years ☑ New customers include Homebase, a builders merchant, Oak Furnitureland, and a top 10 UK housebuilder ☑ New revenue provided an important countermeasure to weak UK residential sector in 2022	☑ On track for 90 invested[1] sites by the end of 2025. Targeted to add c £120m of new revenue to the £80m reported for 2021 upon maturity ☑ 58 sites at end of 2022, 24 invested[1], with accelerating roll-out to create national footprint ☑ Strong KPIs from invested sites (revenue, new account openings, and margins), with invested sites +10% revenue against uninvested
	Link to Strategy	Link to Strategy
	See pages 46–47 for Larger Customer Case Studies	See pages 22–23 for Trade Counter Case Study

[1] New, relocated, or refitted sites

Products and Brands

Launches and relaunches of products and brands

Will increase sales through appealing to a wider cross-section of the customer / end-consumer base, and keep brands relevant

- Over 30 launches / relaunches during 2022. Over 40 planned for 2023, including own branded sustainable range(s)
- New 'Everyroom' brand launched in 2022, generating over £8m of sales in seven months, and finalist for a leading trade award
- Commissioned specialist research indicating market share gains in the year, extending leading position

Link to Strategy

See pages 20–21 for Product Brands at Headlam

Digital Investment

Enhanced digital and ecommerce capabilities and applications

Will increase revenue opportunities in all customer segments, particularly larger customers, and also help lower cost to serve

- Reached 26% of sales from digital channels, from base of 11% in 2019
- Industry leading app *myheadlam* generating over £6m of sales since launch in November 2021
- Further systems integration completed allowing more effective information flows, and upselling/cross-selling capabilities being introduced

Link to Strategy

See pages 18–19 for Digital at Headlam

Operating Efficiency

Improved operating efficiency and modernisation

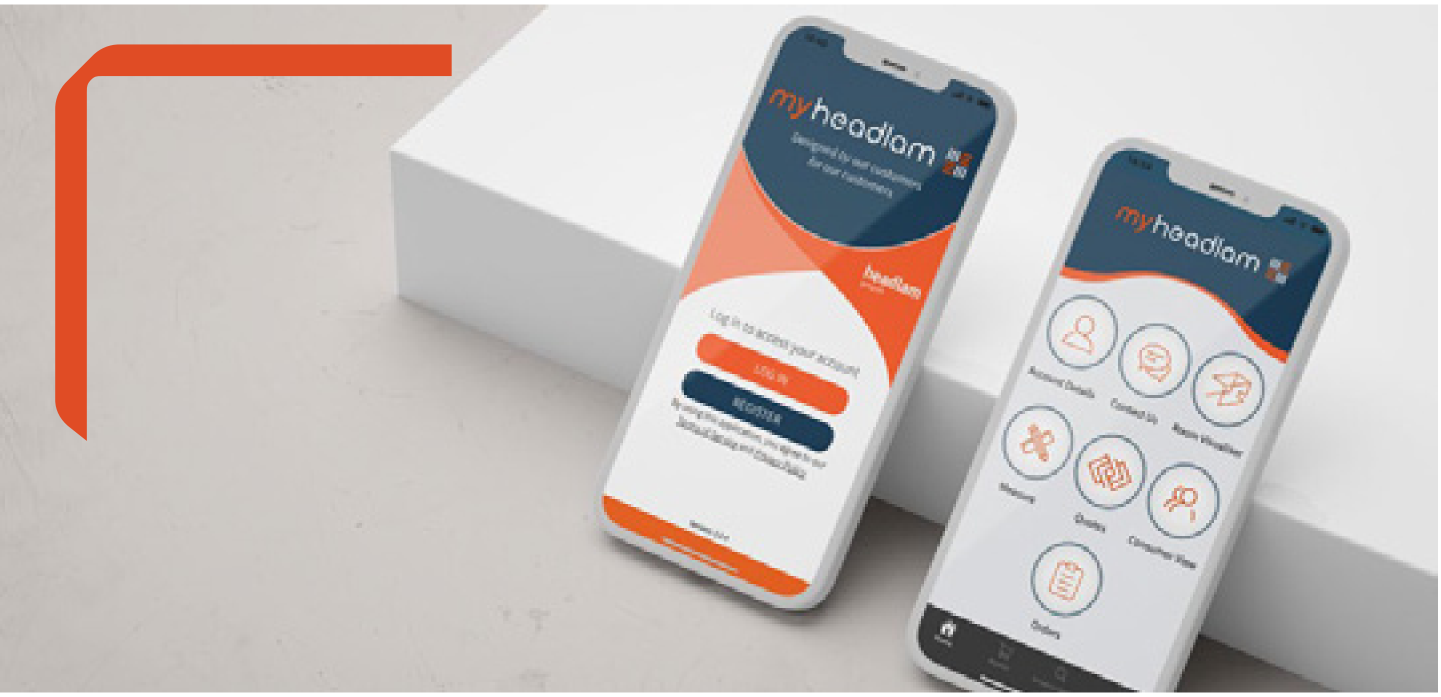
Will improve the service to all customers, support revenue growth, and improve profitability

- £6m investment in sites and equipment (sortation units and cutting tables) during 2022
- +98% of orders delivered right first time
- Capacity created in existing network to support revenue growth, with modest incremental infrastructure and investment required to support growth

Link to Strategy

See pages 38–45 for Chief Executive Review

DIGITAL AT HEADLAM



Supporting and increasing revenue opportunities

A comprehensive digital strategy is one of the key drivers of the Company's growth and efficiency strategy. Enabling greater appeal to a wider base of customers, supporting all the increased revenue opportunities, and also helping lower the cost to serve.

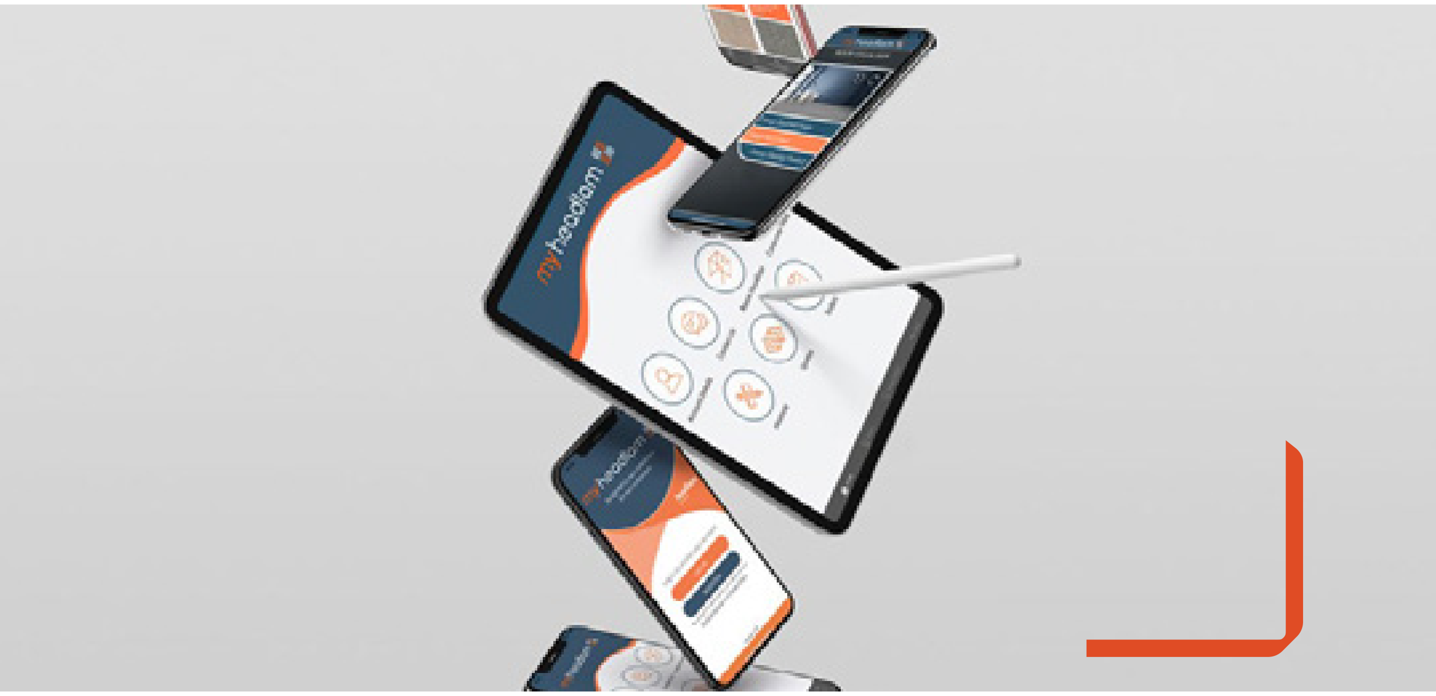
During 2021, the Company launched new and improved B2B websites across all its businesses, as well as an industry leading app, *myheadlam*, allowing more mobile customers to trade 'on the go' in a quick and easy way. This helped the Company achieve 26% of its sales coming from digital channels by the end of 2022, from a base of 11% in 2019.

A key deliverable in 2022 was introducing a product information management system ('PIM') to enable centralised control and distribution of product data to all business channels, including suppliers and customers, through quick and effective automated flows. It allows the acceleration of product to market, and richer more detailed information and imagery for use internally and by customers. The Company will seek to leverage the PIM further in 2023 and drive sales through better showcasing of product specifications, upselling and cross selling, and collecting product data from suppliers at source.

Other focus areas in 2023 include embedding a new Order Management System ('OMS') that will provide better aggregated stock visibility across the network, allowing the Company to improve the service to customers through near real time inventory feeds. The OMS will also enable improvements to the Company's Drop Ship Vendor ('DSV') capabilities.
The Company introduced this proposition to its service offering in 2022, whereby it can provide a full end to end fulfilment service for customers, delivering orders direct to their customers' homes on their behalf (using carrier partners).

Benefits

- Appealing to a wider customer base
- Supports all the increased revenue opportunities
- Helps lower the cost to serve



Investment is also being made in the Company's own product brands, with a number of the established and well recognised brands being scaled up in terms of market penetration and awareness through various digital marketing channels (see Product Brands at Headlam on page 20). The overall 'Headlam' brand is also to become more prominent and better leveraged to secure commercial opportunities.

A new Headlam brand website is being launched later this year to showcase the Company's capabilities and service offering, and support the marketing to new and existing customers.

The integration of Melrose Interiors, which the Company acquired in January 2023, will further strengthen Headlam's overall digital capabilities and range of service propositions. Melrose Interiors is the largest independent supplier to the UK online rug industry (see Melrose Interiors case study on page 66).

Headlam's digital strategy requires only modest investment, and is operationally derisked by partnering with a selected group of market leading technical solution providers. In the medium term, the Company's vision is to create an omnichannel model for its customers that allows them to interact and trade with Headlam in a variety of ways, providing a seamless and personalised experience.

PRODUCT BRANDS AT HEADLAM

Leveraging established own brands, maximising their sales potential, launching new

A key growth driver is the leveraging of the established product brands within the group, and the launching and marketing of new brands. This enables the Company to appeal to a wider base of customers, capturing market share and increasing sales.

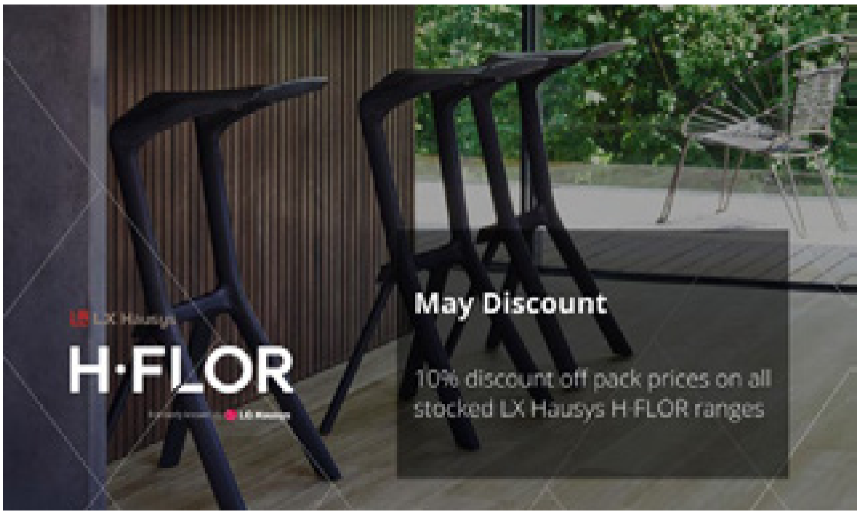
The Company has a large portfolio of own product brands, many of which have been in the marketplace for a number of years and are well recognised and regarded. They span price points from £10 per sq metre to over £150 per sq metre (average selling retail prices), and therefore have appeal for a wide cross-section of end-consumers. Notably, Headlam has the broadest offering of branded residential carpet, with this being the largest product category in the UK marketplace.

While the brands are well regarded, many have been underleveraged in recent years, and not sufficiently invested, in terms of digital presence, marketing spend, and new product development. Several existing brands were refreshed or relaunched during 2022, and scaled up in terms of market penetration and awareness through various digital marketing channels (including improved websites and social media). Kingsmead Carpets was one of those refreshed with a new social media strategy, and has already doubled its weekly social media users and quadrupled organic traffic via Google searches.

In terms of new brand launches, in 2022 the Company launched Everyroom, its new and exclusive brand offering great quality and design at affordable prices. This lower price point brand has helped the Company's customers secure sales at a time when

Benefits

- Increase sales and intrinsic brand values
- Capture larger market share
- Secure commercial opportunities through sustainable launches



end-consumers are more cost conscious due to the inflationary environment. The Company has provided further traction through free sampling and holding prices despite industry-wide product price increases. Feedback and sales since launch have been very positive, and the brand is a finalist for a leading trade award later in 2023.

While sustainable products currently make up a low proportion of the overall market offering, customers and end-consumers will increasingly signal a preference for sustainable products. The Company aims to take a lead in launching and marketing sustainable products, capturing competitive advantage, with a particular focus on fully recyclable ranges. Working closely with selected suppliers, the Company is at the trialing and proof of concept stage of new technology with a view to launching own branded sustainable ranges from the second half of 2023. The acquisition of Melrose Interiors has also brought the award winning [Re]lay brand of recycled rugs into the group.

The Company's Tamworth site, home of product brands, underwent a major refurbishment in 2022. It now houses an innovation hub which suppliers and customers visit to discuss collaborations with Headlam on product development and strategy, and sales development and ranging.

During 2023, the Company expects to launch over 40 new products (including existing range refreshes), with associated digital marketing. The new websites will have direct-to-consumer sampling fulfilment, creating further brand awareness and demand.

TRADE COUNTERS AT HEADLAM

Accelerating roll-out of new and improved trade counter sites nationwide, a fast growing business unit

One of the main new revenue growth drivers is the roll-out of new and improved trade counter sites across the UK, creating a nationwide footprint that also appeals to a wider range of customers thereby capturing further market share.

The target is 90 invested[1] sites by the end of 2025, from the previously 53 uninvested sites in 2021. This fast growing business unit is targeted to add approximately £120 million of revenue to the £80 million reported for 2021 through a relatively modest capital investment totalling around £25 million[2].

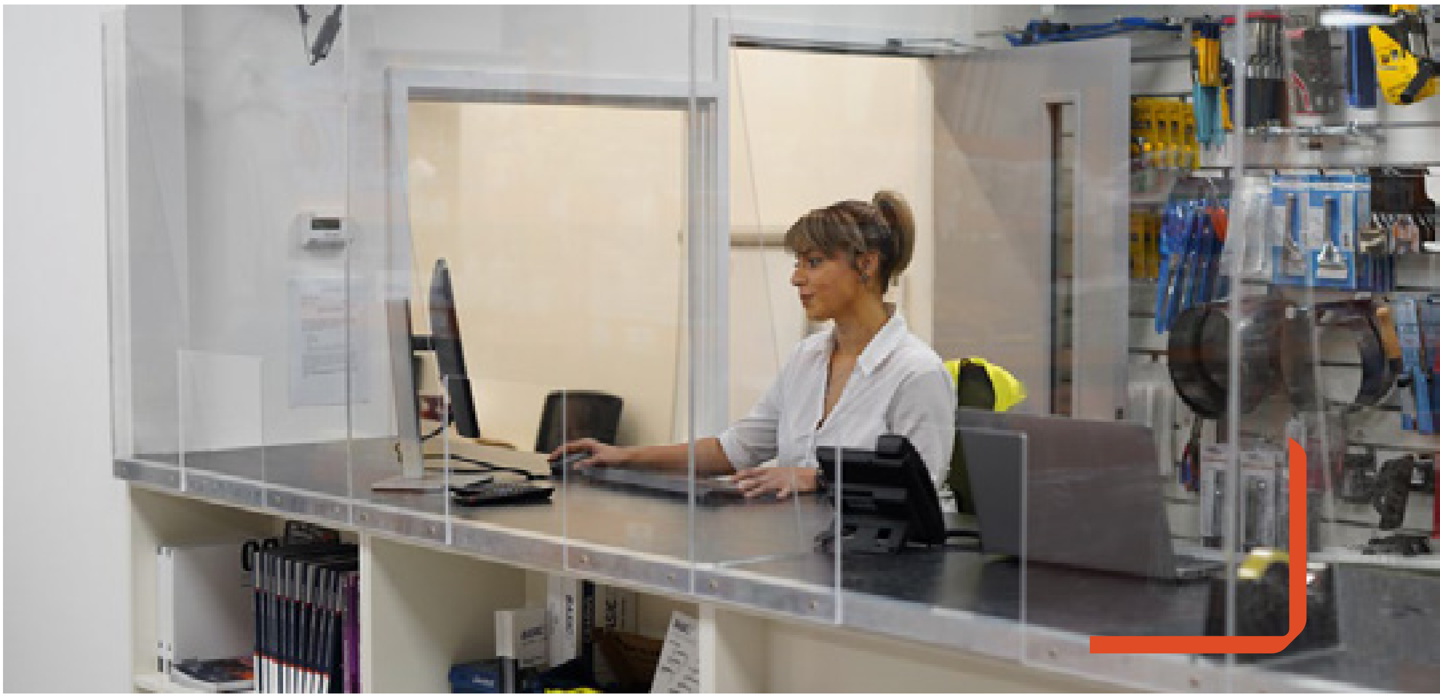
The first wave of invested sites are already demonstrating strong KPIs against uninvested sites in terms of revenue, new account openings, and margin. Revenue from invested sites was up 10% against uninvested sites in 2022, and margin enhancing to the group. Due to the upfront investment required, and modelled sales profile of new sites, the roll-out project is expected to be profit diluting in 2023 and 2024, then profit enhancing from 2025 onwards.

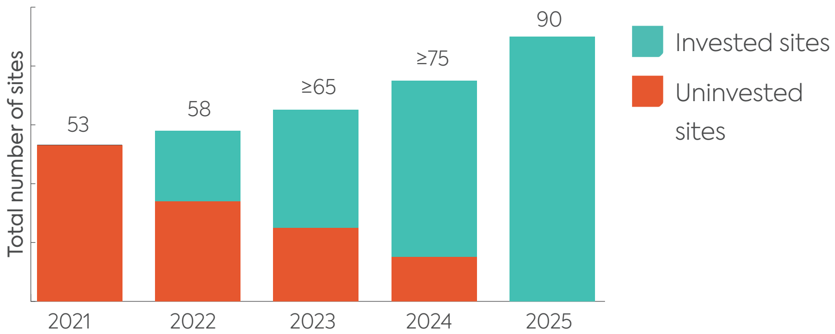
[1] New, relocated or refitted sites

[2] Total of £6 million incurred so far by 31 December 2022

Benefits

- Increased geographic coverage and density
- Appealing to a wider range of customers
- Targeting much increased revenue from this business unit





Exact 2023 and 2024 sites profile is subject to prospective sites pipeline, with a strong pipeline of sites currently. Will be some existing site closures / consolidations.

The trade counters offer a convenient, one-stop shop for all trade customers who may supply or fit flooring as part of their overall offering, enlarging the Company's customer base from traditional flooring specialists / fitters. The trade counter network offers a collection service (from any site), walk-in service, exclusive products, accessories and workwear, and expert advice.

Headlam will be the only flooring distributor to have a national standalone trade counter network. With potential to increase the geographic coverage and density after the initial 90, continuing to fill in areas where there is no physical presence and making the sites more accessible by lowering travel time.

Typical new trade counter site:

- Town or conurbation with no physical presence currently
- Area with existing trade footfall, located alongside complementary trade businesses
- 28 minute drivetime catchment area
- c 5,000 sq ft property (leased)
- Total capital investment c £300,000
- Breakeven end of year 2
- Sales maturity in year 5
- Operating under the well-recognised local business brand, co-branded Headlam

KEY PERFORMANCE INDICATORS (KPIs)

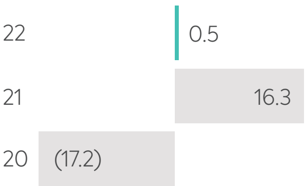
The Board believes these Key Performance Indicators ('KPIs') provide a comprehensive and relevant list of measurements with which to assess the Company's financial, operational, and social performance towards the achievement of its strategy. Commentary on the Company's use of Alternative Performance Measures ('APMs') alongside International Financial Reporting Standards ('IFRS') Measures is given within the Financial Review on pages 48 to 60, and below.

The financial results for 2021 and 2020 represent continuing operations only and exclude the contribution from the Swiss business, Belcolor AG, following its disposal in 2021.

Financial KPIs

1 Like-for-like[1] revenue growth (%)

APM



Measurement

Year-on-year revenue growth, expressed as a % and adjusted to normalise currency and for consistent working days, for businesses making a full year's contribution.

Why it's important and relevant

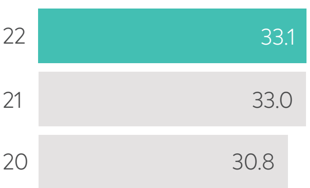
Allows a consistent measure of year-on-year performance.

Initiatives and actions for improvement

Organic revenue growth is a key strategic objective with specific projects to support its delivery.

Link to Strategy

2 Gross profit margin (%)



Measurement

Measured as a % of revenue.

Why it's important and relevant

Shows the effectiveness of gross profit generation from revenue.

Initiatives and actions for improvement

Ongoing pricing discipline, and product ranging.

Link to Strategy

3 Underlying[2] selling, general and administrative costs (%)

APM

Measurement

Measured as a % of revenue.

Why it's important and relevant

Shows how effective the Company is at converting gross profit into operating profit. Underlying[2] is used to show the underlying performance of the business without exceptional costs / items.

Initiatives and actions for improvement

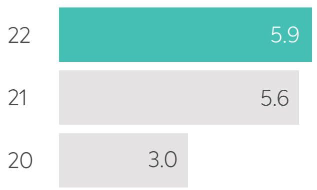
Focus on operating efficiencies and headcount control to ensure cost increases remain below revenue growth.

Link to Strategy

[1] Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2022 and the comparator year(s), and is adjusted for any variances in working days.

4 Underlying[2] operating profit margin (%)

APM



Measurement

Measured as a % of revenue.

Why it's important and relevant

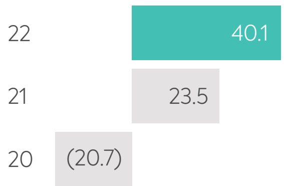
Shows the effectiveness of sustainable operating profit generation from revenue. Underlying[2] is used to show the underlying performance of the business without exceptional costs / items.

Initiatives and actions for improvement

Strategy to improve operating and financial performance including revenue growth on a partially fixed cost base (see Chief Executive Review on page 38).

Link to Strategy

5 Statutory basic earnings/ (loss) per share ('EPS') (p)



Measurement

Profit after tax divided by average weighted number of shares.

Why it's important and relevant

Shows the level of profit per share attributable to shareholders.

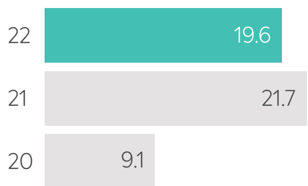
Initiatives and actions for improvement

In-line with statutory profit performance.

Link to Strategy

6 Return on capital employed ('ROCE') (%)

APM



Measurement

Measured as underlying[2] operating profit as a % of capital employed.

Why it's important and relevant

Demonstrates the relative level of profit generated by the capital employed. Underlying[2] is used to show the underlying performance of the business without exceptional costs / items.

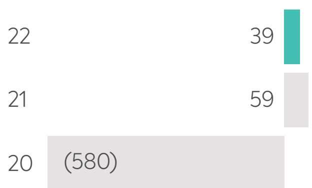
Initiatives and actions for improvement

Focus on efficient use of capital. May be offset in the short-term by a period of upfront investment and maturity i.e. trade counter roll-out (see Chief Executive Review on page 38).

Link to Strategy

7 Cash conversion (%)

APM



Measurement

Measured as a % of operating profit.

Why it's important and relevant

Cash conversion measures the success of the Company in converting operating profit to cash, which underpins the quality of the earnings and reflects the effectiveness of working capital management.

Initiatives and actions for improvement

Target of 90% and above to ensure profit growth is cash generative. It is anticipated that the focus on improved inventory management and hence inventory turn will also lead to improvements in cash conversion. Recently cash conversion has been lower due to investment in inventory to protect against product supply issues.

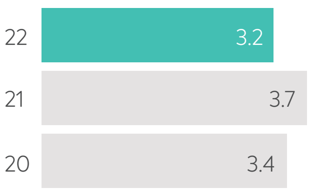
Link to Strategy

[2] Underlying is before non-underlying items, which includes i) impairment of intangibles, fixed assets and right of use assets, ii) amortisation of acquired intangibles, iii) property disposal profits, iv) impairment of property, plant and equipment and inventory (following a fire), v) insurance proceeds (following fire) and vi) business restructuring costs in 2021.

KEY PERFORMANCE INDICATORS (KPIs) CONTINUED

Non-Financial KPIs

8 Inventory turn



Measurement

Annual ratio measured by comparing cost of goods sold during the financial period with the average annual inventory level (using averaged data points at 1 January, 30 June and 31 December).

Why it's important and relevant

A higher inventory turn is an indicator of efficient revenue generation, and more effective utilisation of distribution centre capacity.

Initiatives and actions for improvement

Automated stock reordering system utilised across all sites. Product purchasing more aligned to customer demand, with focus on fastest-moving products.

Move strategic group-level approach to product purchasing and ranging. Centralisation of slower-moving stockholding.

Link to Strategy

9 Employee retention (%)

Measurement

Retention measures the ability to retain employees in the current year compared with previous years. Measured as a percentage of employees retained in the Company between 1 January and 31 December.

Why it's important and relevant

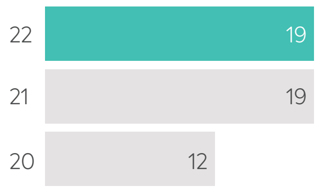
Retention demonstrates the Company's ability to retain employees. The Company is continuing to develop a cultural ethos which attracts and retains the best talent to ensure valuable workforce knowledge is retained to support delivery of the strategy, and reduce the costs involved in hiring and training employees.

Initiatives and actions for improvement

Focus on people and culture, including investing in people through training and review of reward / benefits.

Link to Strategy

10 Reportable incidents ('RIDDOR Reports')



Measurement

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDORs'). These regulations require employers, the self-employed and those in control of premises to report specified workplace incidents.

Why it's important and relevant

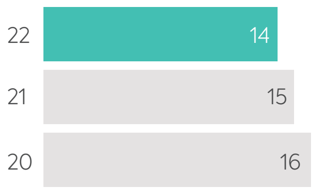
By measuring reportable injuries, it is possible to identify any deficiencies in the Company's processes, allowing continuous improvement in health and safety standards.

Initiatives and actions for improvement

Dedicated health and safety team continuing to enhance cultural awareness, with regular audits. External support retained to further embed a strong health and safety culture.

Link to Strategy

11 Deliveries per commercial vehicle



Measurement

Average deliveries per commercial vehicle per day in area following Transport Integration (delivery consolidation) project. Prior to the project, in 2019 it was 12.

Why it's important and relevant

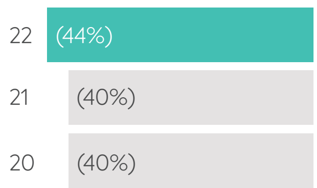
The Transport Integration project results in more deliveries per commercial vehicle which reduces the Company's impact on the environment through a reduced number of vehicles needed to serve local areas.

Initiatives and actions for improvement

Completion of the roll-out of the Transport Integration project, moving to continuous improvement phase.

Link to Strategy

12 UK Scope 1 and 2 emission reduction[1]



Measurement

Percentage reduction in UK Scope 1 and 2 emissions (tCO_2e) against a baseline year set at 2019.

Why it's important and relevant

Need to meet the reduction pathway required to achieve the interim target of a 46% reduction by 2030, and reduce the Company's contribution to climate change.

Initiatives and actions for improvement

Actively engaged in transition planning, with the main decarbonisation actions currently being pursued detailed in the Sustainability Report page 61.

Link to Strategy

[1] UK Scope 1 and 2 emission reduction: data for Continental European operations collated for the first time in 2022, and therefore is not included in this KPI

Please see more details in our Sustainability Report on pages 61–80

[1] This is a new KPI, replacing the previous 'Recycled Packaging' KPI owing to that KPI becoming embedded across the group and being largely achieved with consistent performance in excess of 95% in recent years

STAKEHOLDERS AND **ENGAGEMENT**

The Board has responsibility for managing the business to promote its success, and having regard to how its decisions and events impact its stakeholders, engaging with and supporting them appropriately.

Key stakeholders	Relationship to Headlam	How we support	How we engage
Our Colleagues	Colleagues are at the heart of the Company. We have over 2,200 colleagues within a variety of departments, including warehousing, transport, sales, and central head office The Company continues improving the support to its colleagues, including through engagement, cultural development, review of rewards and benefits, training and development opportunities	Creating safe, rewarding and fulfilling work, where everyone has the opportunity to succeed	Chief Executive, Executive Team, and Board all having frequent interaction, including site visits and both formal and informal forums (inclusive of the Employee Forum) Recognition programme put in place during 2022, celebrating colleagues' great performances and commitment
Our Customers	Imperative to the success and growth of the Company. We have a broad customer base, with each customer segment having differing service preferences and requirements The Company continues to focus on improving the service proposition to all customer segments	Helping our customers grow their businesses	Frequent interaction through sales representatives, dedicated service teams, and communications channels Six monthly customer surveys, and feedback mechanisms Focus groups, including on new product launches
Our Suppliers	Key to ensuring the Company can supply the right product at a competitive price in a timely manner to customers / end-consumers We work with suppliers across the globe manufacturing a diverse range of products, and provide them with a cost efficient and effective route to market for their products	Helping global manufacturers sell their products into the diverse and fragmented trade customer base	Frequent visits to suppliers' sites and premises. First Supplier Conference held in 2022, and planned for 2023 Sharing of sales data, and insight into customer and end-consumer buying Engagement on sustainability matters, including on supply chain to mitigate or eliminate risk in the areas of modern slavery and human trafficking

Main event(s) impacting stakeholder during the year	Effect on decision making, and key decisions taken	Outcome, and benefits to stakeholder(s)
Prevailing economic environment, and inflationary impact on cost of living	Focus on both financial and non-financial support to colleagues Further developing the mental health strategy in 2023 Tiered approach to annual pay award for 2023, with lower salaried colleagues receiving higher percentage increase Expanded HR team to provide greater levels of engagement and support	Supporting lower salaried colleagues to a greater degree against impact of UK cost of living crisis, and ensuring everyone receives the equivalent of the National Real Living Wage Improving Headlam as a place to work for all colleagues Helping to attract, retain and support great people
Increase in their own operational costs due to inflationary environment Cost of living crisis suppressing market volumes in the UK residential sector	Providing more efficient ways to place orders (digital strategy) and receive orders Tailored propositions to better support requirements Providing competitive advantage through promotions and new launches	New affordable 'Everyroom' brand helping customers secure sales in a more cost conscious environment Roll-out of trade counter network, with more customer collection points and improved offering Investment in the network (sites and equipment) to support service
Increase in their own operational costs, leading to them implementing significant product price increases Cost of living crisis suppressing market volumes in the UK residential sector Increasing regulation / legislation, and need to demonstrate sustainability credentials	Working together to capture the competitive advantage, including in the area of sustainability Working together to improve supply chain efficiencies, and engagement on Sustainability Charter Working together to relaunch / launch new products to create demand	Working with selected suppliers to launch sustainable ranges in 2023 Taking a more centralised group approach to buying to create efficiencies More strategic discussions following the first Supplier Conference

STAKEHOLDERS AND **ENGAGEMENT**
CONTINUED

Key stakeholders	Relationship to Headlam	How we support	How we engage
Our Shareholders	The owners of the Company. Highly important that the Board is aware of and solicits their views, and then evaluates these views in relation to the strategic and corporate objectives of the Company Key joint focus on the long term success and sustainability of the Company	Operating with the highest level of governance and delivering sustainable returns	Frequent regulatory announcements with high levels of disclosure In-person presentations and meetings, including offering meetings at the Company's sites. Use of webinars and recordings to allow all shareholders to hear and view materials Solicitation and consideration of feedback, including on strategy and its oversight
Our Communities, and the environment	Key to supporting the success of the Company's regional and national businesses. We actively recruit people from local communities, so very important to the ongoing success of the Company by attracting great people Minimising environmental impact is critical to managing climate change, and the knock-on impact on communities	Supporting communities and implementing sustainable operations	Engagement with colleagues to ensure aware of local causes and events Advertise job vacancies through word of mouth and locally Locally focused Communities Programme allowing for funded donations, paid volunteering, and flooring product donations to local causes

Section 172 Statement Declaration

The Directors of the Company are required by Section 172 of the Companies Act 2006 to act in a way that promotes the success of the Company for the benefit of stakeholders as a whole and in doing so, they must also have regard to wider expectations of responsible business behaviour, specifically:

- the likely consequences of any decision in the long term;
- the interests of the Company's people;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

Main event(s) impacting stakeholder during the year	Effect on decision making, and key decisions taken	Outcome, and benefits to stakeholder(s)
High operational cost inflation across many industries, and impact on companies financial performances UK cost of living crisis suppressing volumes in consumer facing industries Increasing regulation, and need to demonstrate sustainability credentials	Undertaking actions to help mitigate the impact of cost inflation through more efficient operations Focus on the strategy of driving new revenue opportunities from a more efficient operating base Meaningfully developing and progressing the ESG strategy, with Executive ESG Committee formed	Board changes adding greater expertise, helping to more effectively oversee and drive the Company's strategy Company's strategy providing a countermeasure against a weak UK residential sector backdrop Gaining market share, and demonstrating leading sustainability credentials amongst direct peer group
Economic environment and inflationary impact on cost of living Employment and development opportunities Increased focus on environmental impact and climate change, and knock-on impact on communities	Locally focused Communities Programme launched (centrally funded) and ongoing initiative Apprenticeship programme launched helping to enrol new colleagues who wish to obtain qualifications Multiple decarbonisation actions being pursued, with interim and Net Zero emissions targets introduced	Focus on celebrating and promoting local causes Continue to focus on recruiting from local areas Reducing operational carbon emissions, and impact on communities

The Board understands the importance of engagement with its key stakeholders as only in this way can it truly understand their needs and concerns to support its decision making, and the likely impact of those decisions on each stakeholder group. The Company uses a variety of methods to engage, both formally and informally, believing that much can be gained from personal interaction.

The Board acknowledges that situations may arise where stakeholder groups have conflicting priorities. In these circumstances the Board seeks to understand the needs and priorities of each group, and assess them individually and collectively from the perspective of achieving its strategic objectives and the long-term sustainable success of the business.

Following consideration of the information contained within Stakeholders and Engagement, and all other activities and undertakings detailed in this Annual Report, the Board considers it has fulfilled its duty in respect of Section 172, both individually and collectively, and that it has acted in the way it considers would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a) to (f) of the Act) in the decisions taken during the year ended 31 December 2022.

Chris Payne

Signed on behalf of the Board
8 March 2023

PEOPLE, CULTURE AND COMMUNITIES

Colleagues are at the heart of the Company, and its greatest asset. There are over 2,200 colleagues at Headlam within a variety of departments, including warehousing, transport, sales, and administration. The Company continues to focus on making Headlam a great place to work, and ensure colleagues share in the Company's long-term success.

Headlam continues to improve the support to its colleagues, both financial and non-financial, including through increased engagement, cultural development, review of rewards and benefits, and training and development opportunities. The key focuses in 2022 are detailed on pages 32 to 35.

Engagement, Communication and Feedback

Communication channels continued to be expanded upon, with a particular focus on facilitating feedback. Headlam always wants its colleagues to freely give their views, including any concerns they may have. A new 'Speak Up' policy was put in place in 2022 improving the Company's existing whistleblowing policy and practices. Colleagues are able to ring a hotline or submit concerns online, anonymously if they wish, with the service managed by a specialist third-party.

Board Engagement and Employee Forum

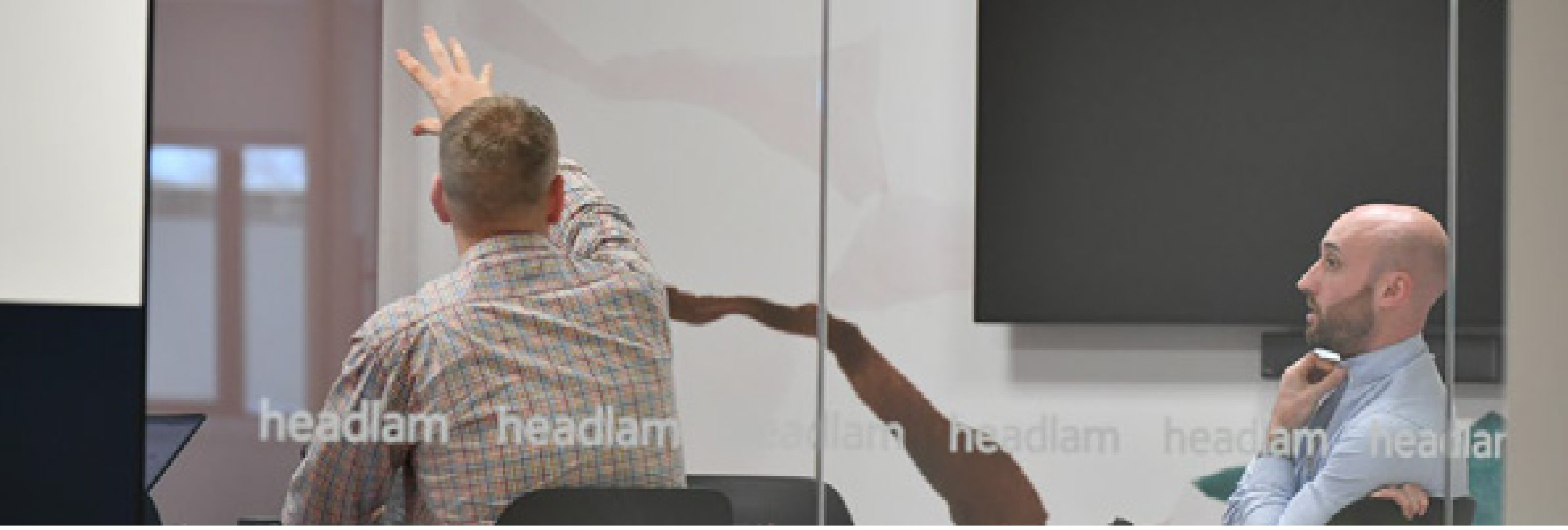
Chris Payne, who became Chief Executive in March 2022, and members of the Executive Team held newly instigated 'open forums' across all the Company's distribution sites during 2022. The forums gave colleagues from all departments the opportunity to give feedback and ideas for improvement directly to members of the senior team. These forums will continue in 2023.

There has also been more frequent face-to-face engagement by the Board's Non-Executive Directors, with a greater number of formal and informal meetings at sites across the group. Additionally, the format and scope of the established Employee Forum, which has both Executive and Non-Executive Director representation, has been enhanced to allow greater interaction and mechanisms for feedback from a wider cross-section of colleagues, who also visit other sites while attending the Forums.

Diversity, Equity and Inclusion (DEI)

A DEI strategy is fundamental to providing an inclusive and successful working environment where everyone can progress and succeed. While improvements were made during 2022 in localised areas, an expert in the subject matter joined Headlam in early 2023 to focus on formulating and rolling out a group-wide DEI strategy.

Employees	Executive Directors	Executive Team	Managers	Other	Total
Male	1	1	248	1,510	1,760
Female	0	3	57	447	507
Number of employees at 31 December 2022	1	4	305	1,957	2,267



Cost of Living and National Real Living Wage

To help address the prevailing inflationary environment, its impact on cost of living, and support more junior colleagues, the Company decided in 2022 to take a tiered approach to its annual pay award in 2023. For 2023, lower salaried employees received a higher percentage increase to their salaries, with this percentage decreasing higher up the scale. Importantly, following a review during 2022, the Company ensured that everyone received the equivalent of the National Real Living Wage.

Rewards, Benefits and Recognition

The Company has a number of established rewards and benefits in place, including: pension provision; death in service benefits; HMRC approved save-as-you-earn ('SAYE') Sharesave scheme; and access to retail discounts. Changes and improvements implemented during 2022 included:

- Moving to one pension for all colleagues, providing a more generous and flexible contribution structure, and consistency and fairness across the group
- Enhancing and harmonising holiday entitlement
- Putting in place equal sick pay for all colleagues
- Partnering with Salary Finance which provides responsible financial products, helpful tools and support to improve financial wellbeing

During 2022, the Company also introduced a Recognition Scheme, 'Headlam Heroes', to celebrate colleagues' great performances and commitment. This has been widely embraced across the group through the giving of eCards and vouchers.

Learning and Development

Towards the end of 2022, the Company formally launched its Apprenticeship Programme to sit alongside the already established learning and training programmes in place. Headlam is now actively promoting apprenticeships across the business both internally and externally, and enrolling new colleagues who wish to obtain qualifications.

Mental Health Support

Mental health and wellbeing sits firmly within the Company's focus on health and safety culture. The Company has an established Employee Assistance Programme in place, 'Lifeworks', which includes mental health support. To build on this, during 2022 the Company trained an initial group of mental health first aiders at sites across the group using a specialist third-party, and will continue the roll-out of this training along with further developing its mental health strategy.

PEOPLE, CULTURE AND COMMUNITIES CONTINUED

Local Communities

The local communities in which Headlam operates are instrumental to the success of the Company's many regional and national businesses, both in terms of recruiting great people from the communities as well as securing sales. The Company actively recruits from its local communities to help support the areas in which it operates. In 2022, to further its support and ties to communities, Headlam launched a locally focused Communities Programme which allows for funded donations to local causes, as well as paid volunteering time and flooring product donations. This Programme will be an ongoing initiative, with the local causes celebrated across the group to help promote their work.

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 2022 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 4.8% (national average: 14.9%).

The proportion of men and women receiving bonuses:

Proportion Receiving a Bonus

	Male	Female
HFD	93.3%	93.3%
MCD	95.4%	93.3%
PLC	80.0%	84.6%

"A locally focused Communities Programme was launched in 2022 to support local causes and promote their work"

From Florco, based at the Thatcham distribution centre

Camilla Suggett, Customer Service Manager has worked with West Berkshire Community Hospital, close to the Company's Thatcham site to donate artificial grass for their rainbow garden. A new outdoor space for end-of-life patients and their families to enjoy whilst spending their final days together.

Camilla said: "I attended the open event along with the volunteer gardeners, trustees, and companies who donated time and goods to create the garden. It was a truly special event and the staff really showed us just how grateful they are to be able to give their patients a beautiful outdoor space away from home".

Health and Safety

A strong and embedded health and safety culture is imperative to keeping colleagues safe. Headlam continues to invest in this area, and in early 2023 engaged with a leading consultant to reinforce this priority.

It is with great sadness that during the year there was an accident at one of the group's sites during which a much-valued and long serving colleague died. Headlam's priority has been support for the family and colleagues, as well as to continue to strive to provide the safest working environment possible.
As of the date of this Annual Report, the local authority's investigation is ongoing. Safety is the Board's highest priority. The Executive and site leadership teams widely and regularly communicate this as the Company's first behavioural value to embed a strong health and safety culture across the business.

Table of RIDDORs[1]

	RIDDORs	
Type of incident	2022	2021
Handling	7	6
Struck by moving vehicle	3	5
Slip, trip, fall	4	4
Fall from height	1	4
Other	4	–
Total	19	19

Further 2023 Developments

The HR team has been expanded in 2023 to support the delivering of all activities, and importantly also provide further support to senior managers across the group responsible for teams of people.

Further developments planned for 2023 include the launch of the 'Headlam Way' focused on bringing the Company's values and vision to life and immersing them in the business. Additionally, a Long Service Awards Scheme is being launched to recognise and applaud the long heritage of businesses and colleagues across the group. The Scheme will award colleagues after certain milestones of service with a monetary gift and shares in the Company.

[1] The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013

The 'Headlam Way'

Every business in the Headlam group brings its own skills and expertise, built on a proud history of serving their customers. The 'Headlam Way' is an expression of the shared values that bring us together. It's why people choose to work with us.

Keep each other safe and well, always

Work together, with everyone

Keep improving, everywhere

Lead by example, we are all leaders

Act sustainably, use less, waste less, give back

Get it done, brilliantly

And always, do the right thing

Q&A WITH THE CHIEF EXECUTIVE

Chris Payne, Chief Executive

"Given here is a selection of questions we typically get asked by a cross-section of our stakeholders"

Q How resilient is your customer base, particularly in times of economic and market weakness?

A Our customer base has proven to be very resilient over the many years we have been operating, including through the financial crisis of 2007/2008, COVID-19, and the current UK cost of living crisis, and we have a history of low customer credit risk. For example, a large proportion of our independent retailer customers and smaller contractors tend to have only one shop or location and relatively small overheads. Because of this, they can quickly manage and adapt their costs. Additionally, we support our customers in a number of ways including credit terms, which helps them manage their working capital effectively.

Q How has the inflationary environment in 2022 impacted Headlam?

A High levels of cost inflation particularly in energy and labour costs have been well documented across many industries, and we are experiencing both. Our energy costs are expected to be £2.4 million higher in 2023 against 2022. However, to help offset costs going forward, we are investing in solar panels and hope to have them installed across all our UK larger sites by the end of 2023. This will importantly also help reduce our carbon emissions and support us reaching our 2035 Net Zero target. Our people costs are anticipated to be over 6% higher in 2023 against 2022 due to wage inflation as we have sought to support our colleagues through the cost of living crisis as best we can. In January 2023 we gave a pay increase to all our colleagues, but importantly gave lower salaried colleagues a higher percentage increase, and will continue to ensure that everyone receives the equivalent of the National Real Living Wage.

Q How have you helped your colleagues during the current cost of living crisis?

A As above, we have given pay increases to all our colleagues and supported our lower salaried colleagues to a greater degree. We are also providing many other forms of financial and non-financial support. This includes increased engagement, mental health support, learning and development opportunities, recognition schemes, and long service awards. We are also focused on supporting the communities in which we operate including through our locally focused Community Programme which allows for funded donations to local causes, as well as paid volunteering time and flooring product donations.

Q How concentrated is your supplier and customer base?

A We have relatively low concentration in each, with diversification providing a good source of protection. In 2022, our top 20 customers accounted for c 11% of UK sales, and our top 20 suppliers c 61% of UK purchases. Due to our size and leading position we engage with most of the key suppliers across the globe, including on launching new products to help generate new sales. The floorcovering industry's customer base is very diverse and fragmented, and we are focused on adding new customers, particularly larger customers and also customers who may not be flooring specialists but provide it as part of their offering.

Q Why would a larger customer / multiple retailer use Headlam?

A Flooring tends to be bulky, and hard to store and handle, with specific material handling expertise and warehousing facilities required. Many larger customers may not be flooring specialists, instead selling a wide array of products. We provide a tailored and comprehensive service to them, including helping with ranging and curation of product using our product insight.

We can then undertake all the supply chain management, dealing with the suppliers on their behalf, and hold as much stock as they need in our vast warehousing network before processing it and distributing it directly to any number of their sites nationwide. We can do this as frequently as they require. It's a cost effective and value add service tailored to them, and benefits both the customer and supplier.

Q Will your growing trade counter network cannibalise your existing revenues?

A The trade counter network typically caters for customers who want to pre order products and collect from their nearest location on their way to fulfill a job. We currently only have 58 sites across the whole country, and the expansion of the network is predominately filling in areas where we don't have a physical presence. Importantly, we are also adding totally new customers through the growing network who provide flooring as part of their overall service to their customers. We think we can continue rolling out sites above the initial target of 90 and still experience very little cannibalisation.

Q What is your risk of stock obsolescence and inventory write-off?

A There is a relatively low risk of obsolescence, partly due to flooring not tending to follow 'fast fashion' trends like clothes for example. Also, there is a low proportion of branded and recognisable products in the marketplace, and in the carpet category (making up c 34% of our sales), fairly neutral grey and beige styles continue to be incredibly popular. We also have many, many years of buying expertise and knowledge. Additionally, with the acquisition of Melrose Interiors, we have upselling capability for surplus carpets (remnants) into samples and pattern books.

Q How important do you consider ESG and sustainability to be?

A A focus on sustainability and having a comprehensive ESG strategy in place is important on so many levels. It is vital in order to attract and retain the best people, and provide all colleagues with a safe working environment and advancement opportunities. It also helps safeguard the reputation, financial stability, and long-success of the business through proper governance. And last, but definitely not least, it means we are taking meaningful action to reduce our impact on the environment and contribution to climate change. We are proud to have been judged during 2022 to have the best sustainability credentials amongst our direct peer group[1], which we will continue to build upon. During 2023, we are launching own-branded sustainable ranges which will be recyclable. This will not only help reduce used product going to landfill but provide an important competitive advantage in the marketplace.

1 Source: Inspired Energy

CHIEF EXECUTIVE REVIEW

Chris Payne, Chief Executive

"We are proud to be a clear market leader, and seek to build on our heritage and strength through delivering on the strategy"

Introduction

The Company has a long heritage, although many of the market leading businesses and brands within the group have even longer, having been established well before becoming part of Headlam.

The Company is proud to be a clear market leader, and seeks to build on its heritage and strength through delivering on the strategy, supporting all its stakeholders, and having a shared vision across the group of being the leading, most trusted experts in flooring. Despite a difficult UK market backdrop, the Company is pleased with many of the outcomes during 2022, and looks to build upon them during 2023.

Financial Performance and Marketplace

The Company's financial performance is given in detail in the Financial Review, but despite the adverse external factors in the year, revenue was broadly similar to 2021 at £663.6 million (2021: £667.2 million), costs were effectively controlled and lower than 2021, and underlying[1] profit before tax improved to £37.1 million (2021: £35.8 million). This reflected the revenue development and efficiency actions undertaken in the year.

The external factors affecting the marketplace evolved as the year progressed. Industry wide supply issues evident in the second half of 2021 continued into the first half of 2022. These in large part stemmed from the consequences of COVID-19, with upstream raw material shortages and cost inflation leading to product availability issues. This in turn led to manufacturers implementing significant price increases across many product categories, peaking in the first half and then beginning to moderate in the second.

The inflationary environment in the UK that had been evident at the beginning of the year continued to worsen ultimately leading to the cost of living crisis. This backdrop particularly impacted consumer spending on discretionary items. As a consequence, the residential sector of the marketplace, which accounts for approximately two-thirds of the Company's revenue, was notably weak in the year with underlying volumes significantly down. However, product price increases provided support to the Company's revenue performance, as did a recovery in the commercial sector, pleasing performances by the Continental European businesses, and early contributions from the strategy, as described below. The Company's businesses in France and the Netherlands are now all benefiting from strong leadership coupled with more positive market backdrops than that of the UK, and have been positive contributors to overall performance.

Strategy and Operations

As summarised in the Chairman's Statement, the Company's strategy is driving revenue growth from a more efficient and modernised operating base. It is about targeting, appealing to, and supporting a wider base of customers beyond traditional flooring specialists to capture an increased share of the overall £3 billion[2] UK marketplace. It is about modernising and being more efficient to both improve the customer service proposition and increase shareholder returns. It is about being front footed and capturing more commercial opportunities, particularly as the market and customer base evolves. This includes in the area of sustainability where companies increasingly need to demonstrate their credentials.

The key projects to drive revenue growth are detailed in this review. Each of the projects began to contribute to performance in 2022, both financially and operationally, with full period effects and accelerating contributions from this year onwards.

The Company has not lost sight of its 7.5% operating margin ambition. However, it does require a base of more normalised volume without the material weakness seen in a large proportion of the market, with the Company benefitting from operational gearing on a partially fixed cost base. Underlying[1] operating margin was 5.9% in 2022 (2021: 5.6%), and therefore the margin ambition shows the scope for meaningful uplift to financial performance.

CHIEF EXECUTIVE REVIEW
CONTINUED

A continued focus on cost control, and ongoing consolidation and integration actions, present the most meaningful efficiency measures. Transport integration, for example, has been very successful in reducing the Company's commercial fleet and associated costs, with the project completing across the country next month and moving to a continuous improvement phase. Similarly, consolidation of certain functions including in the area of sales have continued, with a more unified approach to better leverage central resources. The Company has many regional and national businesses and brands, and while it may seem unwieldy to have a large number, they are all long-established customer facing businesses that enable maximisation of reach and sales opportunity at both a regional and national level. Therefore, the focus is on greater collaboration to minimise potential overlaps and generating increased sales to increase productivity of the existing assets. The shift to a collaborative approach has taken time to achieve as it has been imperative that all colleagues are invested in the strategy, and also ensuring the foundations of the business are not disrupted. During 2023, the Company will continue to improve efficiencies and the service offering, including through central transport planning and vehicle telematics, centralisation of slower moving stockholding, and more efficient order taking.

Key Revenue Drivers

The key revenue growth drivers are as follows, with their purpose and progress to date:

Multiple Retailers and Other Larger Customers

Targeting the multiple retailer and other larger customer segments where the Company is significantly underweight to materially grow revenue

The Company had not previously actively targeted this estimated £1 billion market despite having a good track record in servicing a number of customers in this segment, and had approximately £60 million of revenue in 2021. Following the assembly of a dedicated team and investment in the service proposition including digital enabling work, the Company has successfully added a number of new customers. These include Homebase, a builders merchant, a furniture retailer with a new flooring offering, and a top 10 UK housebuilder. Each offers considerable potential for scalability through adding further lines and product categories to the initial number of SKUs. The Company has also successfully grown its business with some existing customers, including Tapi, the fastest growing carpet retailer in the UK with over 170 stores. The aim is to grow overall revenue in this area by £100 million within five years.

Headlam is able to offer larger customers a compelling and comprehensive service proposition tailored to their specific needs through: product insight and exclusive products; competitive purchase rates; supply chain management; stockholding and storage solutions; processing and national distribution to any number of locations and frequency. All this serves to reduce complexity and cost for customers, and also suppliers.

The Company is targeting contributions from new business of over £16 million in 2023, albeit likely to go towards offsetting declines in existing revenue due to the market backdrop. While gross margins are typically below the Company average, operating margins from this area remain strong due to scale benefits, with modest incremental infrastructure and investment required to support the targeted revenue growth.

Trade Counters

Accelerating roll-out of new and improved trade counter sites across the UK, creating a truly nationwide footprint that appeals to a wider range of customers, thereby capturing greater market share

The improved trade counters offer a convenient, one-stop shop for all trade customers who may supply and fit flooring as part of their overall offering, enlarging the Company's customer base from traditional flooring specialists and fitters. The network offers a collection service (from any site), walk-in service, exclusive products, accessories and workwear, all with knowledgeable advice. The Company has a target of 90 invested sites (new, relocated or refitted) by the end of 2025 from the 53 uninvested sites in 2021. As at 31 December 2022, the Company had 58 sites of which 24 were invested.

Headlam will be the only flooring distributor to have a national standalone trade counter network, with potential to increase the geographic coverage and density after the initial 90, continuing to fill in areas where there is no physical presence and making the sites more accessible and convenient for customers by lowering travel time.

This fast growing business unit is targeted to add approximately £120 million of revenue upon maturity to the approximate £80 million reported for 2021 through a relatively modest total capital investment of around £25 million (£6 million incurred so far by 31 December 2022).

The first wave of invested sites are already demonstrating strong KPIs against the uninvested sites in terms of revenue, new account openings, and margin. The five new sites in 2022, which are modelled to breakeven end of year 2 with sales maturity in year 5, are cumulatively ahead of budget. Collectively, revenue from invested sites was up 10% against uninvested sites in 2022. Due to the upfront investment required, the project is expected to be profit diluting in 2023 and 2024, then profit enhancing from 2025 onwards.

Products and Brands

Leveraging the group's established own product brands, maximising their sales potential, and launching and marketing new brands to capture further market share and increase sales

The Company has a large portfolio of well recognised and regarded own product brands, many of which have been in the marketplace for a number of years. Product brands are an important point of differentiation in the marketplace as the majority of flooring product is relatively unbranded. Recognisable brands, particularly those at middle / upper price points, can attract higher margins and be more immune to the inflationary impact on consumer spend.

In recent years many of the Company's brands have been unleveraged and not sufficiently invested in terms of digital presence, marketing spend, and new product development. During 2022, several brands were refreshed and relaunched, including investment in social media awareness and improved websites. For example, following its relaunch, Kingsmead Carpets, one of the Company's high quality carpet brands, has already doubled its weekly social media users and quadrupled organic traffic via Google searches.

During the second half of 2022, the Company also launched a new and exclusive affordable brand, Everyroom, which holds good appeal when consumers are more cost conscious due to the inflationary environment. Feedback and sales since the launch have been very positive, with the brand being a 2023 finalist for a leading trade award and generating over £8 million of sales since its launch. During 2023, the Company expects to launch over 40 new products, including existing range refreshes and new own branded sustainable and recyclable ranges.

Digital Strategy

Comprehensive strategy to build enhanced digital and ecommerce capabilities and applications to appeal to a wider customer base, support revenue opportunities, and help lower the cost to serve

Through a combination of improved B2B websites and the launch of its industry-leading app, myheadlam, the Company achieved 26% of its sales coming from digital channels by the end of 2022 from a base of 11% in 2019.

The digital strategy is an important foundation for all the revenue growth opportunities, including improving supplier and customer engagement, and product and brand awareness. A key deliverable in 2022 was introducing a product information management system ('PIM') to enable centralised control and distribution of product data to all business channels, including suppliers and customers, through quick and effective automated flows. It allows the acceleration of product to market, and richer more detailed information and imagery for use internally and externally by customers. The Company will seek to leverage the PIM further in 2023 and drive sales through better showcasing of product specifications, upselling and cross selling, and collecting product data from suppliers at source.

Other focus areas in 2023 include embedding a new Order Management System ('OMS') that will provide better aggregated stock visibility across the network, allowing the Company to improve the service to customers through near real time inventory feeds. The OMS will also enable improvements to the Company's Drop Ship Vendor ('DSV') capabilities. The Company introduced this service proposition in 2022, whereby the Company can provide a full end to end fulfilment service for customers, delivering orders direct to their customers' homes on their behalf (using carrier partners). The digital strategy is closely aligned with the product brands strategy, and the new websites being launched in 2023 will have direct-to-consumer sampling fulfilment, creating further brand awareness.

CHIEF EXECUTIVE REVIEW
CONTINUED

Summary

The ambition for the trade counter, larger customers and product brands projects is collectively well in excess of £200 million of new revenue within the next five years, with additional revenue coming through from the digital strategy, including new social media audiences and greater awareness. However, if the overall market backdrop continues to be weaker, some new revenue may go towards offsetting declines in existing markets.

The question typically arises on whether there is cannibalisation of existing revenue from any of the revenue growth projects, and thus far the Company's trading information suggests this is limited. Trade counters are opening in areas where the Company has no physical presence. The Company is significantly underweight in multiple retailers and larger customers and can concurrently service many different customers in a wide spectrum of areas. New product launches are targeted at areas of the market where the Company is under represented, whether that be identified price points such as the Everyroom value proposition or product categories like Luxury Vinyl Tiles ('LVT').

Melrose Interiors and Acquisitions

As previously announced, in January 2023 the Company acquired Melrose Interiors, the largest independent supplier to the UK online rug industry, which also has operations in third-party logistics, recycling, and an in-house rug and sampling / pattern book department.

Melrose Interiors is a great illustration of an acquisition that is highly complementary to the Company and its strategy. It introduces a number of new larger customers to the group, including major high street and online retailers, it operates in a product category where the Company is underweight, it helps build upon DSV and digital capabilities with its proven B2B and B2C fulfilment. Melrose Interiors also has market leading environmental credentials through its award winning [Re]lay brand of recycled rugs and value creating upcycling of surplus carpet from across the industry into samples and pattern books.

Whilst the Company's main focus currently is organic growth and leveraging existing opportunities, it will continue to review any acquisitions complementary to the strategy and which may expedite progress.

People

Colleagues are at the heart of the business, and the Company continues to focus on improving the support to its people, of both a financial and non-financial nature. Developments during 2022 included increased colleague engagement, ongoing community support, new colleague recognition schemes, and enhanced benefits. An area of pressing importance was the inflationary impact on cost of living, and to help address this the Company undertook targeted pay reviews and also ensured that everyone received the equivalent of the National Real Living Wage. To further support more junior colleagues, the Company has taken a tiered approach to its annual pay award for 2023, with lower salaried employees receiving a higher percentage increase to their salaries, with this percentage decreasing higher up the scale.

As outlined in the Chairman's Statement, the Board was refreshed in the year and significant operational capability added to support delivery of the strategy. The new Non-Executive Directors, Karen Hubbard, Robin Williams, and Jemima Bird, have all made important contributions since their joining. Additionally, Adam Phillips who was announced as the Company's new Chief Financial Officer in late 2022 will be joining on 20 March 2023.

New senior management appointments during 2022 included a Managing Director of Trade Counters to head-up the business unit, and a Chief Information Officer to oversee the resilience and scalability of IT systems and infrastructure including in support of the strategy. Additionally, in early 2023 a Chief Customer Officer joined to lead customer and digital strategy, encompassing customer communications, brand development, marketing, and ecommerce.

It is with great sadness that during the year there was an accident at one of the group's sites during which a much-valued and long serving colleague died. Headlam's priority has been support for the family and colleagues, as well as to continue to strive to provide the safest working environment possible. As of the date of this report, the local authority's investigation is ongoing. Safety is the Board's highest priority. The Executive and site leadership teams widely and regularly communicate this as the Company's first behavioural value to embed a strong health and safety culture across the business.

Sustainability and ESG Strategy

A comprehensive Sustainability Report is given on pages 61 to 80. It contains full details on the Company's ESG (Environmental, Social and Governance) Strategy which supports the long-term sustainability and success of Headlam for the benefit of all stakeholders and which, therefore, is closely aligned with the strategy detailed above. The Board's priorities are to reduce the Company's environmental impact, make Headlam a great place to work by supporting its people and communities, and being a business of integrity with robust controls. The Board also sees real opportunity from continuing to develop and progress the associated actions as while they mitigate risk and address regulation, they also confer greater efficiency, help capture commercial opportunities, and provide competitive advantage with both people and customer attraction. As referred to in this report, customers, particularly larger ones, are increasingly requiring sustainability credentials in order to undertake business with companies, and the Company is judged to have the best credentials amongst its direct peer group[3].

CHIEF EXECUTIVE REVIEW
CONTINUED

Notable undertakings in 2022, and targets for this year, include the below which are fully expanded upon in the Sustainability Report.

Environmental

Key achievements in 2022:

- Exceeded initial 50% target of UK non-commercial fleet being electric / low emission vehicles (31 Dec 22: 69%).
- Initial trialling of electric commercial vehicles (albeit with limited feasible options currently).
- Set Net Zero and SBTi aligned interim[4] targets for Scope 1 and 2 emissions.
- 44% reduction achieved for UK emissions against 2019 baseline (Scope 1 and 2).
- Good Energy and Recycling Behaviours workshops commenced across the group.

Targets for 2023:

- Installation of owned solar panels across all larger UK sites.
- Achievement of ISO 14001 environmental certification at key sites.
- Over 80% of UK non-commercial fleet being electric / low emission.
- Launch own branded sustainable and recyclable ranges.

Social

Key achievements in 2022:

- Moving to one pension for all colleagues, providing a more generous and flexible contribution structure, and consistency and fairness across the group.
- Enhancing and harmonising holiday entitlement, and putting in place equal sick pay.
- Targeted pay increases, and ensuring everyone receives at least the equivalent of National Real Living Wage.
- Local Communities Programme launched, allowing for funded donations to local causes, as well as paid volunteering time and flooring product donations.

Targets for 2023:

- Group wide diversity strategy established and rolled-out.
- Long Service Awards Scheme introduced to recognise and applaud the long heritage of businesses and colleagues across the group.
- New 'Headlam Way' launched to bring the Company's Values to life and immerse them across the group.
- Roll-out of mental health support and training.

Governance

Key achievements in 2022:

- Executive ESG Committee established assisting the Board on the progression and development of the ESG Strategy.
- Reformatted Risk Committee and Employee Forum making them more effective.
- Independently managed whistleblowing platform put in place, with new 'Speak Up' policy and embedding of behaviours.
- Investment in IT (resilience, systems, and people), with monthly cyber security training for all colleagues.

Targets for 2023:

- Sedex accreditations for all main sites and businesses (focus on ethical and responsible practices).
- Building on disclosures, including SBTi validation of emission targets.
- Ongoing supplier engagement, covering areas including Ethical Code of Conduct, Sustainability Charter, and Modern Slavery.
- Positive stakeholder feedback, and maintenance of 'low risk' ESG scores.

Investments and Shareholder Returns

As explained in the Chairman's Statement, investment in the business to support growth has been a priority while maintaining a strong balance sheet to ensure the financial stability of the Company. The balance sheet, with almost wholly undrawn banking facilities at the year end, is underpinned by the Company's inventory position and freehold UK distribution sites. The valuation of these sites was updated in January 2023 using external valuers, and now stands at an increased £138.5 million as detailed in the Financial Review, though the Company has chosen to hold its property at cost in the balance sheet.

The main investment areas, which are expanded upon in the Financial Review on page 48, are the trade counter roll-out, improvements to systems and equipment to optimise performance and support revenue growth, and in support of the ESG Strategy. The upfront nature of some of the investment means there is a lag on return, for example expected payback on total capital employed for each of the trade counter project and solar panels investment is from year 3.

In line with the commitment to providing dividend income for shareholders, the Board is proposing a 2022 final ordinary dividend of 11.2 pence per share (2021: 8.6 pence per share), subject to shareholder approval at the forthcoming AGM in May 2023 with the timetable given in the Financial Review on page 48. The final dividend combined with the 2022 interim ordinary dividend of 6.2 pence per share gives a total pay out of 17.4 pence per share in respect of the 2022 financial year, which is in line with the Company's targeted cover ratio of around 2x earnings.

In March 2022 at the time of its final results announcement, the Company announced a total £30.0 million return of surplus capital to shareholders via a special dividend plus a £15.0 million Share Buyback Programme to repurchase its ordinary shares. A Share Buyback Programme was considered one of the most effective mechanisms to enact the return due to the level of the ordinary shares, and therefore earnings per share enhancing and one of the best uses of the Company's surplus capital. The Share Buyback Programme completed on 2 March 2023.

Post Period-End and Current Trading

In general, the residential sector has continued to be weak since the beginning of the year. However, growing revenue contributions from larger customers since the start of the year, combined with a steady commercial sector performance, has led to modest positive overall sales metrics and a relatively robust revenue performance at this early stage in the year.

Thanks to Colleagues

Lastly, almost exactly a year on from being formally appointed Chief Executive, I would like to give my personal thanks to all my colleagues at Headlam following a year of challenges from many directions. Having visited every one of our main sites in the past 12 months and endeavoured to meet as many of my colleagues as possible, I truly believe we are galvanized around our collective purpose and refreshed values. We have improved Headlam as great place to work, and will continue to do so.

Chris Payne

Chief Executive
8 March 2023

[1] Underlying is before non-underlying items, which includes i) impairment of intangibles, fixed assets and right of use assets, ii) amortisation of acquired intangibles, iii) property disposal profits, iv) impairment of property, plant and equipment and inventory (following a fire), v) insurance proceeds (following fire) and vi) business restructuring costs in 2021

[2] Source: LEK Consulting, 2020

[3] Source: Inspired Energy, 2022

[4] Interim target of a 46% emissions reduction by 2030 against baseline year set at 2019 (Scope 1 and 2). Targets not yet SBTi validated

LARGER CUSTOMERS AT HEADLAM

Headlam offers its customers a fully comprehensive service tailored to their specific requirements

Larger Customers

Headlam is able to provide larger customers with all or any of the following:

- Product insight
- Competitive purchase rates
- Exclusive products
- Supply chain management
- Stockholding and storage solutions
- Processing expertise
- National distribution (any location / frequency)

All this serves to reduce time, complexity, and cost for customers.

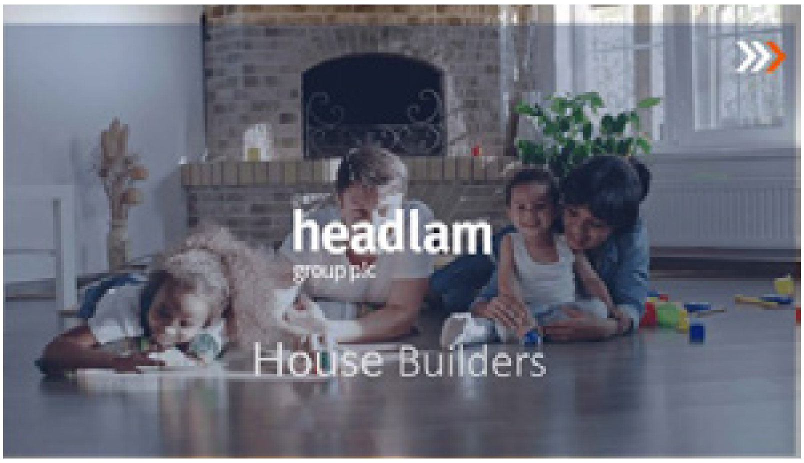
> "Successfully won a number of new larger customers in the year, with good scope to scale up"

Larger (multiple) retailer – Homebase

- 2 year contract signed in May 2022
- A leading home improvement retailer and garden centre, with over 150 stores
- An initial number of laminate SKUs delivered to entire store network
- Potential to scale up, with range expansion and further products
- Good start to 2023

Housebuilder – A top 10 UK housebuilder

- Vast majority of all new UK homes sold with flooring
- Headlam's first national contract with a housebuilder
- 2 year contract signed in August 2022
- Providing a product range, sampling, training package to regional sales centres
- Sales coming through



Melrose Interiors

A leading distributor of rugs with many larger customers

In January 2023, the Company acquired Melrose Interiors, a leading distributor of rugs. Its addition to the group will strengthen delivery of the strategy, including through bringing a number of new larger customers to the group (including major high street and online retailers), scaling up Headlam's existing Drop Ship Vendor ('DSV') capabilities, and enlarging the group's sustainable product offering.

Further details can be found on page 66

melrose interiors

FINANCIAL REVIEW

The following financial results represent continuing operations only, and exclude the contribution from the Swiss business Belcolor AG ('Belcolor') within the 2021 financial results following its disposal in May 2021 (as detailed in Note 25 to the Financial Statements).

Revenue

Total revenue in the year was £663.6 million (2021: £667.2 million), with a 5.4% uplift in Continental Europe (France and the Netherlands) helping to offset a 1.4% decline in the UK related to market weakness in the residential sector. Revenue was supported in the year by manufacturer led product price increases due to raw material and operational cost inflation. The UK and Continental Europe accounted for 87.1% and 12.9% of total revenue respectively in the year (2021: UK 87.8%; Continental Europe 12.2%).

Within the UK, the commercial sector was a positive contributor, up 9.2%, as it recovered from COVID-19 related impacts in the prior two years. Conversely, the residential sector declined 6.0%, being particularly affected by the impact of the inflationary environment on consumer spending. Continental Europe was a positive contributor across both the residential and commercial sectors, being up 5.6% and 5.0% respectively in the year.

For the group as a whole, residential sector revenue declined 4.7% in the year and accounted for 65.6% of total revenue (2021: 68.5%), with commercial sector revenue increasing 8.6% and accounting for 34.4% of total revenue (2021: 31.5%).

	£M	%	£M	%
Revenue for the year ended 31 December 2021				
UK	585.8	87.8		
Continental Europe	81.4	12.2		
			667.2	100.0
Incremental items during the 12-month period to 31 December 2022				
UK:				
Like-for-like[1]	(0.9)	(0.2)		
Changes in working days	(7.1)	(1.2)		
			(8.0)	(1.4)
Continental Europe:				
Like-for-like[1]	4.5	5.5		
Changes in working days	0.2	0.2		
Translation effect	(0.3)	(0.3)		
			4.4	5.4
Total movement			(3.6)	(0.5)
Revenue for the year ended 31 December 2022				
UK	577.8	87.1		
Continental Europe	85.8	12.9		
			663.6	100.0

[1] Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2022 and 2021 periods, and is adjusted for any variances in working days.

No acquisitions were made in 2022 or 2021. After the year end, the Company acquired Melrose Interiors Ltd and its parent company Birch Close Trading Ltd. Further detail is given later in this Financial Review, and in Note 29 to the Financial Statements.

Gross Margin

Gross margin for the year was similar to the prior year at 33.1% (2021: 33.0%), with the benefit of product price inflation being offset by a reduced proportion of revenue coming from the higher margin residential sector. Within the residential sector, there was also a more marked reduction in the proportion of revenue from cut length carpet which typically offers the highest margin. In the first half of the year, gross margin was temporarily lifted to a high of 33.7% due to the unprecedented inflationary environment, with the manufacturer-led price increases being passed directly through to customers and the Company benefiting from pricing uplifts on its existing inventory position. As anticipated, the position normalised in the second half of the year with price increases moderating.

Expenses

Underlying[1] distribution costs and administrative expenses in the year decreased by £2.4 million to £180.8 million (2021: £183.2 million), with widespread operational cost inflation being offset by efficiency measures, including ongoing transport integration and cost control in areas such as headcount. Performance-related bonus costs were also lower in the year, and there was a reduction in the amounts provided for bad and doubtful debts having previously been increased as a precaution against any consequences of COVID-19, with ongoing good cash collection. Underlying[1] distribution costs accounted for 71.6% (2021: 68.7%), and underlying[1] administrative expenses for 28.4% (2021: 31.3%), of total underlying[1] operating expenses, with much of the Company's cost base fixed.

As previously indicated, the Company's costs will be adversely impacted in the 2023 financial year, with a significant rise in the Company's energy costs of approximately £2.4 million compared with 2022 due to the increase in energy prices and expiry of a fixed price energy contract. The installation of solar panels across the Company's main UK sites during 2023 will help offset energy costs in the near-term. Additionally, people costs are also anticipated to be over 6% higher year on year due to wage inflation through the cost of living pay award at the beginning of the year.

Statutory distribution costs and administrative expenses in the year were £182.3 million (2021: £191.4 million), higher than underlying[1] due to non-cash amortisation of acquired intangibles, all detailed on page 50.

[1] Underlying is before non-underlying items, which includes i) impairment of intangibles, fixed assets and right of use assets, ii) amortisation of acquired intangibles, iii) property disposal profits, iv) impairment of property, plant and equipment and inventory (following a fire), v) insurance proceeds (following fire) and vi) business restructuring costs in 2021 .

FINANCIAL REVIEW
CONTINUED

Profit, Margin and Non-Underlying Items

The reduction in expenses led to an improved underlying[1] operating profit and underlying[1] profit before tax of £39.2 million and £37.1 million respectively (2021: underlying[1] operating profit £37.3 million; underlying[1] profit before tax £35.8 million), and the underlying[1] operating margin was 5.9% (2021: 5.6%).

	Underlying £M	Non-Underlying £M	Total £M
Operating profit/(loss) 2021	37.3	(8.2)	29.1
Gross margin movement	(1.0)	–	(1.0)
Other operating income changes	0.5	6.2	6.7
Expense changes:			
People costs (includes wage inflation offset by lower performance-related bonus payments)	4.9	–	4.9
Operational cost inflation	(3.5)	–	(3.5)
Bad debt provision	1.3	–	1.3
Other	(0.3)	6.7	6.4
Total increase	1.9	12.9	14.8
Operating profit 2022	**39.2**	**4.7**	**43.9**

The statutory profit before tax for the year was £41.8 million (2021: £27.6 million), an uplift on underlying[1] due to a net credit on non-underlying items.

Total non-underlying items before tax reflected a net credit of £4.7 million in the year, comprising £6.2 million of proceeds from an insurance claim offset by a £1.5 million non-cash amortisation of acquired intangibles. As previously detailed, in the 2021 financial results the Company recognised a non-underlying impairment of £7.3 million (pre-tax) following a fire that completely destroyed its Kidderminster distribution centre in December 2021. The insurance claim item above includes the full settlement of the inventory losses as a result of the fire along with interim payments for the losses relating to the building and contents.

The below table details the individual non-underlying items:

	2022 £M	2021 £M
Non-underlying items		
Impairment of goodwill and intangibles	–	2.1
Amortisation of intangibles	**1.5**	1.6
Impairment of property, plant and equipment and inventory (following a fire)	–	7.3
Non-underlying non-cash items	**1.5**	11.0
Insurance proceeds (following fire)	**(6.2)**	–
Property disposal profit	–	(5.1)
Business restructuring costs	–	2.3
Non-underlying cash items	**(6.2)**	(2.8)
Non-underlying items before tax ((credit) / cost)	**(4.7)**	8.2

In addition to the non-underlying insurance item, £0.5 million has been recognised as part of the insurance claim as underlying other operating income, relating to compensation for business interruption, which offsets lost revenue and related costs recognised through underlying profit.

Tax

The Company's consolidated underlying effective tax rate for the year was 20.1% (2021: 25.8%). This is higher than the standard rate of corporation tax in the UK of 19.0% primarily due to expenses not deductible for tax purposes, albeit lower than 2021 which included restatement of deferred tax balances. The planned increase in the UK headline tax rate to 25% in April 2023 will increase the Company's underlying effective tax rate in 2023 to approximately 24%.

The Company is committed to being fully compliant with the relevant tax laws and compliance obligations regarding the filing of tax returns, payment and collection of tax. The Company maintains an open relationship with HM Revenue & Customs and currently operates within a level of tax compliance risk that is rated as 'low' (2021: 'low').

Earnings per share ('EPS')

Basic earnings per share on an underlying[1] basis increased from 31.5 pence per share in the prior year to 35.5 pence per share. 3.7 pence of this improvement reflected the increased underlying profit performance and 0.3 pence was as a result of the impact of the Share Buyback Programme which reduced the weighted average number of shares (excluding treasury shares) (as detailed in Note 9 to the Financial Statements). Statutory basic earnings per share was 40.1 pence (2021: 23.5 pence).

Investments

During the year key capital investments were made in support of the strategy, although overall spend was relatively modest in line with the capital light nature of the strategy. The tangible capital expenditure of £12.6 million (2021: £6.1 million) was primarily focused on the trade counter project, and investment in warehouse equipment.

Capital expenditure for 2023 is anticipated to be around £20 million, and will continue to be mainly focused on trade counters and the ongoing programme to modernise the operating base and network. It also includes a £3.7 million investment in solar panels, plus a further investment in the associated battery storage.

FINANCIAL REVIEW
CONTINUED

Cash Flow

	2022 £M	2021 £M
Cash flows from operating activities		
Profit before tax	41.8	33.4
Adjustments for:		
Depreciation, amortisation and impairment	20.2	30.0
Finance income and expense	2.1	1.5
Profit on sale of property, plant and equipment	–	(11.1)
Insurance proceeds for property, plant and equipment following fire	(1.7)	–
Loss on sale of subsidiary	–	0.1
Share-based payments	0.9	1.2
Change in inventories	(8.3)	(26.6)
Change in receivables	(3.5)	(16.6)
Change in payables	(34.2)	5.4
Cash generated from the operations	17.3	17.3
Interest and Tax	(6.4)	(3.5)
Disposal proceeds	–	16.2
Capital investment (including intangibles)	(13.8)	(6.9)
Insurance proceeds for property, plant and equipment following fire	1.7	–
Payments to acquire own shares (Share Buyback Programme)	(9.8)	–
Net repayment of borrowings	(7.3)	(1.2)
Lease payments	(14.0)	(15.0)
Dividends	(27.3)	(6.6)
Other	0.2	0.7
Net cash flows	(59.4)	1.0

There was a net cash outflow of £59.4 million in the year. This included £37.1 million of returns to shareholders, comprising a £27.3 million dividend outflow (via both ordinary and special dividend payments) and £9.8 million outflow in relation to the £15.0 million Share Buyback Programme.

There was also a working capital outflow relating to investment in inventory of £8.3 million in the year and a decrease in payables of £34.2 million. The Company had built its inventory position towards the end of 2021 to protect against product supply issues at the time, and maintained its investment in inventory during 2022 in support of new product launches during 2022. Inventory at the year end was £139.8 million (31 December 2021: £130.9 million), with the uplift from 2021 also partly due to price inflation. In line with its market leading position and customer service proposition, the Company typically carries a large inventory position, with a relatively low risk of obsolescence.

The decrease in payables followed the in-year settlement of amounts owed to suppliers resulting from the inventory build at the end of 2021. The decrease in payables also included performance-related bonus accruals reduced by £6.0 million against 2021. The increase in receivables included a reduction of £2.5 million in the amounts provided for bad and doubtful debts, with a £4.2 million provision still remaining as at 31 December 2022. Following from the working capital outflow described above, cash conversion for the year was 39% (2021: 59%).

Banking Facilities

The Company had a net funds position excluding lease liabilities of £1.8 million at 31 December 2022 (31 December 2021: £53.7 million) and a net debt position including lease liabilities of £35.9 million at 31 December 2022 (31 December 2021: £17.7 million net funds including lease liabilities), with the main reason for the year-on-year movement being the large level of returns to shareholders and working capital movements described above.

	At 1 January 2022 £M	Non-cash items £M	Cash flows £M	Foreign exchange movements £M	At 31 December 2022 £M
Cash at bank and in hand	61.2	–	(59.4)	0.3	2.1
Debt due within one year	(0.6)	–	0.3	–	(0.3)
Debt due after one year	(6.9)	–	7.0	(0.1)	–
Lease liabilities	(36.0)	(15.5)	14.0	(0.2)	(37.7)
Liabilities from financing activities	(43.5)	(15.5)	21.3	(0.3)	(38.0)
Net funds excluding lease liabilities	53.7	–	(52.1)	0.2	1.8
Net funds/(debt)	17.7	(15.5)	(38.1)	–	(35.9)

Average net funds excluding lease liabilities for the year was £3.1 million (2021: £38.3 million).

Cash outflows in the first half of 2023 will include the completion of the Share Buyback Programme (£5.2 million), the initial consideration in relation to Melrose Interiors (£4.1 million as detailed below), and the final ordinary dividend payment, if approved by shareholders at the forthcoming AGM (£9.0 million).

At the year end the Company had total committed banking facilities available of £81.5 million (31 December 2021: £76.6 million), all of which were undrawn as at 31 December 2022 (31 December 2021: £69.8 million undrawn). The Company also had uncommitted banking facilities available at the year end of £18.8 million (31 December 2021: £28.2 million) of which £18.5 million was undrawn as at 31 December 2022 (31 December 2021: £27.5 million undrawn).

In November 2022, the Company requested that its banks grant the one year extension option to the £81.5 million revolving credit facility to maximise the period of liquidity available to the Company. In February 2023 the banks approved this extension such that the Company's revolving credit facility will now expire in October 2027.

FINANCIAL REVIEW
CONTINUED

Dividends and Share Buyback Programme

As detailed in the Chief Executive Review, the Board have proposed a final ordinary dividend of 11.2 pence per share (2021: final ordinary dividend 8.6 pence per share). If approved by shareholders at the 2023 AGM to be held on 25 May 2023, it will be payable on 2 June 2023 to shareholders on the register as at 12 May 2023 and as above equates to a cash outflow of £9.0 million.

Below is a table showing the dividend returns to shareholders in respect of the 2021 and 2022 financial years. It includes the special dividend declared in 2022 as part of a total £30.0 million return of surplus capital to shareholders announced in March 2022 which included the Share Buyback Programme.

	Payment Year / Total 2023 £M	Payment Year / Total 2022 £M	Payment Year / Total 2021 £M
Dividend of a nominal amount of 2.00p, paid 28 May 2021	–	–	1.7
Interim dividend in respect of 2021 financial year of 5.80p, paid 29 November 2021	–	–	4.9
Final dividend in respect of 2021 financial year of 8.60p, paid 27 May 2022	–	7.2	–
Special dividend of 17.70p, paid 27 May 2022	–	14.9	–
Interim dividend in respect of 2022 financial year of 6.20p, paid 28 November 2022	–	5.2	–
Final dividend (proposed) in respect of 2022 financial year of 11.2p, paid 2 June 2023	9.0	–	–
	9.0	27.3	6.6

It is anticipated that an interim ordinary dividend, in line with the Company's capital allocation priorities as detailed below, will be declared in September 2023 and paid in November 2023.

The outflow in the year, related to the total £15.0 million Share Buyback Programme was £9.8 million. The Programme completed on 2 March 2023, with a total of 4,689,343 ordinary shares purchased through the Programme and all held in treasury. At 31 December 2022, the full £15.0 million was recognised in the treasury reserve, with a £5.2 million liability recorded for share buyback amounts committed, but not yet purchased.

Capital Allocation Priorities

The Board regularly reviews and follows a clear capital allocation framework and set of priorities which is given below. This set of priorities ensures a necessary balance of firstly ensuring the financial stability of the Company, followed by investment in the business to support revenue growth and ESG strategies, followed by shareholder returns.

Priority		Rationale
1	**Maintain a strong balance sheet**	Ensures the financial stability and long term sustainability of the Company. Targeted average net debt during a financial year of not more than 0.75x EBITDA (unless exceptional or unforeseen circumstances prevail). On an ongoing basis, is considered against the prevailing economic environment and market backdrop, and could be adjusted accordingly.
2	**Investment in the business (including in relation to the revenue growth and ESG strategies)**	Investment to optimise performance and support growth, in turn leading to improved financial performance. Key areas would be in support of delivering on the strategy to drive new revenue, and ESG actions to enhance the sustainability of the Company. 2022 and 2023 investments include trade counters, network (sites and equipment), systems (IT and digital) and solar panels.
3	**Ordinary dividend income for shareholders**	Recognising shareholders' expectation of dividend income due to the cash generative nature of the Company, market leading position, and relatively modest investment required to deliver on the strategy. A targeted bi-annual distribution (paid out of cash) and cover ratio of around 2x earnings for the total annual pay out (higher weighting to final dividend). On an ongoing basis, is considered against the prevailing economic environment and market backdrop, and could be adjusted accordingly.
4	**Funding of potential mergers and acquisitions (M&A)**	M&A supporting the strategic intent of driving and adding new revenue and revenue streams. Potential investment in acquisition opportunities would be aimed at growing the Company's position and market share, including in new / underweight product categories and customer segments. An example would be the acquisition of Melrose Interiors which adds new larger customers to the Company's customer base, and meaningful entry into the rugs and sampling market.
5	**Potential return of surplus capital**	After applying all the priorities above, return surplus capital to shareholders. Surplus cash would be considered after considering all anticipated cash requirements as well as the prevailing factors at the time, including the economic environment and market backdrop. The Board would consider the most effective mechanism to do so at that time, including consideration of special dividends and share buyback programmes. For example, if the Company's share price was considered low, the Board may consider that purchasing the Company's ordinary shares through a share buyback programme to be one of the best uses of the Company's surplus capital. This was the case during 2022 when the Company commenced its £15.0 million Share Buyback Programme.

FINANCIAL REVIEW
CONTINUED

Property Valuation

The Company completed its triennial property valuation in January 2023, using external valuers. The latest valuation of the predominately freehold UK distribution sites amounted to £138.5 million (January 2020: £101.4 million), and includes the new Ipswich site completed in July 2020 which is not within the previous 2020 valuation and a reduction in the Kidderminster site valuation as a result of the fire. External valuers were also used to provide a valuation of the main sites in France and the Netherlands for the first time, which amounted to an additional £10.3 million. The Company has chosen to hold its property at cost in the balance sheet.

Pensions

The accounting valuation for the legacy defined benefit pension scheme showed a surplus of £2.1 million as at 31 December 2022. However, as the Company does not have an unconditional right to a surplus refund, the pension scheme is recorded as a deficit of £3.2 million as at 31 December 2022 reflecting the level of deficit recovery plan payments that the Company committed to following the last actuarial valuation as at 31 March 2020. The next actuarial valuation will be performed as at 31 March 2023.

Post Year End Events – Melrose Interiors Acquisition

On 4 January 2023, the Company completed the acquisition of Melrose Interiors in line with its strategy and capital allocation priorities of making complementary acquisitions which drive certain revenue streams. The Company recorded a consideration of £4.7 million, and goodwill arising on the acquisition of £2.0 million (see Note 29 to the Financial Statements). The consideration consists of £4.1 million of cash paid on completion and contingent financial performance related consideration which is expected to be £0.6 million over the next two years. The potential amount of contingent financial performance related consideration, whilst forecast to be £0.6 million, could be between £nil and £3.0 million depending on performance for the two years to 31 December 2024.

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs') to assess its financial, operational and social performance towards the achievement of its strategy. Such measures may either exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable statutory measure (where one exists), calculated and presented in accordance with IFRS. Such exclusions or inclusions give in the Company's opinion more normalised performance measures, and the Company believes that these APMs are also used by investors, analysts and other interested parties in their analysis.

The APMs have limitations and may not be comparable to other similarly titled measures used by other companies. They should not be viewed in isolation, but as supplementary information.

An explanation of each APM is provided on page 58 of this 2022 Annual Report and Accounts and a reconciliation of the adjustments made to the Income Statement to derive underlying profit measures is shown on page 59. Underlying[1] items are calculated before charges associated with the acquisition of businesses and other items which by virtue of their nature, size or/and expected frequency require adjustment to show the performance of the group in a consistent manner which is comparable year on year. These underlying[1] measures are relevant to investors and other stakeholders, as supplementary information, to fully understand the underlying performance of the business. A limitation of underlying[1] profit measures is that they exclude the recurring amortisation of intangible assets acquired in business combinations but do not similarly exclude the related revenue.

Viability and Going Concern

Updates to principal risks and uncertainties against those contained in the 2021 Annual Report and Accounts are summarised below, and detailed on pages 81 to 86. During the course of the year, the risks have been reviewed and some reframed to increase the focus on certain specific areas in alignment with the Group's internal risk register and strategy. As part of the reframing, the previous 'Market' and 'IT' risks have each been split into two parts, and the previous 'Competition' risk incorporated into one of the 'Market' risks.

The Board reviewed the Company's resilience to the principal risks and uncertainties by considering stress testing forecasts through adverse scenarios, which involve a reduction in market demand: (A) a sustained recessionary environment characterised by a long period of underperformance throughout the assessment period, and (B) an economic crisis with a sharp decline in demand in the first year before a recovery. The impact of inflation on the results for the year and the inflationary impact on consumer spending which could contribute to the occurrence of these scenarios has been considered as part of the assessment.

The testing indicated that the Company would be able to operate within its current facilities and meet its financial covenants in both scenarios. A less likely, more severe scenario (reverse stress test) was also considered, where the Company experiences a revenue year on year decline of 20% in 2023. In this scenario, the Company would be able to operate within its current facilities and meet its financial covenants. However, should the reduction in revenue be greater than this, the Board would need to take mitigating actions to remain within its banking covenants.

Mitigating actions, which are within the Board and management's control, include a reduction in the cost base to better align it with market demand and revenue performance, suspension of ordinary dividend(s), and a freeze on non-critical capital spend. These actions are not included in any of the scenarios modelled, but were effectively implemented during 2020 following the initial impact of COVID-19.

As above, as at 31 December 2022 the Company had a net funds position excluding lease liabilities of £1.8 million and had total banking facilities available of £100.3 million, including £81.5 million of committed facilities which was undrawn. The Board was, therefore, comfortable that the Company would maintain resilience in the event such scenarios occurred and concluded that there was a reasonable expectation that the Company would continue to operate and meet its liabilities over a three year period. Based on the results from these scenarios, and having considered the available mitigating actions, the Board can have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of this assessment. In particular, the Board believes there are reasonable grounds for stating that the Company has adequate resources to continue in operational existence for a period no shorter than twelve months from the date of this Financial Review, and it is appropriate to adopt the going concern basis in preparing the Company's Financial Statements.

Principal Risks and Uncertainties

The Company is exposed to a number of principal risks which may affect its business model, future performance, solvency or liquidity. The group has a well-established framework for reviewing and assessing these risks on a regular basis; and has put in place appropriate processes, procedures and actions to mitigate against them. However, no system of control or series of mitigations can completely eliminate all risks. The principal risks and uncertainties that may affect the group were last reported on within the 2021 Annual Report and Accounts and have been considered and updated for this 2022 Annual Report and Accounts.

No new principal risks have been identified, and the scope of the principal risks remain broadly unchanged since last reported. Although the level of risk of two principal risks have considered to have lessened slightly compared with the 2021 Annual Report and Accounts, including due to enhanced mitigating actions: IT (systems and infrastructure) principal risk; and Supply chain principal risk. The only emerging risk assessed as being of any significance continues to be Impact of digitalisation, albeit not currently material and not judged in any way a principal risk.

Chris Payne

Chief Executive
8 March 2023

ALTERNATIVE PERFORMANCE MEASURES **('APMs')**

Glossary of Alternative Performance Measures	Closest equivalent statutory measure	Definition and purpose
Underlying administrative expenses	Administrative expenses	Calculated as administrative expenses before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 59 to 60
Underlying operating profit	Operating profit	Calculated as operating profit before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 59 to 60
Underlying operating margin	None	Calculated as underlying operating profit divided by revenue. This measure is used to assess how effective the Group is at converting revenue into underlying operating profit
Underlying profit before tax	Profit before tax	Calculated as profit before tax before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year. Underlying profit before tax is used in the determination of Executive Directors' annual bonuses See Adjusted Results Reconciliation on pages 59 to 60
Underlying profit after tax	Profit after tax	Calculated as profit after tax before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 59 to 60
Underlying basic earnings per share	Basic earnings per share	Calculated as basic earnings per share before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 59 to 60
Underlying diluted earnings per share	Diluted earnings per share	Calculated as diluted earnings per share before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 59 to 60
Net funds / debt	None	Calculated as cash and cash equivalents less other interest-bearing loans and borrowings and less lease liabilities. This is used as a measure of liquidity
Net funds / debt excluding lease liabilities	None	Calculated as cash and cash equivalents less other interest-bearing loans and borrowings This is provided for use by investors, who used this metric before the adoption of IFRS16 and continue to do so

Glossary of Alternative Performance Measures	Closest equivalent statutory measure	Definition and purpose
Average net funds / debt	None	Calculated by aggregating the net funds / debt position excluding lease liabilities for each business day and dividing by the total number of business days. This is used as a measure of liquidity maintained throughout the year
Like for like revenue growth	None	Calculated as year-on-year revenue growth, expressed as a percentage and adjusted to normalise currency and for consistent working days, for businesses making a full year's contribution. This allows a consistent measure of year-on-year performance
Underlying selling, general and administrative costs	None	Calculated as distribution costs and underlying administrative expenses divided by revenue and expressed as a percentage. This measure shows how effective the Group is at converting gross profit into underlying operating profit
Return on capital employed	None	Calculated as underlying operating profit measured as a percentage of average capital employed, being total equity less non-current other interest-bearing loans and borrowings less cash and cash equivalents This demonstrates the relative level of profit generated by the capital employed
Cash conversion	None	Calculated as cash generated from the operations divided by operating profit and expressed as a percentage This cash conversion measure demonstrates the success of the Group in converting profit to cash, which underpins the quality of earnings and reflects the effectiveness of working capital management

Adjusted Results Reconciliation

31 December 2022

Continuing operations	Total Results £M	Amortisation of acquired intangibles £M	Insurance proceeds (following a fire) £M	Adjusted Results (underlying) £M
Revenue	663.6	–	–	663.6
Cost of sales	(444.1)	–	–	(444.1)
Gross profit	219.5	–	–	219.5
Distribution costs	(129.5)	–	–	(129.5)
Administrative expenses	(52.8)	1.5	–	(51.3)
Other operating income	6.7	–	(6.2)	0.5
Operating profit/(loss)	43.9	1.5	(6.2)	39.2
Finance income	0.7	–	–	0.7
Finance expenses	(2.8)	–	–	(2.8)
Net finance costs	(2.1)	–	–	(2.1)
Profit/(loss) before tax	41.8	1.5	(6.2)	37.1
Taxation	(8.2)	(0.3)	1.1	(7.4)
Profit/(loss) for the year attributable to the equity shareholders	33.6	1.2	(5.1)	29.7
Earnings/(loss) per share				
Basic	40.1p	1.4p	(6.0)p	35.5p
Diluted	39.8p	1.4p	(6.0)p	35.2p

ALTERNATIVE PERFORMANCE MEASURES ('APMs') CONTINUED

Adjusted Results Reconciliation

31 December 2021

Continuing operations	Total Results £M	Impairment of goodwill and intangibles £M	Impairment of property, plant and equipment and inventory following fire £M	Amortisation of acquired intangibles £M	Business restructuring £M	Property disposal £M	Profit from discontinued operation £M	Adjusted Results (underlying) £M
Revenue	667.2	–	–	–	–	–	–	667.2
Cost of sales	(446.7)	–	–	–	–	–	–	(446.7)
Gross profit	220.5	–	–	–	–	–	–	220.5
Distribution costs	(125.9)	–	–	–	–	–	–	(125.9)
Administrative expenses	(65.5)	2.1	7.3	1.6	2.3	(5.1)	–	(57.3)
Operating profit/(loss)	29.1	2.1	7.3	1.6	2.3	(5.1)	–	37.3
Finance income	0.4	–	–	–	–	–	–	0.4
Finance expenses	(1.9)	–	–	–	–	–	–	(1.9)
Net finance costs	(1.5)	–	–	–	–	–	–	(1.5)
Profit/(loss) before tax	27.6	2.1	7.3	1.6	2.3	(5.1)	–	35.8
Taxation	(7.7)	(0.2)	(1.0)	0.2	(0.4)	(0.1)	–	(9.2)
Profit/(loss) from continuing operations	19.9	1.9	6.3	1.8	1.9	(5.2)	–	26.6
Profit/(loss) from discontinued operation	4.5	–	–	–	–	–	(4.4)	0.1
Profit/(loss) for the year attributable to the equity shareholders	24.4	1.9	6.3	1.8	1.9	(5.2)	(4.4)	26.7
Earnings/(loss) per share for profit from continuing operations								
Basic	23.5p	2.3p	7.5p	2.2p	2.2p	(6.2)p	–	31.5p
Diluted	23.2p	2.3p	7.4p	2.2p	2.2p	(6.2)p	–	31.1p
Earnings/(loss) per share for profit from discontinued operations								
Basic	5.3p	–	–	–	–	–	(5.1)p	0.2p
Diluted	5.2p	–	–	–	–	–	(5.0)p	0.2p

headlam

OUR SUSTAINABILITY REPORT

INTRODUCTION

Chris Payne, Chief Executive and Chair of the ESG Committee

"Pleasingly, during 2022, we were judged by a leading sustainability adviser to have the best sustainability credentials amongst our direct peer group"

As a Board and a Company, we are focused on the long-term sustainability and success of Headlam, with our ESG (Environmental, Social and Governance) Strategy being an important framework to achieve.

The ESG Strategy is closely aligned with our overall Strategy page 14, mitigation of Principal Risks page 81, and approach to Corporate Governance page 96. Importantly, it is about capturing strategic and commercial opportunity as well as mitigating risk, and addressing regulatory and compliance matters.

The TCFD disclosure on page 72 details our ESG governance framework, with the Board having direct oversight responsibilities with respect to the ongoing development of the ESG Strategy, which includes the monitoring of climate related risks. ESG is a standing Board agenda item, and formally discussed four times annually. During 2022, we also established an Executive ESG Committee, reporting to the Board and assisting it in the fulfilling of its responsibilities. The Committee's Terms of Reference are publicly available on our website, with me as the Company's Chief Executive being the Chair.

We are supported by specialists in the planning, development, and reporting on our ESG Strategy. Pleasingly, during 2022, we were judged by a leading sustainability adviser to have the best sustainability credentials amongst our direct peer group. Additionally, the Company has been independently evaluated to have 'low risk' ESG rating scores. Following ongoing analytical work, including in relation to the preparation of our second TCFD disclosure, we currently consider the Company to have low exposure to climate related risks, with a low level of financial materiality from these risks. The Company's business model is deemed fit for purpose, with strategic aims in place under our overall strategy to leverage the opportunities and benefits from a well developed ESG strategy. These currently lie in the areas of:

- efficiency measures, modernisation, and investment which will reduce future operating costs;
- taking a leading position in offering sustainable products into the marketplace, including as demand increases thereby capturing market share;
- leading reputation for sustainability amongst our direct peer group, serving to strengthen relationships with customers and suppliers; and
- attracting and retaining colleagues.

All stakeholders[1] are increasingly going to want evidence of sustainability and ESG credentials, and also a way of measuring delivery on ESG strategies. KPIs and targets are included within this report to allow measurement of our progress. Additionally, an ESG metric has been introduced into Executive Director and Executive Team performance related variable remuneration in 2023.

Sustainability forms one of Our Values (page 2), and we are committed to improving in all areas.

Chris Payne

Chief Executive and
Chair of the ESG Committee

8 March 2023

1 These stakeholders include regulators / legislators, customers, suppliers, shareholders, and sustainability rating agencies. The Company's considered key stakeholders are detailed in the Section 172 Statement on page 28.

ESG STRATEGY

The key aims under the E, S and G pillars are given below, and capture and encapsulate the most Material Issues and Principal Risks identified by the Materiality Assessment Mapping (below) and within the Risk Heat Map on page 82. Delivery on these aims is highly important to various of our key stakeholders, as detailed in the Section 172 Statement on page 28, and will serve to strengthen our engagement and relationships with them.

Environmental

Reducing environmental impact and contribution to climate change

- Reduce direct Greenhouse Gas ('GHG') emissions (Scope 1 and 2), and contribution to climate change
- Increasing focus on sustainable products and recycling, including to capture growing consumer demand
- Work with all stakeholders to increase the sustainability of the industry as a whole, and transition to a circular economy

Social

Making Headlam a great place to work with a positive impact on local communities

- Continual focus on support, wellbeing, and health and safety to keep people safe and well
- Increasing development opportunities to make Headlam a great place to work, and attract / retain the best people
- Creating an inclusive and collaborative culture to help drive business performance, and develop a DEI[1] strategy

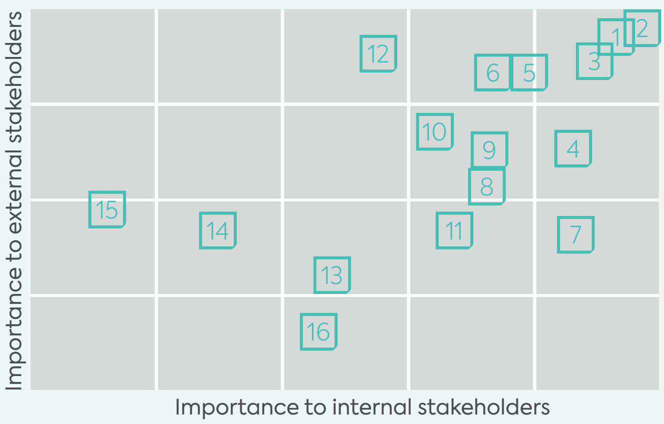
Governance

Managing risk, with robust controls and frameworks in place

- Focus on business integrity, transparency, and robust controls including to ensure reputation
- Supplier engagement on supply chain risk, ethical business, and commercial / strategic opportunities
- IT systems which are both resilient and scalable, including to support the Company's strategy

[1] Diversity, Equity and Inclusion

Materiality Assessment Mapping



1 Scope 1 and 2 emissions
2 Health and safety
3 Product recyclability
4 Supply chain risk
5 Governance
6 IT resilience
7 Workforce culture
8 Diversity and equal opportunities
9 Scope 3 emissions
10 Consumer behaviour
11 Training and education
12 Fair business and compliance
13 Labour practices and human rights
14 Chemicals in products
15 Product packaging and waste
16 Local communities

A Materiality Assessment Mapping exercise was undertaken in 2021 in conjunction with internal and external stakeholders as a foundational element to initiate the Company's ESG Strategy and published in the 2020 Annual Report and Accounts. The Map has subsequently been reviewed and updated in conjunction with the Company's sustainability adviser for both the 2021 and 2022 Annual Report and Accounts.

ENVIRONMENTAL

Key achievements in 2022:

- Exceeded initial 50% target of UK non-commercial fleet being electric / low emission vehicles (31 Dec 22: 69%)
- Set Net Zero and SBTi aligned[3] interim targets for Scope 1 and 2 emissions
- 44% reduction achieved for UK emissions against 2019 baseline (Scope 1 and 2)
- Net Zero workshop held with Executive Team, and Good Energy and Recycling Behaviours workshops commenced across the group

Current focuses:

- Reducing Scope 1 and 2 emissions
- Sustainable products, waste, and water
- Scope 3 emissions engagement with supplier

Targets and KPIs for 2023:

- Installation of owned solar panels across all larger UK sites
- Achievement of ISO 14001 environmental certification at key sites
- Over 80% of UK non-commercial fleet being electric / low emission
- Achieve reduction pathway required for Scope 1 and 2 emissions to achieve the interim target
- Launch own brand sustainable and recyclable ranges

"85% of the Company's Scope 1 and 2 emissions arise from transportation activities"

Reducing environmental impact and contribution to climate change[1]

Scope 1 and 2 Emissions

The Company has a Net Zero emissions target (Scope 1 and 2) by 2035 and is actively engaged in transition planning. The Net Zero Emissions timeline on page 65 shows the key actions and targets to achieve, and includes an interim target aligned with the Science Based Targets initiative ('SBTi') of a 46% reduction by 2030 against a baseline year set at 2019.

The Company will follow a 'true' Net Zero strategy aligned with best practice, whereby it will focus on actual decarbonisation in achieving these targets and only consider offsetting actions for residual emissions, which will be no more than 10% of the baseline. The main decarbonisation actions currently being pursued by the Company are:

- Moving the whole non-commercial fleet to electric or low emission vehicles;
- Trialling and roll-out of electric commercial vehicles where feasible;
- Ongoing Transport Integration (i.e. more efficient deliveries profile), further FORS accreditations[2], and focus on driving behaviours;
- Energy saving opportunity surveys being completed at key sites, and the identified energy saving and efficiency recommendations being rolled out across the network;
- Investment in the network to modernise buildings and equipment, and make more energy efficient;
- Promotion of Good Energy and Recycling Behaviours across the group, with associated workshops;
- Installation of owned solar panels across all larger UK sites, with a total capital investment of over £3.7 million; and
- Progressing of work towards achieving ISO 14001 environmental certification at key sites (includes focus on resource use and efficiencies).

[1] Environmental Policy: The Company publishes an Environmental Policy on its website, which is reviewed and updated annually. It describes the approach and actions Headlam is taking with its colleagues and external stakeholders (including customers and suppliers) and within the commercial and operational areas of its business that have been identified as having the greatest environmental impact.

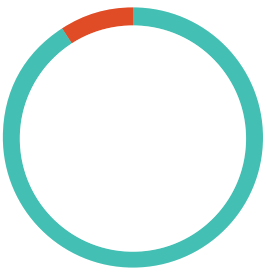
[2] Voluntary FORS Scheme demonstrating which fleet operators are achieving exemplary levels of best practice, including in efficiency and environmental protection.

[3] Not yet SBTi validated.

As disclosed within the Streamlined Energy and Carbon Reporting ('SECR') disclosure on page 77, 85% of the Company's total Scope 1 and 2 emissions arise from fuel sources used in its transportation activities, with the remainder mainly accounted for by natural gas usage and electricity consumption at sites.

While excellent progress is being made in moving the whole non-commercial fleet to electric or low emission vehicles, there is currently limited feasibility to move the commercial fleet to electric or low carbon alternatives due to technology and / or cost constraints. The Company is currently trialling early options, and will continue to build on this trialling profile. However, achieving Net Zero (Scope 1 and 2) by 2035 following a 'true' strategy will be reliant on low carbon HGV technologies becoming more commercially available. Based on current trajectories, this is expected to happen from 2030.

UK and Continental Europe Scope 1 and 2 emissions



- Scope 1: 91% (15,102.78 tCO_2e)
- Scope 2: 9% (1,454.72 tCO_2e)

Net Zero Emissions Timeline

Key Achievements and Targets

2019

Baseline year for SBTi aligned interim reduction target of 46% by 2030 (Scope 1 and 2)

2022

44% reduction in UK emissions achieved against 2019 baseline

69% of UK non-commercial fleet electric or low emission (2021: 14%)

Initial trialling of electric commercial vehicles

Commenced Good Energy and Recycling Behaviours workshops

Investment in network (buildings and equipment) (increasing energy efficiencies, ongoing)

2023

Installation of owned solar panels across all larger UK sites

Achievement of ISO 14001 environmental certification at key sites (resource use and efficiencies)

Target of over 80% of UK non-commercial fleet electric / low emission (by year-end)

Good Energy and Recycling Behaviours workshops held at all larger sites

Expansion of trialling of electric / low carbon commercial vehicles

Transport Integration complete, followed by continuous improvement (reduction in fleet number, mileage and fuel)

2025

Target of 100% of UK non-commercial fleet electric / low emission

Scope 3 targets introduced

2030

Interim target of 46% reduction against 2019 (Scope 1 and 2)

Roll-out of low carbon commercial vehicles

Potential heating electrification to reduce gas consumption

2035

Net Zero emissions target (Scope 1 and 2)

≤ 2050

Net Zero emissions target (Scope 1, 2 and 3)

Ongoing trialling and introduction of electric / low carbon commercial vehicles

ENVIRONMENTAL
CONTINUED

Sustainable Products, Waste and Water

The transition to a circular economy is a longer term challenge for the floorcoverings industry as there are both technical and market based challenges to overcome. The majority of flooring product categories are made up of several layered materials, with plastic used in the manufacturing processes of most. The difficulty of separating these layers, and the limited recycling processes and networks available, leads to limited scalable recycling solutions currently. Additionally, the marketplace is still on the whole relatively undeveloped in terms of demanding sustainable products, with sustainable products currently making up a low proportion of the overall offering. However, the marketplace (customers and end-consumers) will increasingly signal a preference for sustainable products and focus on closed-loop recycling.

The Company aims to take a lead in launching and marketing sustainable products, capturing competitive advantage, with a particular focus on recyclable ranges. Working closely with selected suppliers, the Company is currently at the trialling and proof of concept stage of new technology with a view to launching own branded sustainable ranges during the second half of 2023. Launches will initially be into the residential sector, with opportunities in the commercial sector also being investigated for future launches. In support of these launches, there will be extensive education of the Company's sales representatives to enhance the promotion of sustainable products into the marketplace and increase overall awareness. The Company regularly engages with customers on their sustainability requirements and preferences, including through its bi-annual customer survey which includes a sustainability section. The Company also supports several industry bodies focused on the recyclability / recycling of floorcovering products, and reduction of floorcovering waste to landfill. In early 2023, Melrose Interiors became part of the Headlam group. Melrose has market leading environmental credentials through its award winning [Re]lay brand of recycled rugs and upcycling operations.

Melrose Interiors

A leading distributor of rugs with award winning environmental credentials

Melrose Interiors based in Bradford and trading for over 50 years is the largest independent supplier to the UK online rug industry, and also has operations in third-party logistics, recycling, and an in-house rug and sampling / pattern book department. Melrose brings a number of new larger customers to the group, including major high street and online retailers, a customer segment where the Company is targeting growth and will work with Melrose to scale up opportunities. Melrose specialises in both B2B and B2C fulfilment, and will enlarge Headlam's existing Drop Ship Vendor ('DSV') capabilities.

Melrose also has market leading environmental credentials through its award winning [Re]lay brand of recycled rugs, and its value creating upcycling of surplus carpet from across the industry into samples and pattern books. Each year [Re]lay diverts approximately 5,000 tonnes of carpet waste from landfill.

The Company is not a large producer of waste, with protective plastic packaging, cardboard poles and wooden pallets making up the bulk of the waste arising from its operations. Almost 100% of the plastic packaging the Company uses is now manufactured from 100% recycled polythene, and the Company has policies and incentives in place for collection and reuse of poles and wooden pallets.

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. Remote readers were installed at larger sites during 2022 to help monitor and lower consumption. Water consumption in 2022 was c18,722 cubic metres (2021: c18,327 cubic metres) (UK only).

Scope 3 Emissions

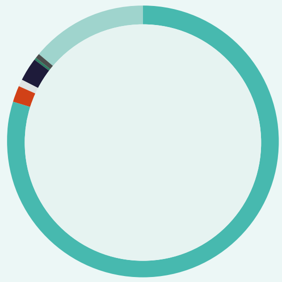
Following its first assessment in 2021, the Company has undergone its second exercise in measuring its Value Chain (Scope 3) emissions, and following the GHG Protocol Corporate Value Chain (Scope 3) Accounting Standard methodology.

Scope 3 emissions are GHG emissions that Headlam is indirectly responsible for outside its own operations – from the goods the Company purchases to the disposal of floorcoverings once sold.

The exercise is undertaken as part of the Company's focus on increasing the sustainability of the industry as a whole. It is a valuable tool in understanding supply chain emissions, and importantly to engage with suppliers on their own environmental and sustainability ambitions. 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. As detailed in Governance section on page 70, during 2022 the Company engaged with its suppliers on a Sustainability Charter which outlined minimum expected standards.

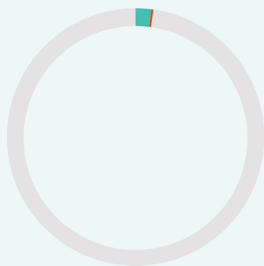
As detailed here, the Company's Scope 3 emissions far exceed and dwarf Scope 1 and 2 emissions. While the Company has a responsibility towards reducing these emissions, it is much harder to influence them. However, the Company anticipates increased engagement with suppliers on emissions and the Scope 3 emission hotspots, and will look to develop interim and Net Zero Scope 3 targets aligned with the SBTi criteria. The Company anticipates introducing Scope 3 targets in 2025 with an aim to reach Net Zero (Scope 1, 2 and 3) by 2050 at the very latest.

Scope 3 Emissions



- Purchased goods and services 82.01% (834.61 ktCO_2e)
- Capital goods 1.02% (10.41 ktCO_2e)
- Fuel and energy-related activities 0.41% (4.18 ktCO_2e)
- Upstream transportation and distribution 2.29% (23.32 ktCO_2e)
- Waste generated in operations 0.00% (0.03 ktCO_2e)
- Business travel 0.03% (0.35 ktCO_2e)
- Employee commuting 0.26% (2.67 ktCO_2e)
- End-of-life treatment of sold products 13.97% (142.17 ktCO_2e)

Total Scope 1, 2 and 3 Emissions: 1,034.29 ktCO_2e



- Scope 1 (Transportation operations and natural gas): 1.5% (15.10 ktCO_2e)
- Scope 2 (Purchased electricity and transportation): 0.1% (1.45 ktCO_2e)
- Scope 3 (Value Chain): 98.4% (1,017.73 ktCO_2e) activities

For more information see SECR Disclosure on page 77

SOCIAL

Key achievements in 2022:

- Moving to one pension for all colleagues, providing a more generous and flexible contribution structure, and consistency and fairness across the group
- Enhancing and harmonising holiday entitlement, and putting in place equal sick pay for all colleagues
- Targeted pay increases, and ensuring everyone received at least the equivalent of the National Real Living Wage
- Local Communities Programme launched, allowing for funded donations to local causes, as well as paid volunteering time and flooring product donations

Making Headlam a great place to work with a positive impact on communities

Support, Wellbeing and Health and Safety

The Company has been taking a more holistic approach to the support for its colleagues, reviewing and making improvements in both financial and non-financial areas.

Due to the inflationary environment prevailing in 2022 and into 2023, and its impact on cost of living, pay reviews and awards have been a focus. Certain more junior workforce groups were awarded pay increases of up to 15% in 2022, and the Company also ensured that everyone received the equivalent of the National Real Living Wage. For 2023, the Company has taken a tiered approach to its annual pay award, with lower salaried employees receiving a higher percentage increase to their salaries, with this percentage decreasing higher up the scale.

In terms of non-financial, the Company is focused on building the mental health support available, and actions to embed a strong health and safety culture. Headlam continues to invest in this area, and has appointed additional full-time resource as well as engaging with a leading consultant. The Company monitors a number of health and safety metrics including RIDDORs and Lost Time Accidents. During 2022, the Company achieved recertification to ISO 45001 health and safety management across all its main sites.

Tania Hall, Credit Control Manager at Coleshill[1] has been at the heart of organising a food drive and donations to a local foodbank.

Tania said: "If people get made redundant or get an unexpected bill it can sometimes mean people can't feed their families. I'm passionate that we support the local foodbank who help in these times of crisis. We took all types of food, including Christmas goods so people could enjoy some festive treats too."

Using the MyHeadlam Local Communities programme, £2,000 worth of everyday essentials were supplied along with a donation of £1,000 to help with the daily operations at Kingfisher Foodbank. They provide aid to those in crisis situations by providing emergency food parcels, a listening ear, and referrals to other helpful organisations.

Alistair Smiley, Financial Controller for Coleshill shared: "The Coleshill staff have excelled themselves this year with the generosity of their donations made to the Kingfisher Foodbank. In addition to this, I would like to thank the team that helped to deliver the essential items and particularly to Tania for the time and effort spent in organising the whole project. It's great that we were able to help such a worthwhile local cause, particularly at a time of year when it is most needed."

[1] The Company's largest distribution hub

Current focuses:

- Support, wellbeing and health and safety
- Ongoing cultural development
- Diversity, Equity and Inclusion

Targets and KPIs for 2023:

- New employee survey conducted, with improved scores and retention
- Group wide diversity strategy established
- RIDDOR and Lost Time Accidents reduced against 2022
- Long Service Awards Scheme launched

Ongoing Cultural Development

As part of the ongoing focus on cultural development, during 2023 the new 'Headlam Way' will be launched. This is focused on bringing the Company's Values and Vision to life as given on page 2, and immersing them in the business. Additionally, a Long Service Awards Scheme is being launched to recognise and applaud the long heritage of businesses and colleagues across the group. The Scheme will award colleagues after certain milestones of service with a monetary gift and / or shares in the Company.

Diversity, Equity and Inclusion

A Diversity, Equity and Inclusion ('DEI') strategy is fundamental to providing an inclusive and successful working environment where everyone can progress and succeed. While improvements were made during 2022 in specific areas, an expert in the subject matter has now joined the Company to focus on formulating and rolling out a group-wide DEI strategy. As at 31 December 2022, the Company's gender and ethnicity for its UK operations[1] stood at 21.6% female and 6.2% ethnic minorities respectively, and the Company anticipates gradually introducing targets as the strategy is introduced.

Read about Our People on pages 32–35

[1] The Company to date has not compiled data for its Continental European operations.

Alistair Smiley, Financial Controller, Coleshill

"It's great that we were able to help such a worthwhile local cause, particularly at a time of year when it is most needed"

GOVERNANCE

Key achievements in 2022:

- Executive ESG Committee established assisting the Board on the development of the ESG Strategy
- Reformatted Risk Committee and Employee Forum
- Independently managed whistleblowing platform put in place, with new 'Speak Up' policy and embedding of behaviours
- Investment in IT (resilience, systems, and people), with monthly cyber security training for all colleagues

Managing risk, with robust controls and frameworks in place

Business Integrity and Robust Controls

Focus on corporate governance, and the assessment / mitigation of risks through robust controls and frameworks, continues to be a priority for the Company. The framework of controls is given in Risk Management on page 81, and the Corporate Governance Report on page 96 details the key focuses for 2023.

As part of its ongoing focus on business integrity and transparency, the Company is currently engaged in achieving further Sedex accreditations to cover all its main sites and businesses. Sedex ('Supplier Ethical Data Exchange') is an online system that allows members to maintain data on ethical and responsible practices, and allows them to share this information with their customers. This work with further support the Company's interaction with larger customers as part of its strategy of increasing market share in this area, with this customer group increasingly requesting sustainability credentials and disclosures. Additionally, during 2022, the Company completed a voluntary CDP disclosure.

Current focuses:

- Business integrity and robust controls
- Supplier engagement
- IT systems

Targets and KPIs for 2023:

- Sedex accreditations for all main sites and businesses
- Building on disclosures, including SBTi validation of emission targets
- Positive stakeholder feedback, and maintenance of 'low risk' ESG scores

Supplier Engagement

Supply chain risk has been an area of specific focus under the ESG Strategy having been identified as a Material Issue in the first Materiality Assessment exercise undertaken. The Company is committed to eliminating as much as is possible any potential wrongdoing in this area, thereby protecting people as well as ensuring the Company's reputation for business integrity.

Engagement with suppliers has centred around: Product Legislation and Sourcing; Sustainability Charter; Ethical Code of Conduct; and Self-Assessment Questionnaire (delivered by a third-party leading social audit business). The Company will engage with suppliers on an individual basis on any remedial action judged to be required following assessment of returns. In 2022, the Company also held its first Supplier Conference where the Company presented its strategy, including its ESG ambitions, and discussed the areas that present a significant opportunity to strengthen supplier partnerships and efficiencies. The Conference is being held again in 2023.

IT Systems

Resilient and scalable IT systems are imperative to business continuity and supporting revenue growth under the Company's strategy. Risk Management on page 81 details the mitigating actions put in place to ensure both resilience and support delivery of the strategy. These have included the appointment of a new Chief Information Officer, a full review of systems and infrastructure (with associated enhancement plan being rolled out), and monthly cyber training for all colleagues.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES **('TCFD')**

The table below and continuing on pages 72 to 76 details the Company's responses consistent with the TCFD recommendations and pillars, with the exception of quantitative scenario analysis and Scope 3 emissions target which will be introduced.

The Company has progressed its disclosures following its first TCFD disclosure in the 2021 Annual Report and Accounts. The TCFD disclosure below and on pages 72 to 76 has been prepared in conjunction with a specialist sustainability adviser and includes a full qualitative scenario analysis, which will be followed by a quantitative scenario analysis published alongside the 2023 Annual Report and Accounts. The qualitative scenario analysis has helped further corroborate the opinion that the Company has low exposure to climate related risks and associated financial impact, which determined the staged approach to scenario analysis reporting.

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 2022. During 2022, an Executive ESG Committee was established 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. The Committee's Terms of Reference are publicly available on the Company's website, with the Chief Executive the Chair of the Committee. While ultimate responsibility for risk governance sits with the Board, the Audit Committee assists in risk oversight (as described within Risk Management on page 81). The Company's most material ESG issues per the Materiality Assessment Map on page 63 are included in the Company's Risk Register. During 2022, these material issues were 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	As above, the Company has an Executive ESG Committee, which as part of its remit focuses on decarbonisation actions and reducing the Company's contribution to climate change. The Company also 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. The Company's most material ESG issues per the Materiality Assessment Map on page 82 are included in the Company's Risk Register which forms the basis for Committee discussions. The Company also operates an ESG Working Group which 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 to both mitigate climate risk and capture opportunity. The projects related to decarbonisation and reducing contribution to climate change are given on page 64 of the Sustainability Report.

The Company has considered and taken into account the TCFD all-sector guidance and supplemental guidance for financial and non-financial companies, and believes it to be consistent with the exception of quantitative scenario analysis and Scope 3 emission target as noted on page 72.

This TCFD disclosure forms part of the Company's overall Sustainability Report on pages 61 to 80, and should be read as part of the full report which includes the key decarbonisation actions to reach Net Zero and reduce its contribution to climate change, and KPIs and targets to measure progress.

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 on page 81 of the 2022 Annual Report and Accounts. Additionally, the Company publishes an annually updated Materiality Assessment (on page 63). 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.
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 ESG Strategy and 'Environmental' Principal Risk and, therefore, integrated into the Company's overall risk management process. Additionally, through preparation of the Company's annually reviewed and publicly disclosed Environmental Policy and TCFD disclosure, the Company gives full consideration and commentary on climate related factors.
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 Company has identified its climate-related risks and opportunities, and assessed strategy resilience, through qualitative scenario analysis. The range of possible risks and opportunities were analysed under two future climate forecasts. Both Physical and Transition Risks were considered, modelled around the widely recognised Representative Concentration Pathways (RCPs) and Shared Socio-economic Pathways (SSPs). The scenarios chosen in conjunction with the Company's specialist sustainability adviser were: global warming of 2°C (RCP 3.4), considered the most likely scenario; and global warming of 4°C (RCP 8.5), considered a resilience scenario. Time horizons have been chosen which best reflect the Company's business plan, strategy, and various financial accounting policies. The total time horizon considered is up to 2050, split into short term (3 years, 2023–2025), medium term (2026–2035) and long term (2036–2050). The assumptions used in the scenario analysis, with reference to Extended Producer Responsibility impact and the transition to a more sustainable fleet are discussed in further detail in note 11 to the Financial Statements.

Factors	Middle of the road	Fossil-fuelled growth
RCP	3.4	8.5
SSP	2	5
Temperature rise	2°C	4°C
Likelihood	High	Moderate
Societal response	Proactive, Disorderly	Reactive

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES **('TCFD')** CONTINUED

Scenario	Risk categories	Potential financial impact
1 Average global temperatures rising by 2°C above pre-industrial levels by 2100	Market: Transitioning to more sustainable business and operating practices	Risk: Increased costs of operating a sustainable fleet with low carbon technologies
	Market: Transitioning to more sustainable business and operating practices	Risk: Increased capital investment, including in relation to solar panel installation and modernising buildings and equipment
	Market: Transitioning to more sustainable business and operating practices	Opportunity: Greater efficiency leading to lower operating costs. Reduced costs as a direct result of solar panel installation and network modernisation
	Market: Transitioning to more sustainable business and operating practices	Opportunity: Increase in large customers attracted by peer-leading sustainable business practices and offering. Leading sustainable credentials also attracting and retaining talented colleagues
	Policy and Legal: Financial impact of potential new legislation / regulation (including product legislation)	Risk: Increased operating costs through Extended Producer Responsibility (EPR) for bulky waste (carpets and underlay)
	Market: Changing consumer preferences	Risk: Reduced demand for current product offering
	Market: Changing consumer preferences	Opportunity: Capture market share by responding to the shift in consumer preferences quicker and better than competitors
	Market: Supply chain costs	Risk: Potential increases in downstream costs, with suppliers passing cost increases upstream
	Reputation: Targets and KPIs	Risk: Reputational damage due to failure to meet publicly disclosed and / or regulatorily required climate related targets (i.e. Net Zero targets)
2 Average global temperatures rising by 4°C above pre-industrial levels by 2100	Chronic and Acute: Supply chain disruption	Risk: Potential raw material shortages and knock-on impact on product availability from supply chain disruption leading to loss of revenue
	Acute: Asset damage	Risk: Business interruption and loss of revenue following damage to distribution network as a result of extreme weather events. Consequential impairment of assets and increased insurance premiums

The qualitative assessment was completed at a high-level considering the likelihood and estimated financial impact of each climate-related risk, including the impact of mitigating actions. The materiality of the overall impact was categorised as:

■ Low (or presenting an opportunity) ■ Medium ■ High

The main areas of risk relate to: increases in costs and capital investment required; reputational damage; shift in consumer demand; and supply chain. The intention is to conduct a quantitative scenario analysis and disclose specific financial ranges within the 2023 Annual Report and Accounts.

Level of Materiality			
Short Term (2023–2025)	Medium Term (2026–2035)	Long Term (2036–2050)	Strategic response and resilience
Low	Medium	Medium	Ongoing Transport Integration which will reduce the number of fleet as well as fuel usage per vehicle. Reducing overall operating costs. Currently trialing electric commercial vehicles. Focus on more efficient driving behaviours. See page 64 for all actions
High	Low	Low	One-off upfront expense which will help offset energy costs going forward. Anticipated payback in three years. Greater efficiency, including energy efficiency, from more modernised estate which will payback in future years.
Low	Low	Low	Payback of reduced electricity costs from solar panel installation (expected payback from year 3).
Low	Low	Low	Ongoing development and achievement of the ESG Strategy will further secure the Company's position.
Low	Medium	Medium	More engagement with suppliers, including on supply chain efficiencies and new sustainable product launches. Work more closely with those suppliers able to offer efficiencies and collaboration. Market preferences and the Company's product offering likely to become more weighted towards sustainable products, as they become available, which will help limit the EPR cost to the Company.
Low	Medium	Medium	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.
Low	Low	Low	Already planning new sustainable product launches and promotional campaigns. Expanded product offering providing more diversification. See Product and Brands at Headlam on page 20
Low	Low	Low	Product price increases are typically passed direct through to customers, with them being absorbed due to price inelasticity. As a distributor, the Company benefits from price inflation. See Marketplace on page 10
Low	Low	Low	Comprehensive internal oversight in place, and specialist external support in relation to target setting and transition planning.
Low	Low	Low	Market leading position and strategic partnerships with suppliers should enable the Company to preserve levels of availability. Proliferation and homogeneous nature of certain products allowing for substitution options. High inventory levels typically maintained at any one time.
Low	Low	Low	The Company's assets are not expected to be exposed to high physical climate-related risk due to geographies in which it operates. Operations are disaggregated with business continuity plans in place if specific sites are affected by isolated events.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES **('TCFD')** CONTINUED

Strategy and Risk Management	Disclosure
Resilience of the organisation's strategy, taking into consideration different climate-related scenarios	When taking into account the judged severity of the potential risks, time horizons and mitigating actions, the Company is currently considered to have low exposure to climate related risks, and remains a resilient business in both scenarios modelled above. Overall, the business model is deemed fit for purpose, with strategic aims in place to leverage the opportunities from its ESG strategy.

Metrics and Targets	Disclosure
Metrics used by the organisation to assess climate-related risks and opportunities	The Company uses the below KPIs and targets to both assess the risks and opportunities as well as its progress in relation to its overall ESG Strategy. **KPI** • Energy usage (per SECR disclosure) • Scope 1, 2 and 3 emissions (year on year) • Achieving reduction pathway required for Scope 1 and 2 emissions to achieve interim target • Number of sustainable product launches • ESG related capital investment • ESG rating agency scores • Physical asset damaged related insurance claims / premiums **Target** • Installation of owned solar panels across all larger UK sites • 100% of non-commercial fleet electric / low emission • Interim emissions target (Scope 1 and 2) • Net Zero emissions target (Scope 1 and 2) • Net Zero emissions target (Scope 1, 2 and 3) An intensity metric is additionally given within the Company's SECR Disclosure on page 79. An ESG metric has been introduced into Executive Director and Executive Team performance related variable remuneration in 2023. Link to Risks: 9 — Link to KPIs: 6 11 12
Scope 1, Scope 2 and Scope 3 greenhouse ('GHG') emissions, and the related risks	The Company's Scope 1, 2 and 3 emissions are summarised on page 67 of the Sustainability 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 Sustainability Reports. During 2022, the Company introduced a Net Zero emissions target (Scope 1 and 2) and an interim target aligned with the Science Based Targets initiative ('SBTi'). The interim target is a 46% reduction by 2030. The Company anticipates introducing Scope 3 targets in 2025 with an aim to reach Net Zero (Scope 1, 2 and 3) by 2050 at the very latest.

STREAMLINED ENERGY AND CARBON REPORTING **('SECR')**

1 JANUARY 2022 TO 31 DECEMBER 2022 SUMMARY

This SECR disclosure forms part of the Company's overall Sustainability Report on pages 61 to 80, and should be read as part of the full report.

This disclosure along with the full report summarises the Company's energy usage, associated emissions, energy efficiency actions being undertaken and energy performance under the government policy Streamlined Energy and Carbon Reporting ('SECR'), as implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

This disclosure also summarises the methodologies utilised for all calculations related to the elements reported under Energy and Carbon and includes intensity metrics. With the energy efficiency actions detailed in the full report, this disclosure fully complies with the reporting regulations under the new SECR legislation.

This disclosure, and full supporting documentation, has been prepared by Net Zero Compliance (a division of Inspired Energy PLC) in conjunction with members of Headlam's Executive Team for Headlam Group PLC by means of interpreting the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as they apply to information supplied by Headlam Group PLC and its energy suppliers.

The following figures demonstrate year on year changes in consumption and resulting emissions for Headlam Group PLC for 2022 and 2021. The Company has for the first time included its Continental European operations (France and the Netherlands) within this year's disclosure, with no comparable figures given for 2021. The Company's Continental European operations accounted for 12.9% of total group revenue in 2022.

Definitions of the Scopes used in this disclosure:

- Scope 1 consumption and emissions relate to the direct combustion of natural gas, and fuels utilised for transport operations associated with the commercial fleet
- Scope 2 consumption and emissions relate to emissions associated with purchased electricity in day to day business operations
- Scope 3 consumption and emissions relate only to emissions associated with the grey fleet, namely the use of private vehicles for business travel

UK Overview

Overall UK Carbon Intensity	
26.53 tCO_2e per £m turnover YOY -5.41%	15,323.65 tCO_2e tCO_2e YOY -6.75%

UK Carbon and Consumption £m = £m Revenue

Natural Gas	Electricity	Transport
4,593,411 kWh	6,528,411 kWh	55,000,461 kWh
838.48 tCO_2e	1,262.46 tCO_2e	13,222.71 tCO_2e
tCO_2e YOY: -16.36%	tCO_2e YOY: -15.19%	tCO_2e YOY: -5.16%

UK Carbon Intensity Metric £m = £m Revenue

1.45 tCO_2e per £m	2.19 tCO_2e per £m	22.90 tCO_2e per £m
YOY: -15.15%	YOY: -13.97%	YOY: -3.80%

STREAMLINED ENERGY AND CARBON REPORTING **('SECR')** CONTINUED

Consumption (kWh) and Greenhouse Gas Emissions (tCO_2e) Totals

The following figures show the consumption and associated emissions for this reporting year for our operations, with figures from the previous reporting period included for comparison.

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets.

Scope 2 consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations.

Scope 3 consumption and emissions relate to emissions resulting from sources not directly owned by us. This relates to grey fleet (business travel undertaken in employee-owned vehicles) only.

UK Totals

The total consumption (kWh) figures for reportable UK-based energy supplies are as follows:

Utility and Scope	2022 Consumption kWh	2021 Consumption kWh
Grid-Supplied Electricity (Scope 2)	6,528,411	7,010,536
Gaseous and other fuels (Scope 1)	4,593,411	5,473,079
Transportation (Scope 1)	54,729,552	58,875,787[1]
Transportation (Scope 2)	15,581	0
Transportation (Scope 3)	255,328	23,693
Total	66,122,283	71,383,095

The total emission (tCO_2e) figures for reportable UK-based energy supplies are outlined below.

Utility and Scope	2022 Consumption tCO_2e	2021 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	1,262.46	1,488.55
Gaseous and other fuels (Scope 1)	838.48	1,002.45
Transportation (Scope 1)	13,160.80	13,937.25[1]
Transportation (Scope 2)	3.01	0
Transportation (Scope 3)	58.89	5.49
Total	15,323.65	16,433.74

1 2021 transport (Scope 1) figures restated to include additional data not previously available.

UK Intensity Metric

An intensity metric of tCO_2e per £m has been applied for our annual total emissions. The methodology of the intensity metric calculations is detailed in the appendix, and results of this analysis is as follows:

Intensity Metric	2022 Intensity Metric	2021 Intensity Metric
tCO_2e / £m UK Revenue	26.53	28.05

Continental European Totals

Headlam Group PLC have sites that they are responsible for in France and in the Netherlands. The consumption and emission figures for these are shown below:

France Totals

Utility and Scope	2022 Consumption kWh	2022 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	684,045	40.03
Gaseous and other fuels (Scope 1)	737,715	134.66
Transportation (Scope 1)	1,364,469	314.72
Total	2,786,229	489.41

Netherlands Totals

Utility and Scope	2022 Consumption kWh	2022 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	330,318	149.21
Gaseous and other fuels (Scope 1)	350,061	64.09
Transportation (Scope 1)	2,484,201	590.02
Total	3,164,579	803.32

UK and European Totals

Utility and Scope	2022 Consumption kWh	2022 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	7,542,774	1,451.71
Gaseous and other fuels (Scope 1)	5,681,187	1,037.23
Transportation (Scope 1)	58,578,222	14,065.55
Transportation (Scope 2)	15,581	3.01
Transportation (Scope 3)	255,328	58.89
Total	72,073,092	16,616.39

UK and European Intensity Metric

An intensity metric of tCO_2e per £m has been applied for our annual total emissions. The methodology of the intensity metric calculations is detailed in the appendix, and results of this analysis is as follows:

Intensity Metric	2022 Intensity Metric
tCO_2e / £m Group Revenue	25.05

STREAMLINED ENERGY AND CARBON REPORTING **('SECR')**

CONTINUED

Energy Efficiency Actions

The main energy efficiency and decarbonisation actions that the Company is currently pursuing are detailed on page 64. For the year ended 31 December 2022, the Company had achieved a 44% reduction in UK Scope 1 and 2 emissions against 2019 (baseline year).

Reporting Methodology

Scope 1, 2 and 3 consumption and CO_2e emissions data has been calculated in line with the 2019 UK Government environmental reporting guidance. Emissions Factor Database 2022 has been used, utilising the published kWh gross calorific value (CV) and $kgCO_2e$ emissions factors relevant for reporting period 01/01/2022 – 31/12/2022.

Estimations undertaken to cover missing billing periods for properties directly invoiced to Headlam Group PLC were calculated on a kWh/day pro-rata basis at meter level. These estimations equated to 4% of reported consumption.

For properties where consumption data was not available, an average consumption for properties with similar operations was calculated at meter level and applied to the properties with no available data.

These full year estimations were applied to one electricity supply.

UK Scope 1 transportation figures have been restated for 2021 from 12,191.01 tCO_2e to 13,937.25 tCO_2e due to previously unavailable data being included in the annual comparison within this report, with underlying kWh consumption also restated.

For Headlam Group PLC's Continental European sites, country specific electricity grid greenhouse gas emissions factors have been utilised from Carbon Footprint for the electricity supplies.

Intensity metrics have been calculated using total tCO_2e figures and the selected performance indicator agreed with Headlam Group PLC for the relevant reporting period:

Total Group Revenue (£m)	£663.6m
Total UK Revenue (£m)	£577.8m
Total Continental Europe Revenue (£m)	£85.8m

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES

Overview

During the year the Board carried out a robust assessment of the emerging and principal risks facing the Company, including those that could threaten its business model, future performance, solvency or liquidity.

The table on pages 84 to 86 summarises the Principal Risks, not in order of significance, which the Board considers could have a material impact on the Company's reputation, operations or financial performance.

The Risk Heat Map on page 82 shows the Board's assessment of the level of risk for each of these Principal Risks as of the date of this Annual Report and Accounts. The change in the level of risk for certain of the Principal Risks, compared with the 2021 Annual Report and Accounts, is detailed on the Map. This is judged against the events of the year, both macro and micro, and takes into account events specific to the Company and the mitigating actions detailed in the table on pages 84 to 86.

No new Principal Risks have been identified. During the course of the year, the risks have been reviewed and some reframed to increase the focus on certain specific areas in alignment with the Group's internal risk register and strategy. As part of the reframing, the previous 'Market' and 'IT' risks have each been split into two parts, and the previous 'Competition' risk incorporated into one of the 'Market' risks.

"During the year the Board carried out a robust assessment of the emerging and principal risks facing the Company"

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk Governance

Risk is encountered as part of the ordinary course of business as well as through the implementation of the Company's strategy as detailed on pages 14 to 15 which have been established to increase the sustainability of the Company and create long-term value for all its stakeholders.

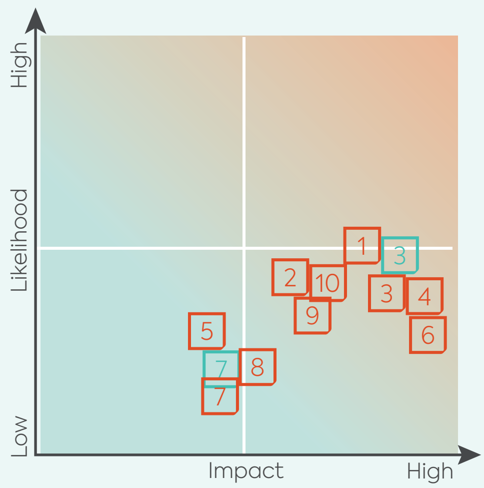
The Board has overall responsibility for the stewardship of risk management and for ensuring that the Company exercises an appropriate level of risk management to support the achievement of its strategy. The Principal Risks faced by the Company could have a material adverse effect on its business, financial performance, or reputation, either alone or in combination, so the management of such risks through appropriate review, monitoring and control is important to the Company's long-term sustainable success. Changes to the trading environment can also affect the likelihood and impact of risks and may give rise to new risks.

The Board is supported in its risk management responsibilities and in reviewing the effectiveness of the risk management framework by the Audit Committee and the Executive Risk Committee.

The Executive Risk Committee is advised by an external risk management specialist, and meets quarterly to assess the Company's internal risk register, the adequacy of and any changes in controls, and to undertake continuous identification of emerging risks. The work of the Executive Risk Committee is considered by the Audit Committee at each of its four scheduled meetings during a year, and informs the Audit Committee's risk management discussions which include an annual review of the risk management framework and oversight of internal and third-party assurance relating to the Principal Risks and over key financial controls. Setting risk appetite and consideration of strategic and emerging risks is performed by the Board. In line with good governance, the Board carries out an assessment of the Company's Principal Risks and Uncertainties and identifies any emerging risks, at least annually.

The Audit Committee, on behalf of the Board, also monitors the Company's system of risk management and internal control and conducts a review of its effectiveness at least once a year. The most recent review entailed detailed consideration of the current risk assurance framework and planned adjustments for 2023.

Risk heat map



Key

1 Market (economy and competition)

2 Market (strategy)

3 IT (systems and infrastructure)

4 IT (cyber security)

5 People

6 Health and Safety

7 Supply chain

8 Legislation, regulation and reporting

9 Environmental and decarbonisation

10 Change and decision making

2021   2022

Risk Monitoring Structure

Independent assurance[1]

Board The Board has overall responsibility for the group's system of risk management and internal control		
Committees	**Risk Identification**	**Risk Management**
Audit Committee; Nomination Committee; Remuneration Committee	Assesses strategic risks identified by management capable of threatening the business model, future performance, solvency or liquidity in the context of the Company's strategy and the interests of stakeholders and market context.	Overall responsibility for corporate governance, internal control and risk management and for setting risk appetite taking into account the expectations of stakeholders and feedback received from engagement activities. Audit Committee receives updates from Executive Risk Committee on key risks and assesses adequacy of controls and risk classification and identification processes. Other Committees consider risk management as it relates to their role and priorities.
Executive Risk Committee	Assesses risks and mitigating controls using a specified scoring system based on likelihood and impact and reports into the Audit Committee.	Reviews operation and design of internal controls to ensure risks remain within appetite.

A new Head of Internal Audit appointed in 2022 will provide additional independent assurance during 2023.

Senior Leadership Team		
Group functions	Use knowledge of best practice, business and market in which we operate to assess changes in key risks.	Responsible for ensuring that risk management is embedded within the business and appropriate actions are taken to manage risk.
Business management	Applies local knowledge to identify and assess operational risk.	Applies local knowledge to identify and assess operational risk.

Emerging Risks

Of the emerging risks facing the Company, only one has been assessed as being of any significance, 'Impact of digitalisation', albeit not currently material and not judged in any way a Principal Risk. The 'Impact of digitalisation' refers predominately to changes in end-consumer ordering preferences and their use of online only retailers instead of the Company's more traditional customer base.

However, online only retailers continue to make up a very small proportion of the market, and this is not anticipated to increase materially due to the technical expertise needed to assess and fit the majority of floorings, and end-consumers wishing to interact and physically see products before engaging with a third-party to fit their flooring. However, the Company continues to monitor and invest in this area to facilitate mitigation as necessary.

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key

Increased Unchanged Decreased

Risk and description	Mitigating actions	Link to Strategy	Risk change
1 Market (economy and competition)			
Failure to sustain revenue and profit performance as a result of economic backdrop, market demand, service levels or competitive dynamics.	The Company closely monitors market activity on a daily basis at both an individual business and Company level. This visibility allows the Company to take prompt action in response, including enhanced sales activity, operational efficiency, managing inventory levels, and cash management. The Company seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base, and continually improving its customer service propositions. The Company has increased its customer engagement and feedback activities to have greater insight into customer preferences to ensure its service proposition and offering remains competitive. The Company's strategy (pages 14 to 15) of driving new revenue to gain market share from a more efficient operating base helped provide a countermeasure against the economic led UK market weakness during 2022, and is expected to continue to do so during 2023.		
2 Market (strategy)			
Failure to develop and deliver on new revenue growth opportunities.	Investments were made in multiple areas to support delivery of the revenue growth strategy during 2022, and will continue to be made in 2023. These included in the areas of: new trade counters; people; systems; and improving the existing network and equipment to support revenue growth. Two key areas are: • A National Trade Counter Management Team has been assembled to more effectively oversee the roll-out of the new and improved trade counter network. • The team dedicated to winning and servicing larger customers has been enlarged, with further systems integration to support larger customers The Board has direct oversight of the Company's strategy, and its effective implementation, with the performance of each project team monitored against clear targets and objectives. In early 2023, a new Chief Customer Officer was recruited with the remit of leading customer and digital strategy, encompassing all aspects of customer communications, brand development, marketing and ecommerce.		

Risk and description	Mitigating actions	Link to Strategy	Risk change
3 IT (systems and infrastructure)			
Failure to develop and maintain IT systems and infrastructure that is resilient, scalable, and able to support the strategy.	During 2022, the IT team was enhanced and a new Chief Information Officer appointed. A full review of the IT systems and infrastructure was completed with a plan being developed to strengthen and enhance systems, including internal controls. Investment made in the core operating system, and further systems integration to support suppliers and customers.		
4 IT (cyber security)			
Failure to develop and maintain adequate or effective security and cyber controls.	Annual IT audit performed (including penetration testing) covering security and resilience. Recommendations incorporated. Targeted use of specialist external advice and support. A baseline framework of policies and procedures developed with a bi-annual review for continual improvement, supported by a third-party advisor. Code of Conduct implemented. Monthly employee cyber engagement program through a refresher email requiring all colleagues to watch a short video and answer questions.		
5 People			
Failure to recruit and retain the right people with relevant skills, values and behaviours.	The Board continues to focus on making the Company a great place to work, and ensure colleagues share in the Company's long-term success. During 2022, the Company further improved the support to its colleagues, both financial and non-financial, including through increased engagement, cultural development, review of rewards and benefits, and training and development opportunities. For full details see pages 32 to 35.		
6 Health and safety			
Failure to provide a safe place to work for our people.	Health and safety is a standing agenda item at all Board Meetings. The Company has a dedicated in-house health and safety team, which was expanded in 2022. The Company also commissions independent audit, and engages external support, and is focused on having a strong and embedded health and safety culture across the group. Improved metrics have been developed for monitoring performance, including the number of near miss reports, which are actively encouraged to aid learning. As part of the Company's ongoing certification, ISO 45001 audits have been undertaken across all the UK's main sites.		
7 Supply chain			
Failure to maintain a supply chain that provides innovative, competitively priced, environmentally sound and legally compliant products on a reliable and ethical basis.	Increased engagement with suppliers to help mitigate against any supply chain risk. Including on: Sustainability Charter; Ethical Code of Conduct; and Self-Assessment Questionnaire (delivered by a third-party leading social audit business). Working closely with certain suppliers to launch new competitive and sustainable ranges. In 2022, the Company held its first Supplier Conference where the Company presented its strategy and discussed the areas that present a significant opportunity to strengthen supplier partnerships and efficiencies.		

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Risk and description	Mitigating actions	Link to Strategy	Risk change
8 Legislation, regulation and reporting			
Failure to operate with high standards of governance supported by a sound system of internal control that ensures compliance with laws and regulations, including disclosure and reporting requirements.	The Company manages its obligations through a framework of policies and procedures and, where appropriate, engages the services of specialist third-party advisers which helps to support the assurance process. See Audit Committee Report page 116. The Company has an online compliance training portal with courses related to Anti-Bribery, Modern Slavery and Human Trafficking, Cyber Security and Social Media Awareness being rolled out to appropriate staff members. The Company has implemented a Code of Conduct, setting our clear standards and expectations for all employees. (Also see Supplier Ethical Code of Conduct on page 85) All senior leaders are required to complete a twice-yearly standards and controls attestation certificate.		
9 Environmental and decarbonisation			
Failure to reduce environmental impact, including failure to deliver GHG reductions in line with Net Zero commitments and contribution to climate change.	The Company continues to meaningfully develop and progress its overall ESG Strategy. For full detail on 'Environmental' related actions within this Strategy, see the Sustainability Report on pages 61 to 80 which includes the Company's TCFD disclosure. This disclosure details the climate-related risks the Company has identified, and how it is specifically assessing and addressing them. The Company has previously committed to a Net Zero emissions target (Scope 1 and 2) by 2035 and is actively engaged in transition planning. To strengthen and ensure progress towards this commitment, the Company introduced in November 2022 an interim target aligned with the Science Based Targets initiative ('SBTi') of a 46% reduction by 2030 against a baseline year set at 2019. The Company established an Executive ESG Committee during 2022, reporting to the Board and assisting the Board in the fulfilling of its oversight responsibilities with respect to the implementation and development of the ESG Strategy. There is transparent and regular external reporting to allow scrutiny by all stakeholders on environmental performance.		
10 Change and decision making			
Failure to successfully drive the cultural and operating model changes necessary to deliver the strategy.	The Company's strategy and strategic objectives continue to be embedded through regular group-wide communications and engagement. Senior Leadership conferences are held regularly to discuss overall progress and focus on specific elements of the strategy. Feedback is sought from all participants, including on support needed. The HR team was expanded in early 2023 to provide further support to senior managers across the group responsible for teams of people and delivery of the strategy. As above, the Board has direct oversight of strategy and its progress, and investment has been made in multiple areas in support of the strategy. The strategy is now well resourced in terms of monetary investment and people, with good governance in place through regular reviews by both Board and the Executive Team.		

VIABILITY STATEMENT

Background

Provision 1 in line with Principle C of the UK Corporate Governance Code 2018 requires the Board to assess the risks to the sustainability of the business model and delivery of strategy, and whether these have been considered and addressed. This statement sets out, in overview, that assessment.

A period of three years, to 31 December 2025, was chosen for the purpose of the viability assessment, consistent with prior years and which best aligns with the Company's strategy, as outlined on pages 14 to 15, including the timeline for the trade counter roll-out.

Sensitivity Analysis

Reporting on the Group's viability requires the Board to consider those principal risks that could impair the solvency and liquidity of the Group. In order to determine those risks, the Board considered the groupwide principal risks as set out in the Risk Management, Principal Risks and Uncertainties section on pages 81 to 86.

In light of the Group's competitive position, corporate governance controls, mitigating actions and factors within its control, it is the Board's opinion that it is unlikely that any of the individual risks other than market (economy and competition) could compromise the Group's viability in the assessment period.

The identified principal risks include environmental and decarbonisation risk. It is the Board's opinion that environmental risks are unlikely to compromise the Group's viability over the assessment period, including transition risks, which are considered the most likely to occur. In particular, the timing of any new potential legislation regarding extended producer responsibility for bulky household waste items is unlikely to fall within the assessment period. Whilst trialling of electric and other commercial vehicles is underway, technological advancements are required before moving the whole fleet to an alternative, although the number of vehicles are relatively modest. The Board considers that any potential changes in consumer preferences towards more sustainable products can be supported by the Company reflecting these changes in its product offering and may present opportunities to gain competitive advantage against its direct peer group. Climate change risks are discussed further in the TCFD qualitative analysis on page 72, including consideration of the impact of the risks over time horizons longer than this assessment period. In preparing the TCFD disclosures in conjunction with a specialist ESG adviser, the Board consider the Company to currently have relatively low exposure in the medium term to climate change related risks

In respect of market (economy and competition) risk, the key risk relates to periods of economic recession that create reduced consumer and business confidence which could result in a significant reduction in demand for the Group's products.

The Board considers that there are two severe plausible scenarios which have the potential to threaten the viability of the Group: a sustained recessionary environment, characterised by a long period of underperformance throughout the assessment period; and an economic crisis with a sharp decline in demand in the first year before a recovery.

The impact of inflation on the results for the year and the inflationary impact on consumer spending which could contribute to the occurrence of these scenarios have been considered as part of the assessment.

VIABILITY STATEMENT
CONTINUED

Scenario A – Sustained Recessionary Environment

Scenario A is modelled on the basis that there is a sustained recessionary environment in both the UK and Continental Europe such that revenues in 2023 decline 4.0% compared with 2022, similar to that experienced in 2008-2009, and then remain flat during 2024 and 2025.

In this scenario, even in the absence of any mitigating actions, the Group continues to operate within its current banking facilities, as detailed below, and the covenant restrictions set out therein.

Scenario B – Economic Crisis

Scenario B is modelled on the basis of a V-shaped economic crisis and then recovery, similar to the overall impact of COVID-19 observed in 2020 and 2021, such that revenues decrease 15% year-on-year followed by a recovery in the following years. The majority of the 2023 decline is modelled to be recovered in 2024, with year-on-year revenue growth of 13%, and the remainder recovered in 2025.

In this scenario, even in the absence of any mitigating actions, the Group continues to operate within its current banking facilities, as detailed below, and the covenant restrictions set out therein.

Reverse Stress Test

The Directors have also considered a less likely, more severe scenario, where the Company experiences a revenue year-on-year decline of 20% in 2023 (reverse stress test). In 2020, when the Company had COVID-19 related temporary closures of operations, revenue in the year only declined by 15% against 2019. In this scenario, the Group continues to operate within its current banking facilities, as detailed below, and covenant restrictions. However, should the reduction in revenue be greater than this, the Board would need to take mitigating actions to remain within its banking covenants.

Mitigating actions, which are within the Board and management's control, include a reduction in the cost base to better align it with market demand and revenue performance, suspension of ordinary dividend(s), and a freeze on non-critical capital spend. These actions are not included in any of the scenarios modelled, but were effectively implemented during 2020 following the initial impact of COVID-19.

Banking Facilities

As at 31 December 2022, the Company had a net funds position excluding lease liabilities of £1.8 million, and had total banking facilities available of £100.3 million, including £81.5 million of committed facilities which was undrawn.

The final dividend payment in June 2023 will reduce the net funds position, by £9.0 million, as will the acquisition of Melrose Interiors (see Note 29 to the Financial Statements) and the completion of the Share Buyback Programme with £5.2 million cash used in 2023.

The Company is subject to financial covenants in relation to its £81.5 million revolving credit facility agreement which are tested and reported every half year and year end. These comprise an Interest Cover ratio of not less than 3:1 and a Leverage ratio not exceeding 2.5:1. Interest Cover is the ratio of the consolidated underlying operating profit of the Group before interest, taxation and non-underlying items, adjusted to exclude the impact of IFRS 16, (EBIT) to Finance Charges. Leverage is the ratio of borrowings and cash and cash equivalents, excluding IFRS 16 leases to EBIT after adding back amortisation and depreciation.

Based on the financial impact of the scenarios analysed and associated mitigating actions that could be implemented, the Board has been able to conclude that the Company will be able to operate within its existing bank covenants and maintain sufficient bank facilities to meet its funding needs over the three-year assessment period.

Confirmation of Longer-Term Viability and Going Concern

Based on the results from these scenarios, and having considered the available mitigating actions, the Board can have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of this assessment. This longer-term assessment process supports the Board's statements on both viability and going concern, with the going concern assessment period no shorter than 12 months from the date of approval of the financial statements.

NON-FINANCIAL INFORMATION STATEMENT

The table below sets out where stakeholders can find information in the Strategic Report that relates to non-financial matters detailed under Section 414CA and 414CB of the UK Companies Act 2006, and this, taken together, comprises the Company's Non-Financial Information Statement.

Reporting Requirement	Relevant policies	Additional Information
Matters		
Environmental matters	ESG Policy Supplier Code of Conduct	Sustainability Report – pages 61–80 SECR Disclosure – pages 77–80 Corporate Governance Report – pages 92–172
People	Code of Ethics	Stakeholder Engagement and Section 172 Statement – pages 28–31 Sustainability Report – pages 61–80 Corporate Governance Report – pages 92–172
Social matters	Equal Opportunities and diversity policy Flexible working policy	Stakeholder Engagement and Section 172 Statement – pages 28–31 Sustainability Report – pages 61–80 Corporate Governance Report – pages 92–172
Respect for Human Rights	Health and Safety Policy Modern Slavery Statement	Health and Safety – page 35 Modern Slavery – page 170 National Real Living Wage – page 33 Other Statutory Disclosures – pages 166–172
Anti-Corruption and Anti-Bribery matters	Anti-Corruption and Bribery Policy Speak Up Policy Expenses Policy	Corporate Governance Report – pages 92–172 Audit Committee Report – pages 116–125 Other Statutory Disclosures – pages 166–172
Information disclosed in support of the matters		
Business model		Business Model – page 12–13
Principal risks, impact and mitigation		Risk Management, and Principal Risks and Uncertainties – page 81–86
Non-financial key performance indicators		Key Performance Indicators – page 24–27 Sustainability Report – page 61–80

This Strategic Report was approved by the Board on 8 March 2023 and signed on its behalf by

Chris Payne

Chief Executive

GOVERNANCE REPORT

BOARD OF DIRECTORS

The whole Board has oversight of the Company's sustainability agenda and ESG Strategy, which incorporates areas of focus including workforce engagement, health and safety, IT resilience, and DEI. Additional oversight and individual accountability for specific focus areas is given through Board and Executive Team membership of the ESG Committee, the Risk Committee, and the formal Employee Forum.

Committee Membership key

A Audit Committee

N Nomination Committee

E ESG Committee

R Remuneration Committee

F Employee Forum

N Chair R

Keith Edelman
Non-Executive Chairman

Keith was appointed a Non-Executive Director in 2018, and Non-Executive Chairman in 2022. Keith is currently Non-Executive Chairman of Revolution Bars Group Plc, and a previous Non-Executive Director of the London Legacy Development Corporation. His last executive appointment was Managing Director of Arsenal Holdings Plc where he was responsible for the move from Highbury to Emirates Stadium. Keith has held a number of public company Non-Executive roles, including Superdry Plc, Safestore Plc, Goals Soccer Centres plc, JE Beale Plc, Thorntons Plc, Pennpetro Energy Plc and Altitude Group plc.

Keith brings extensive commercial experience to the Board coupled with a background in consumer facing businesses. In his executive career he was a director of consumer, retail and leisure companies including Ladbroke Group Plc, Carlton Communications Plc and Storehouse Plc.

E Chair F Chair

Chris Payne
Chief Executive

Chris joined the Company as Chief Financial Officer in 2017, and was appointed Chief Executive in 2022 having been a key architect of the Company's strategy centred around growth, efficiency, and modernisation. Chris was previously at Biffa plc, the UK integrated waste management company, where he was Group Commercial Finance Director, a member of the Group Executive Team with responsibilities for the operational finance teams and divisional Finance Directors, commercial pricing and leading the M&A function. Prior to that, Chris held finance and commercial director positions at several listed businesses.

He is a qualified Chartered Accountant having trained with KPMG and is a Fellow of the Institute of Chartered Accountants in England and Wales.

A N R

Stephen Bird
Senior Independent
Non-Executive Director

Stephen was appointed a Non-Executive Director in 2021, and Senior Independent Director in 2022. Stephen is Group Chief Executive of Videndum plc (formerly The Vitec Group plc), the international provider of premium branded hardware products and software solutions to the growing content creation market, having held the position since 2009. He was previously Senior Independent Director of Dialight plc, the global leader in sustainable LED lighting for industrial applications, stepping down in 2021 after nearly nine years on the Board.

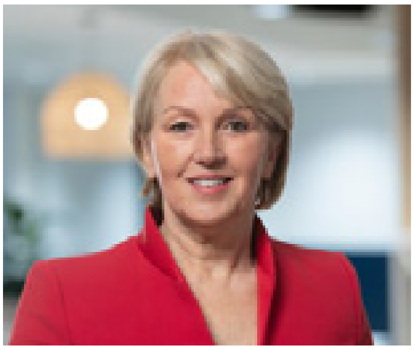
Stephen has extensive executive experience developing successful, customer-led growth strategies to help businesses grow and adapt to changing markets. Prior to joining Videndum plc, Stephen was Divisional Managing Director of Weir Oil & Gas, and held senior roles at Danaher Corporation, Black & Decker, and Technicolor Group. He is a member of the English National Ballet's Finance and General Purposes Committee.

Chief Financial Officer

On 20 March 2023, after the publication date of this Annual Report, Adam Phillips will join the Board as Chief Financial Officer.

Adam was previously Group Financial Controller at National Express Group PLC, the FTSE 250 leading international transport provider, where he was responsible for group financial reporting and control. In addition, he headed up other group finance functions including Financial Planning and Analysis, and Investor Relations. Prior to this Adam was at Halfords Group plc, UK's leading provider of motoring and cycling products and services, where latterly he was Corporate Finance Director and Group Strategy Director.

Adam is a qualified Chartered Accountant having trained with KPMG and is a Fellow of the Institute of Chartered Accountants in England and Wales.



A N R E F

Karen Hubbard
Independent Non-Executive Director

Karen was appointed a Non-Executive Director in 2022. Karen has over 25 years' experience in retail, at both Executive and Director levels across various industries and markets. She was previously Chief Executive Officer of Card Factory plc, the UK's leading specialist retailer of greeting cards, gifts, wrap and bags, where she diversified their income from a UK High Street business to a Multi Channel, International, Wholesale and Franchised operation. Karen has also served as Chief Operating Officer at B&M, on the ASDA Stores Executive Board as Director for Property, Multi-Channel and Format Development, in addition to working for BP Oil's retail divisions.

Karen currently serves as Chair in privately backed businesses Custom Materials Limited and Character.com. In addition, she is a Non-Executive Director of St Austell Brewery.

Karen is a member of the ESG Committee and the Employee Forum, and the Independent Director who has oversight of Work Engagement.

A Chair N R

Robin Williams
Independent Non-Executive Director

Robin was appointed a Non-Executive Director and Chair of the Audit Committee in 2022. Robin has over 30 years' experience with listed companies, including as founder CEO and Executive Director with FTSE250 companies within the packaging and the building materials industries. He is currently Non-Executive Chairman of Keystone Law Group plc and FIH Group plc (from which he is stepping down in September 2023), and a Non-Executive Director at Churchill China plc and The Manufacturing Technology Centre Ltd.

He was previously a Non-Executive Director at Van Elle Holdings plc and Non-Executive Chairman of Xaar plc, stepping down in 2020 after 10 years on the Board. Robin is a qualified Chartered Accountant and brings experience of Chairing Audit Committees as well as insights from a wide range of sectors as an Executive and Non-Executive Board member of public and private companies.

A N R Chair

Jemima Bird
Independent Non-Executive Director

Jemima was appointed a Non-Executive Director and Chair of the Remuneration Committee in 2022. Jemima has over 20 years' retail experience working with many of the UK's leading high street brands, and has held numerous Executive Commercial, Marketing and Operations positions. She is currently Senior Independent Director and Chair of the Remuneration Committee at Revolution Bars Group plc, and was previously a Non-Executive Director at Carpetright plc, a leading floorcoverings and beds provider, until it was taken private in 2020.

Jemima is the Senior Trustee for the Football Foundation, the UK's largest sports charity, and also Chair of The Well HQ, a leading women's sporting health consultancy.

EXECUTIVE TEAM

Catherine Miles
Director of Investor Relations and ESG

Catherine was appointed in 2017 having previously been Corporate Broking Director at the stockbroker Arden Partners, where she was an adviser to Headlam. Catherine worked in Corporate Broking for six years advising on transactions and regulatory matters, and raising money for a broad spectrum of public companies. Prior to this she was Communications Director and Company Secretary at an AIM listed company, and initially worked in the Financial PR industry. Catherine is highly involved in both external and internal stakeholder engagement activities, and regulatory compliance and reporting.

Catherine is the day-to-day overseer of ESG strategy, activity and reporting, and is a member of the ESG Committee and the Risk Committee.

Adrian Harris
Chief Operating Officer (UK)

Adrian was appointed in 2019. His accountabilities include all elements of the UK distribution operations, delivering significant parts of the Strategy and IT programme. Previously Adrian was Chief Operating Officer at Yodel, one of the UK's largest delivery companies for B2B and B2C orders. Prior to that, Adrian held roles in the areas of logistics, e-commerce fulfilment and supply chain management at Marks and Spencer, Amazon, Tesco and Home Retail Group. He initially spent 10 years in the Royal Logistic Corps of the British Army, latterly as a Major.

As part of his remit, he is the day-to-day overseer of the Company's health and safety activities. Adrian is a member of the ESG Committee and the Risk Committee.

Clare Moore
Chief People Officer

Clare was appointed in 2022 having previously worked as the Chief HR Officer at Midcounties Cooperative Ltd, the UK's largest independent consumer cooperative made up of Food Retail, Travel, Childcare, Utilities, and Healthcare. Prior to that she held a number of roles at Halfords Group Plc spanning 10 years where she was eventually promoted to the role of Group People Director. Clare has also worked in HR in businesses such as Barclaycard, Aston Martin Lagonda Ltd and Rolls Royce Plc. Clare brings experience of colleague attraction, engagement, development and reward across a broad range of colleagues.

Clare is a member of the ESG Committee, the Risk Committee, and the Employee Forum.

Toni Wood
Chief Customer Officer

Toni was appointed in 2023, into the new role of Chief Customer Officer with the remit of leading customer and digital strategy. Toni was previously Chief Marketing and Growth Officer at ufurnish.com, the UK's market leading search and discovery website for home furniture and furnishings. Prior to that, she was Chief Commercial and Marketing Officer for DFS Furniture PLC, where she was instrumental in developing the brand, responsible for merchandising and design, and ran the stand-alone manufacturing division.

Toni is a Fellow of The Marketing Academy and the Chartered Institute of Marketing, and in 2022 was recognised by Marketing Week as one of the UK's Top 100 Marketers. She is a member of the ESG Committee and the Risk Committee.

Caroline Farbridge
Company Secretary

Caroline was appointed in 2022 and has over 25 years' experience across several business sectors and extensive experience in all governance and compliance matters. She brings experience of share schemes, insurance, HR, health and safety, and facilities management. Most recently she was Deputy Company Secretary at Croda International Plc, a FTSE 100 company. Prior to that she held the position of Company Secretary at Bonmarche Holdings PLC and EMIS Group plc. Her previous roles were at WYG plc, Provident Financial plc, Heywood Williams plc and Yorkshire Electricity plc.

Caroline is an Associate Member of the Corporate Governance Institute. She is a member of the ESG Committee and the Risk Committee.

CHAIRMAN'S INTRODUCTION

Keith Edelman, Non-Executive Chair

"The Board and Senior Management have a strong set of complementary skills to support the delivery of the strategic objectives of the Group"

On behalf of the Board, I am pleased to present the Governance Report for the financial year ended 31 December 2022.

This report sets out our approach to effective governance, outlines the areas of focus for the Board and the key activities undertaken.

My role and that of the Board has been to guide the business and the executive management while ensuring the right strategy is in place, supported by the right people, to deliver it and drive the business forward. The last financial year has been an important period and we have continued to successfully strengthen the foundations we have in place to support our strategic ambition.

Board changes and succession planning

Philip Lawrence, Amanda Aldridge and Simon King stepped down from the Board during the year. I would like to thank them for their dedication and commitment to the Board.

We recruited three new Non-Executive Directors, Karen Hubbard, Jemima Bird and Robin Williams following formal and comprehensive recruitment processes and the recommendations of the Nomination Committee.

Chris Payne was appointed as our Chief Executive Officer on 8 March 2022 having fulfilled the role as interim since the departure of Steve Wilson in 2021.

These appointments, along with that of Adam Philips as our Chief Financial Officer, and other senior management appointments into key areas of the business ensures that we have a strong set of complementary skills and breadth of experience across the Board, Executive Directors and the Executive Team to support the delivery of the strategic objectives of the Group.

Full details of the external search processes undertaken for these appointments can be found in the report of the Nomination Committee on page 126.

Strategy and Culture

The Board has made progress in many key areas throughout the year, including the review of our purpose and ensuring the right set of values sit alongside the Group's strategy as it is implemented.

Karen Hubbard assumed the role of Non-Executive Director responsible for employee engagement from Simon King. This role and the review of our People Strategy by our new Chief People Officer, will ensure we continue to develop our cultural dash board. This will enhance the quality of the information the Board receives from our employees.

A new supplier code of conduct was issued in 2022 and we held our first supplier conference which was attended by 30 of our key suppliers. A revised colleague code of conduct will also be rolled out in 2023.

Our on-going engagement work with all our stakeholders will help shape how the Board takes their views into consideration to support our decision making and ensure the culture of the business is developing in line with our stated purpose and values. Information of our engagement with stakeholders can be found on pages 28 to 31 and throughout this Governance report.

This commitment to guiding and promoting a healthy culture is underpinned by a significant ongoing work programme to develop a strong safety culture. The building blocks have been put in place, existing practices assessed as required and key objectives identified to promote and drive forward this work.

We will be monitoring our culture metrics as they continue to develop so that we continue to understand the changes and trends within the business, deepen our on-going relationships with all our stakeholders and focus on overall corporate responsibilities to our colleagues and the communities we serve.

Environmental, Social and Governance (ESG) Responsibilities

Our first ESG strategy report was produced in 2021 after working with an external specialist to identify areas of key focus for the business. This work has continued throughout 2022 as a key work stream and embedded into the business through the newly established ESG Committee which is attended by Non-Executive Director Karen Hubbard. ESG updates have regularly been given to our stakeholders. The highlights from the year and our progress in key areas are outlined in our Sustainability report on pages 61 to 80.

The commitments to embedding ESG across the organisation and leading on sustainability and environmental responsibility, as well as making Headlam a great place to work for everyone, are now an integral part of our strategic pillars. We have made great strides forward during the course of the year and as a Board we are focused on delivering tangible progress in the year ahead.

Diversity

The Board recognises that diversity both on the Board and in the wider organisation leads to healthy debate which in turn leads to better decisions and helps support the Company become more adaptable to the changing environment. The Board reviews its diversity policy annually and it was a key consideration throughout the process of recruiting for the vacant Board positions. In making our appointments we have aimed to cultivate a broad spectrum of attributes and characteristics in the boardroom and we will continue to keep the position under review as we move forward in all our succession planning activity. Diversity across the organisation will be a key pillar of the revised People Strategy and we will report back next year on progress against agreed objectives. Further information on diversity can be found in the report of the Nomination Committee.

Board Evaluation

An externally supported evaluation was carried out at the end of the year. This was to allow the new Board members to have attended a minimum of two meetings and to have carried out their induction activities before the evaluation took place. At this early stage following the Board appointments, the results were pleasing and the new Board is working well together. There is already a high level of constructive challenge and this will improve over the coming year as the Board works together to oversee and support the implementation of the strategy. More information on the Board evaluation can be found on page 114.

Our Colleagues

It has been a busy year with a refreshed Board, a reviewed strategy and the recruitment of a number of highly skilled colleagues at all levels of the business to drive us forward.

The Board recognises the significant contributions from all our colleagues throughout the year and thanks them for their hard work and dedication.

Keith Edelman

Non-Executive Chair
8 March 2023

COMPLIANCE STATEMENT

It is the Board's view that, throughout the financial year ended 31 December 2022, and as at the date of this report, the Company complied with all the relevant principles and provisions set out in the UK Corporate Governance Code 2018 (the 'Code').

This Report complies with Rule 7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority, with the information required to be disclosed by sub-section 2.6 of Rule 7 being shown on pages 166 to 172. The Company has also complied with the relevant requirements of the Disclosure Guidance and Transparency Rules, the Listing Rules, Directors' Remuneration Reporting regulations and narrative reporting requirements.

The Corporate Governance section of this Annual Report and Accounts explains how the Code principles have been applied. The 2018 UK Corporate Governance Code is available at www.frc.org.uk

Implementation of the Principles of the Code

Board leadership and company purpose

The Board is responsible for:

- Promoting the long-term sustainable success of the Company and establishing the Company's purpose, values and strategy (ensuring that its culture is aligned).
- Ensuring the necessary resources are in place to meet objectives and measure performance against them within a framework of effective controls.
- Engaging with stakeholders to inform decisions and ensuring that workforce policies and practices are consistent with the Company's values and support long-term success.

Board of Directors – pages 92–93
Leadership and purpose – page 100
Board activities during the year – page 110
Succession planning – page 126
Considering stakeholders in decision making – page 101

Division of responsibilities

The Chair leads the Board and is responsible for its overall effectiveness in driving the Company.

There is clear division of responsibilities between the leadership of the Board and the executive leadership of the business.

The Non-Executive directors dedicate sufficient time to meet their responsibilities and provide constructive challenge, strategic guidance, specialist advice and hold management to account.

Board policies and processes are in place to ensure that the Board functions effectively.

Board Roles – page 106
Division of responsibilities – pages 106–109
Nomination Committee report – page 126
Dealing with Directors' conflicts of interest – page 105

Composition, succession and evaluation

Formal, rigorous and transparent procedures are in place to support Board appointments, led by the Nomination Committee, which considers the importance of diversity in decision making.

The Nomination Committee regularly reviews composition of the Board and Committees to ensure appropriate combination of skills, experience and knowledge and to plan for the progressive refreshing of the Board.

Annual evaluation of the Board's composition, diversity and effectiveness.

- Nomination Committee report – page 126
- Appointments to the Board – pages 126–128
- Diversity Policy – page 129
- Board composition – pages 114 and 126
- Board evaluation – page 114

Audit, risk and internal control

The Board has established formal and transparent policies and procedures to ensure the integrity of the independence of the Group's external audit, and to satisfy itself of the integrity the Group's financial statements and to confirm that they represent a fair, balanced and understandable assessment of the Company's position and prospects.

Procedures have been established 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.

- Audit Committee report – page 116
- Fair, Balanced and Understandable statement – page 124
- Risk Management and Internal Control – pages 81–86 and page 119

Remuneration

The Board, through its Remuneration Committee, determines Director and Senior Management remuneration policies and practices and ensures they align to the Company's purpose, values, and promote the successful delivery of the Company's long-term strategy.

Each element of performance related pay allows for the independent exercise of judgement and discretion when authorising remuneration outcomes.

Controls have been implemented to ensure that no Director is involved in deciding their own remuneration.

- Remuneration Overview – page 138
- Directors' Remuneration Policy – page 139
- Directors' Annual Report on Remuneration – page 152
- Statement of implementation of Remuneration Policy in 2023 – page 162

BOARD LEADERSHIP AND COMPANY PURPOSE

Our Board is ultimately responsible for the strategy, management, performance and long-term sustainable success of the Group.

It is the principal decision-making forum for the Group, providing entrepreneurial leadership, both directly and through its Committees and by delegating authority to the Executive team.

This responsibility includes: setting the Company's purpose, values and strategy; reviewing and promoting the desired organisational culture; ensuring the necessary resources are available to meet agreed objectives; and ensuring that all of these elements are aligned. The Company's purpose is detailed on page 2.

Through the strong governance framework that it has in place, the Board is able to deliver on its strategy of providing strong sustainable financial and operational performance. The Board is also accountable for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met; and for ensuring that it operates within appropriately established risk parameters.

Culture

The Board is responsible for monitoring and assessing culture. The Board does not have a single way to assess culture, instead it draws on multiple sources to understand the way colleagues feel about the Company. This is done through formal and informal methods, through the outputs from the Employee Forums and the reports of the Chief Executive to the Board which report on his ongoing programme of Town Halls across all areas of the business.

Colleagues are encouraged to incorporate the values into work every day, to work the Headlam Way and deliver our long term objectives, together.

Karen Hubbard is the Independent Non-Executive Director accountable for representing the voice of our colleagues in Board meetings. Simon King held the role until he stepped down in October 2022. Simon attended four Employee Forum meetings during 2022. The refreshed Employee Forum will meet formally four times during 2023 and the outputs will be outlined in next years report. Further information on how the Board hears the employee voice can be found on page 103.

Work continues to enhance communication to ensure that staff across the business, especially those more remotely situated and any new colleagues in the Group's businesses, do not feel isolated. The Group-wide intranet continues to be developed as a place for colleagues to access all communication and information about benefits and personal and financial well-being.

The revised Speak Up Policy which now includes an externally managed helpline was launched during the year and this as well as the long-established grievance policy provides a mechanism for colleagues to raise matters of concern more formally. In addition, the Headlam Code of Ethics has been reviewed and refreshed and will be rolled out in the first half of 2023.

As well as reviewing People KPIs at the Board and the outputs from the listening channels, the Board has continued to influence and monitor Group culture in a number of additional ways:

- Increasing the focus on the health, safety and working practices of our colleagues and reviewing key health and safety performance indicators
- Reviewing and revising remuneration structures for senior management
- Reviewing the people strategy following the appointment of the Chief People Officer
- Regular meetings with management and inviting presentations at the Board and Committee meetings from relevant managers and colleagues
- Assessing other cultural indicators such as the attitude to risk, the implementation and compliance with group-wide policies such as Anti-Corruption and Bribery, Fraud and Money Laundering

Board Engagement with Stakeholders

Information on our Stakeholder Engagement and Section 172 Statement of the Strategic Report on pages 28 to 31.

By understanding the interests and needs of all our stakeholders, the Board can take these views into account in Boardroom discussions and decisions. The relevance of each stakeholder group may change depending on the issue under discussion.

The Board had continued to develop its methods of engagement during the year and this work will be continued during 2023.

Our Colleagues

Board members engage with a wide variety of colleagues. Karen Hubbard is our dedicated Employee Non-Executive Director and attends the Employee Forum.

See page 32 and 103 for employee engagement.

Our Customers

The Board receives customer insights from the Chief Executive and Chief Operating Officer, through Board reports and strategy presentations.

See page 10 for customer segments and page 28 for customer engagement.

Our Suppliers

Supplier relationships provide valuable insights through engagement with operations teams and through the Chief Executive and Chief Operating Officer. The feedback from our first supplier conference was discussed by the Board.

See page 28 for supplier engagement.

Our Shareholders

There is regular dialogue with our shareholders.

See page 30 and 104 for shareholder engagement.

Our Communities and the Environment

It is important that we operate safely and sustainably and that we review the impact of our operations on local communities and on the environment. The Board receives regular updates on these activities.

Karen Hubbard is our dedicated ESG Non-Executive Director and attends the ESG Committee.

Further information can be found in our Sustainability Report on pages 61–80.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

Examples of how the Board considered the interests of its key stakeholders when making decisions.

Payment of Dividends

The Board considered the payment of a final, special and interim dividend having reviewed all capital requirements.

The Board considered the interests of all stakeholders when reaching this decision. They had regard to the balance sheet strength, debt providers and the need to continue to support employees by ensuring appropriate levels of pay and benefits. Consideration was also given to customers and suppliers and that the payment of the dividends would not have a detrimental effect of them.

Taking all the factors into account the Board concluded that the payments were in the best interests of the Company.

Stakeholders

For further information on dividends see page 54.

Revised Remuneration Policy

As the revised Remuneration Policy was developed, the Board were kept appraised via the Remuneration Committee, of the views of the investors following the consultation on the proposals that was undertaken with them.

The long-term success of the business for stakeholders was a key consideration and ensuing the right behaviours were incentivised to deliver the agreed strategy.

The Board were also given the feedback of the employees received from the Employee Forum meeting where Executive Remuneration was discussed.

Stakeholders

For further information on remuneration see the report of the Remuneration Committee starting on page 134.

Acquisition of Melrose

The Company acquired a leading distributor of rugs shortly after the year end.

The Board considered a wide range of stakeholders through the detailed papers from the Interim Chief Financial Officer and updates on progress within the report of the Chief Executive to the Board.

The acquisition will bring a number of new larger customers to the group and support the delivery of our strategic aim to expand into adjacent products in an area where the Company is targeting growth.

The acquisition will add additional skills in third-party logistics, recycling, and an in-house rug and sampling/pattern book department which will help improve our strategic aim to improve our operational capabilities.

Melrose will support our sustainability strategic goals through its upcycling of surplus carpet from across the industry into samples and pattern books,

Stakeholders

For further information on our strategic aim to deliver new opportunities for future growth, see page 14.

Employees

The Board utilises a wide range of methods to ensure that we understand the interests and views of our employees and take them into account when we make decisions to promote the long-term success of the Company. The Board and its Committees regularly invite members of the management team to join meetings and to present on the matters being discussed. A range of methods are used, both formal and informal to ensure that two-way dialogue is facilitated.

Simon King held the role of dedicated Non-Executive Director responsible for ensuring employee views are represented in the Board room. Karen Hubbard now fulfills that role. Karen attends the employee forum which provides a platform to colleagues to express their views, suggestions and concerns to ensure they are heard and acted upon where possible.

The Forum, which is chaired by the Chief Executive, has proved to be an invaluable opportunity to: discuss business plans, strategy and ideas; assist with the dissemination of information throughout the workforce; and keep colleagues up to date.

Four Employee Forums were held over the course of the year and each provided an opportunity to be updated on the performance of the business and to ask questions of the Chief Executive in an open forum. The Employee Forum considered the alignment of executive remuneration with that of the wider workforce.

Where the remuneration of the Executive Directors was under discussion, the Chief Executive excused himself from the meeting.

Following each meeting, an update is provided to the Board by the Non-Executive Director who attends the Forum. At the meeting of the Forum in October 2022, it was agreed to increase the membership of the Forum in 2023 and to include virtual check in meetings between the in-person sessions that will be used to develop the agendas for the in-person meetings around areas of current employee interests and concerns.

It is important that themes and concerns are identified on an ongoing basis. The Board will keep the developing programme of engagement under review through the course of the coming year to make sure it continues to evolve and become an increasingly valuable tool for providing information to support the Board decision making process.

During the year the Speak Up Policy was reviewed and reissued. It included the addition of an externally managed helpline to allow truly anonymous reports to be filed.

The Board has received presentations from management and undertaken site visits. For further information see page 106.

The results of pulse surveys provide invaluable information for the Board to gauge how employees feel on these important topics. In 2022, these included views on diversity and inclusion and health and safety matters.

Information on employees is also received at Board meetings through management reports, with people KPIs in the HR report. Each Director has the opportunity, and is encouraged, to undertake site visits.

Since his appointment as Chief Executive Officer Chris Payne has undertaken additional visits to each site to present the strategy

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

of the Company and at these visits he engaged with a wide range of employees. Information on these visits was fed back to the Board through his regular Chief Executive's report.

These sessions, along with the Forum and site visits are a mechanism to gain diversity of thought as well as enhancing the relationship of the Directors across a wider employee base.

The Board also considers annually if the current framework continues to be effective. Feedback from 2022 concluded that engagement had started to establish meaningful and genuine dialogue with employees and this would be enhanced through the addition of the virtual check-in sessions.

Shareholders

Communication between the Company and its shareholders is considered by the Board to be an essential element of a sound governance framework. The Company offers its larger shareholders, either directly or via its stockbrokers, face-to-face meetings or calls on a bi-annual basis at a minimum, to present and discuss performance, strategy and other matters. The majority of these meetings take place after the results announcements. Feedback from these meeting and regular market updates are prepared by its brokers and presented to the Board alongside regular market updates to ensure the Board has a good understanding of shareholders' views. This ongoing two-way communication also helps inform investors so they are able to appraise the Company performance and management and understand it as an investment proposition.

The Chair of the Remuneration Committee undertook an investor consultation in January and in November 2022. These consultation covered the proposals in relation to remuneration policy during the year and the proposed revised remuneration policy that will be submitted to shareholders at the 2023 AGM. Further information is contained in the Report of the Remuneration Committee starting on page 134.

Other communication tools include the regulatory announcements; investor presentations; webcasts; and the Annual General Meeting ('AGM'). Feedback is sought and considered by the Board after these interactions as appropriate. The Company also retains a Financial PR and IR adviser, alongside its two brokers, to further facilitate interaction and support its communication with the investment community. The Board receives a regular share register analysis report.

The Company offers larger shareholders meetings at Company locations to help with a fuller understanding of the business and to introduce other members of the Executive and senior teams.

Any appropriate webcasts and presentational materials are made available to view by all on the Company's website. During 2022, the Company also participated in events and presentations aimed specifically at private investors.

Non-Executive Directors, including the Chair, are available to all shareholders and would attend either in person or virtually certain meetings, events and briefings where shareholders are present in addition to the AGM as and when required.

The Senior Independent Director additionally makes himself available to meet with shareholders if they have any concerns or if they consider that an issue had not been adequately resolved. Stephen Bird is our Senior Independent Non-Executive Director and he can be contacted via headlamgroup@headlam.com

Annual Report

The Annual Report is available to all shareholders and is published in March each year. Shareholders can opt to receive a hard copy or can download a pdf. If shareholders have difficulty in accessing a copy through a nominee account, they can contact the Company Secretary to request a copy.

Corporate Website

The Headlam Group plc website, www.headlam.com, has a dedicated investor relations section which includes annual reports, results presentations and the financial calendar . The website also summarises our business strategy and model, company announcements and ESG activities.

Annual General Meeting

In 2022, the Company held an in person Annual General Meeting ('AGM') and continued to show caution due to the coronavirus pandemic. It was agreed that to provide the opportunity for all shareholders to submit questions by email in advance of the AGM and receive a written answer in respect of frequently asked questions. Facilities were put in place to offer shareholders the opportunity to follow the business of the meeting and ask questions remotely.

The Company is looking forward to welcoming shareholders to its 2023 AGM. The Chair of the Board and the Chair of each Board Committee will be available at the meeting to answer shareholders' questions which can be asked either in person or submitted in advance of the meeting. The Company has reviewed the use and cost of the remote facility and will not be providing it on this occasion. This will be reviewed on an annual basis. Voting on all resolutions will be conducted by poll.

Shareholders are encouraged to engage and ask questions to the Board or individual directors regarding the running of the Company at any time during the year. The Board is always available to all shareholders.

A summary of the questions and answers at the meeting will be posted on the investor website in due course after the meeting.

More information on how to attend and ask questions, is set out in the Notice of AGM issued as a separate document to this report, and which is also available on the Company's website. All shareholders present at the AGM will have the opportunity to communicate directly with the Board at the AGM. There will also be an opportunity to meet with the Directors after the meeting.

A resolution on each substantially separate item will be proposed and voting on each resolution will be taken by a poll as the Board considers that this continues to be more representative of shareholders' voting intentions. The Company publishes the results of voting, including proxy votes on each resolution, on its website by no later than close of business on the next business day after the AGM and announces them through a regulatory news service as soon as practicable.

Conflicts of interest

The Board has an established process for declaring and monitoring actual and potential conflicts of interest.

- Directors are required to disclose professional commitments outside the Company prior to appointment and on an ongoing basis where there are any changes. Details of those professional commitments are included in the biographies on pages 92 and 93. The Board is satisfied that these do not interfere or conflict with the performance of their duties for the Company.
- Conflicts are considered prior to any Director taking on an external appointment. Details of changes to the Board during the year are outlined starting on page 126. For each appointment it was agreed that no potential conflict existed and that the interests of each candidate would allow sufficient time to be dedicated to their role with the Company.
- Actual and potential conflicts of interest are both included on a register which is maintained by the Company Secretary and reviewed annually.
- Conflicts of interest are considered as the first item at every Board meeting.

A review of these procedures was undertaken during the year and it was agreed that they remained appropriate and effective and were therefore re-approved.

The operation of these procedures mean that the Board may be reasonably assured that any potential situation where a director may have a direct or indirect interest which may conflict, or may possibly conflict, with the interests of the Company will be identified and, where appropriate, dealt with in accordance with the Companies Act 2006 and the Company's Articles of Association.

Under the Company's Articles of Association, the Board has authority to authorise potential conflicts of interest and to impose any limits or conditions it sees fit. In addition, the Board has delegated approval of new appointments where no conflict exists to a committee of two Directors, or where a potential conflict could exist, this is referred to the Nomination Committee for consideration.

DIVISION OF RESPONSIBILITIES

Board balance

As at 31 December 2022 the Board consisted of the Non-Executive Chairman,the Chief Executive Officer and four Non-Executive Directors (one of whom was the Senior Independent Director). As such, at least half the Board, excluding the Chairman, were Non-Executive Directors in accordance with the Code. After his appointment as permanent Chief Executive, Chris Payne was supported by an interim Chief Financial Officer whilst the recruitment process for a new Chief Financial Officer took place. Adam Philips will join the Group as Chief Financial Officer in March 2023.

The Board undertook a review of the size and balance of the Board and confirmed that it was appropriate to meet the business and operational objectives. Members of the Executive Team provided additional insight at board meetings during this period. Further information on the changes to the Board during the year can be found in the Nomination Committee Report on page 126.

Decisions are made by the Board following detailed consideration of the items under review and no one individual or small group of individuals dominate the Board's decision-making.

The Board operates within a corporate governance framework designed to support the achievement of long-term sustainable success. The Board has overall responsibility for setting the Group's strategy and setting objectives for the business while taking into account the risk appetite of the business. The Board has a formal schedule of matters reserved for its approval and then delegates responsibilities to its committees and management. The list of the key matters considered by the Board in 2022 can be found on page 111.

The schedule of matters reserved for the Board has been reviewed during the year and is available from the Governance section of the Company's website, www.headlam.com. It includes matters relating to strategy and management, structure and capital, financial reporting and controls, risk management and internal controls, contracts, board membership and delegation of authority, acquisitions and risk management. An overview of the main duties, roles and responsibilities of the Board are also available on the Company's website.

The Statement of the Responsibilities of the Chairman, Chief Executive and Senior Independent Director has been reviewed during the year and are also available on the Company's website.

Board Roles and Responsibilities

All Directors share collective responsibility for the activities of the Board; the long-term success of the business and its impact on stakeholders and the wider society. The Board roles are constructed to ensure a clear distinction between leadership of the Board and the executive leadership of the business. Specific Board roles are outlined in the table on the following page:

Non-Executive Chairman

The Chair leads the Board and sets the cultural tone from the top. He ensures high standards of corporate governance are maintained. He is responsible with the Board for understanding the views of all key stakeholders and ensuring they are considered in all decision making. He ensures that all directors are able to participate in discussions and constructive challenge and to promote effective communication between the Executive and Non-Executive Directors. The Chair leads the annual board effectiveness review and ensures all new directors have a tailored induction.

Chief Executive

The Chief Executive leads the Group and ensures the delivery of its commercial objectives while ensuring that operational policies and practices are driving the appropriate behaviour in line with the desired culture. He proposes and develops the Group's strategy in consultation with the Executive Team, the Chair and the Board and leads the communication programme with all key stakeholders including employees. He is responsible for overseeing Group health and safety and Group diversity initiatives and ensuring the Board has all the information they require.

Chief Financial Officer

The Chief Financial Officer is responsible for bringing the commercial and financial perspective to the Boardroom. He is responsible for managing the Group's finance function and ensuring that the appropriate financial support and processes are in place to support the implementation of the Group's strategy. He overseas and supports the relationship with the investment community and shareholders. He chairs the Executive Risk Committee which oversees the Group's risk profile and risk management process.

Senior Independent Director

In addition to their role as a Non-Executive Director, he acts as a sounding board for the Chair and acts as an intermediary for other Directors when necessary. He is available to shareholders where communication through the Chair or Executive Directors may not seem appropriate and to provide additional support in resolving significant issues. He is also responsible for leading the effectiveness evaluation of the Chair and discussions regarding the term of appointment and fees of the Chair.

Independent Non-Executive Directors

The role of the Independent Non-Executive Director is to provide strategic and specialist guidance with effective and constructive challenge. They critically assess the strategy and scrutinize the performance of management in meeting agreed goals and objectives within the risk and control framework set by the Board. They ensure all stakeholders are considered in the decision-making process. They have a prime role in succession planning and setting appropriate levels of remuneration for the Executive Directors and senior management team.

Company Secretary

The Company Secretary is secretary to the Board and its committees. The role is to support the Chair and Chief Executive in fulfilling their duties particularly in relation to induction, training and board effectiveness evaluations. In addition, she supports the Non-Executive Directors and provides updates to the Board and advice on corporate governance and compliance matters.

DIVISION OF RESPONSIBILITIES
CONTINUED

Board and Committee structure as at 31 December 2022

Group Board

Nomination Committee

To monitor the size, diversity and composition of the Board and its Committees and ensure a formal, rigorous and transparent procedure for the appointment of new directors and to plan for succession. To take an active role in monitoring the Company's diversity strategy and approach and monitoring its effectiveness

See page 126 to read more

Audit Committee

To assist the Board in fulfilling its obligations relating to the Group's financial reporting practices, internal control and risk management framework, and its external audit and other assurance processes.

See page 116 to read more

Remuneration Committee

To determine and agree the remuneration policy for Executive Directors and Executive Team, and to monitor and report on it. To review wider workforce remuneration and related policies in accordance with the Code.

See page 134 to read more

Disclosure Committee

Meets as required to assist the Board in discharging its responsibilities in relation to the control of inside information and obligations under the Market Abuse Regulation.

Executive Risk Committee

Meets quarterly to evaluate and propose policies and processes to current and emerging risks.

Committee attendance

Membership of the Board and its Committees and attendance at meetings held during the year ended 31 December 2022.

	Board	Nomination Committee	Audit Committee	Remuneration Committee
Keith Edelman (Chair)[1]	13 (13)	5 (5)	1 (1)	5 (5)
Chris Payne	13 (13)	–	–	–
Stephen Bird	13 (13)	5 (5)	4 (4)	5 (5)
Jemima Bird[2]	2 (2)	1 (1)	0 (1)	2 (2)
Karen Hubbard[3]	4 (4)	2 (2)	1 (1)	2 (2)
Robin Williams[2]	2 (2)	1 (1)	1 (1)	2 (2)
Amanda Aldridge[4]	10 (11)	3 (3)	3 (3)	3 (3)
Simon King[4]	8 (11)	3 (3)	3 (3)	3 (3)
Philip Lawrence[5]	5 (5)	3 (3)	0 (0)	2 (2)

1 Keith Edelman served as Senior Independent Director until 19 May 2022 when he was appointed as Chair following the resignation of Philip Lawrence.
2 Jemima Bird and Robin Williams were appointed to the Board on 10 October 2022. Jemima was unable to attend the meeting of the Audit Committee immediately after her appointment due to prior commitments but was fully briefed on the outcomes of the meeting.
3 Karen Hubbard was appointed to the Board on 1 September 2022.
4 Amanda Aldridge and Simon King resigned from the Board on 10 October 2022.
5 Philip Lawrence resigned from the Board on 19 May 2022.

Group Chief Executive

Group Health and Safety Committee

The Committee meets quarterly to monitor progress against the safety, health, quality objectives and targets and to review safety performance. It considers the need for new or revised policies and procedures.

For more information on Health and Safety see page 35

ESG Committee

The Committee meets quarterly to further develop the sustainability strategy and to monitor progress towards achieving the agreed commitments. It seeks to embed good sustainability practices across the group and is attended by a group of leaders from across the business.

For more information of the Sustainability strategy see page 63

Group Chief Executive

Group Executive Team

The Executive Team meets every month to develop and monitor strategy, operational plans and procedures and to ensure financial performance against the budget is monitored. The committee assesses and controls risk and prioritises and allocated resources to deliver the strategy.

For more information on Group Strategy see pages 14

Employee Forum

The Forum seeks to allow colleagues to express and discuss their views on any issue and provides an opportunity for them to influence and develop a more inclusive working environment. The employee Forum meets quarterly and is chaired by the Chief Executive. There are additional check in meetings between the formal meetings attended by employee forum representatives only.

For more information on Employee Forum see page 103

Board Committees and delegation

Various operational matters and decisions have been delegated to Board or management committees. The Company has long-established Audit, Nomination and Remuneration Committees which oversee and debate important issues of policy and assist the Board in attending to its responsibilities.

During the year under review the ESG Committee was established. Terms of reference for each Committee have been reviewed during the year and are available on the Governance section of the Company's website.

The Executive Directors are responsible for the detailed implementation of the strategic decisions of the Board. The Non-Executive Directors are responsible for evaluating and challenging management's proposals and their mix of skills and experience bring a broader perspective to the Board's dialogue and decision-making process.

DIVISION OF RESPONSIBILITIES
CONTINUED

Independence

The Company recognises the importance of its Non-Executive Directors remaining independent of executive management in character and judgement in order for them to effectively support and challenge management's proposals. The Board has considered the independence of the four Non-Executive Directors and, taking into account the Board's review of the Conflicts of Interests register, consider that all remain independent in character and judgement and free from any business or other relationship that could materially interfere with the exercise of independent and objective judgement. None of the circumstances outlined in the Code that may impair, or could appear to impair, independence apply in the case of any Non-Executive Director.

Keith Edelman was considered independent upon appointment to the Board in 2018 and continued to be so upon taking up his role as Non-Executive Chair. The Senior Independent Director is available to shareholders if they have concerns which are not resolved through the normal channels of the Chair, Chief Executive or Chief Financial Officer, or for which such contact is inappropriate.

The Non-Executive Chair and Non-Executive Directors do not participate in any bonus, share option or pension scheme of the Company, nor are they subject to minimum shareholding requirements. They are initially appointed for a three-year term and, subject to review and re-election by shareholders, can serve up to a maximum of three such terms.

In line with the Code, all Board members stand for re-election by shareholders annually and will do so at the 2023 AGM.

Board Activity in 2022

Board meetings provide the forum for the debate, review and challenge of strategic, operational and governance matters.

The Board had 10 scheduled meetings during the year to discuss the latest operating and financial information, key strategic items, additional deep dives into specific items and other topics requiring discussion or decision. In addition three ad-hoc meetings were held. The agenda has strong links to the strategic objectives of the Group and is set via a collaborative process between the Chair, Chief Executive and the Company Secretary. Sufficient time is allocated to each item to ensure effective discussion.

Standing agenda items include the Chief Executive and Chief Financial Officer on trading matters, health and safety, people and financial reports. The annual board work programme ensures that the view of all stakeholders, including employees, suppliers, customers and shareholders are taken into consideration. This ensures that the Directors discharge their duties including those under section 172(1) of the Companies Act 2006. Further detail on stakeholders can be found on pages 28 to 31.

Board papers are issued where possible, five working days prior to each meeting to allow adequate consideration of the matters to be discussed. The Board's meeting agenda is structured to ensure sufficient time is given to each item under consideration.

A separate strategy day is held during the year which is attended by the Executive team and other key management. This allows detailed consideration of the strategic plan and key focus areas which then forms the basis of the budget which is approved at the end of the year. This provided the Board with another opportunity to meet senior leaders in a more formal way and constructively challenge the detailed direction of strategy implementation.

For further detail on strategy, see page 14

The Board receives an update from the Company Secretary on a quarterly basis including updates on matters of corporate governance. Matters requiring attention between these quarterly Company Secretarial updates are shared at the next meeting, or between meetings as required.

The Board performs deep dives into areas of importance such as sales, buying, e-commerce and digital, and conducts post implementation reviews of key capital projects.

Key highlights of the Board discussions during the year under review are outlined.

Strategy and management

- Review of Group strategy and priorities
- Review of organization structure to deliver the strategy and the resources required
- Consideration of the operational strategy to deliver the strategic goals
- Deep dives into strategic areas
- Sustainability strategy and projects
- Consideration of the Melrose acquisition opportunity
- Considered the impact of Company culture on initiatives and projects.

see page 14 for more on strategy

Financial and performance reporting

- Review of the trading performance and the approval of the Company's annual and half-year results
- Approval of the Company's dividend policy
- Reviewed the Company's capital allocation priorities
- Reviewed and approved the Company's 2023 budget, forecasts and key performance targets
- Considered the progress of the share buy back
- Long term viability statement and time frame over which it should be considered
- Approved the UK Tax Strategy

see page 87 for long term viability statement

People

- Review of purpose and culture
- Approval of the new board appointments
- Senior management succession planning. A Chief People Officer and Chief Customer Officer were appointed
- Consideration of Health and Safety leadership
- Consideration of the external review of Group diversity
- Gender pay gap reporting
- Modern slavery reporting
- Employee share grants and long served awards
- Agreed a tiered pay award

see page 103 for employee voice and page 129 for diversity

Internal controls and risk management

- Consideration of the requirement for an internal audit function. A Group internal auditor was appointed during the year
- Completed an assessment of the Company's emerging and principal risks and risk appetite
- Monitored health and safety performance and implementation of continual improvements to procedures
- Monitored the ongoing implementation of recommendations arising out of the external review of IT security
- Received a presentation from the newly appointed Chief Information Officer

see page 122 for the appointment of the Group Internal Auditor and page 82 for information on risk management

ESG and stakeholder engagement

- Interacted with shareholders and the wider investment community
- Reviewed investor relations programme and feedback provided by the Company's investors, stockbrokers and financial PR agency plus reports on investor roadshows
- Received updates on ESG Committee activity on the progress during the year and the detail of the ESG strategy
- Received feedback from the first Supplier Conference

see page 61 for Sustainability report

Governance and culture

- Participated in and reviewed the results of an externally facilitated Board and Committee self-evaluation exercise and agreed areas of focus for 2023
- Approved the Statement of the Responsibilities of the Chairman, Chief Executive and Senior Independent Director, the Schedule of Matters Reserved for the Board and the terms of reference of each Board Committee
- Reviewed and approved the Board's principal policies
- Reviewed the Company's Register of Conflicts
- Approved the Company's Anti-Corruption and Bribery policy, procedures on gifts & hospitality, Fraud and Anti-Money Laundering policy and Speak Up policy
- Received and considered reports on compliance with financial, regulatory, corporate responsibility and environmental commitments

DIVISION OF RESPONSIBILITIES
CONTINUED

Outside the Boardroom.

Throughout the year the Board undertook site visits across the business.

In June they attended the Cheshire business and in December the meeting took place at the Tamworth site. Each visit includes a tour of the site as well as presentations of site management on the performance and opportunities for the business including health and safety performance. The Board also meets with a variety of employees during these visits.

In addition the Directors undertook further site visits individually which allowed an additional opportunity to discuss areas relevant to the Board and meet a variety of managers and employees.

See page 113 for further information on NED induction.

The Non-Executive Directors have access at any time to the Executive Directors, Senior management and employees.

All this activity allows the development of a deeper understanding of the company and to ask questions about any specific areas of interest. This improves the constructive challenge at Board meetings.

The Chair is kept up to date about emerging issues through regular interaction with the Chief Executive, Chief Financial Officer and other members of the Executive Committee. Given the number of new appointments during the year, the Board has scheduled time together before most meetings to allow them to develop their personal relationships.

The Chair and Non-Executive Directors schedule a meeting without the Executive Management present at each meeting to allow an opportunity to discuss the operation of the Board and any areas for consideration are fed back to the Executive Directors.

The Senior Independent Director also held a meeting of the Non-Executive Directors without management or the Chair present.

Risk Management

The Board has overall responsibility for Group's system of risk management and internal control and for reviewing its effectiveness and is supported in this regard by the Audit Committee and the Executive Risk Committee.

Emerging risks are considered by the Board at least annually. Further information on the Company's approach to risk management is available in the strategic report on page 81 and in the Audit Committee report on page 123.

A description of the risks identified, together with details of how they are managed or mitigated, is set out on pages 81 to 86.

The Audit Committee, on behalf of the Board, monitors the Company's system of risk management and internal control with papers from the Executive Risk Committee at each of its meetings, and conducts a review of its effectiveness at least once a year.

Board Induction and Training

The process for identifying and evaluating new candidates for Board positions has been delegated to the Nomination Committee under its terms of reference. Once a preferred candidate has been identified they are recommended to the Board for appointment. Further information on this process is outlined below.

Induction

Upon joining, each new Director receives a tailored induction programme relevant to their experience, expertise and committee membership. Particular emphasis is placed on the new Director visiting several operating locations and businesses and meeting the associated senior managers and colleagues to aid with deep understanding of the Group's business operations and the day-to-day challenges facing the business. The Director is also able to accompany a salesperson and a driver for a day to help develop an all-round understanding of the roles and the challenges faced at all levels of the organisation.

An induction programme will typically include briefings on strategy and other matters, site visits, and one-to-one meetings with senior colleagues, including other Directors and each member of the Executive Team, in addition to advisers such as the Company's stockbrokers and auditor. Briefings are included on health and safety, investor and workforce engagement, culture, governance and risk.

Meetings will also be scheduled with each Committee Chair and relevant advisors.

A comprehensive information pack is provided which includes (but is not limited to):

- Background information about the Group and current strategy documents;
- Board and committee minutes and meeting procedures;
- Group policies;
- Matters reserved for the Board and Committee terms of reference;
- Financial budgets;
- Shareholder and other stakeholder feedback;
- Customer insights; and
- Relevant industry and financial reports.

Training and development

All Directors are considered to be suitably qualified, trained and experienced so as to be able to participate fully in the work of the Board. To assist with the independent conduct of their function and, if required in connection with their duties, a process is in place for the Non-Executive Directors to obtain professional advice at the Company's expense.

The Directors keep their knowledge and skills up to date and have the opportunity to discuss areas for development with the Chair. Virtual seminars and on-line courses run by professional bodies on various commercial, operational and regulatory matters were attended by the Directors as part of their ongoing development. As required, professional advisors are invited to the Board meetings to provide in-depth updates and the Board also receive updates on environmental, employee and governance issues as appropriate. The Company Secretary provides regular updates on regulatory matters. All Directors participate in the inhouse online training that all employees are required to undertake. This year this has included IT and cyber security training. Presentations at the Board during 2022 have covered ESG updates, branding, culture, cyber security, investor views and market remuneration and policy trends. In addition, the Company Secretary provides regular updates on developments in Corporate Governance.

The Non-Executive Directors further enhance their understanding and knowledge of the business and culture by spending time with the Executive Directors, the Executive Team, other senior management and colleagues.

COMPOSITION, SUCCESSION AND EVALUATION

Board Evaluation

Evaluation Actions for 2022 and progress

	Strategy	Culture and People	ESG	Diversity
Actions for 2022	To revisit the purpose and agree a method of ongoing monitoring of its implementation.	To identify sources of additional information on culture and behaviours and feed the information into the decision-making process.	To focus on ESG leadership and oversight and establish an ESG Committee.	To undertake a business-wide diversity assessment and develop a cohesive plan for the furtherance of diversity targets within the business.
Progress made in 2022	We continued our focus on the evolution of our purpose and values. The revised Board People KPI report and Code of Ethics will assist in embedding our purpose and keeping it under review.	The Employee Forum was refreshed during the year and employee views were reported into the Board after each meeting. A revised Board People KPI report was developed.	The Executive ESG Committee was established chaired by the Chief Executive. The outputs of the ESG Committee are reported to the Board after each meeting.	A business-wide diversity assessment was undertaken during 2022. The development of a diversity and inclusion plan has been assigned to the new Chief People Officer.

2022 Board Evaluation

The Code recommends that there should be a formal and rigorous annual evaluation of the performance of the Board and its Committees and that this process is externally facilitated at least every three years.

The Board undertook an externally facilitated self-evaluation in 2022 based on a confidential online questionnaire facilitated by Gould Consulting. Gould Consulting have no other connection to the Company or its Directors.

Preparation for the evaluation included a scoping discussion between Gould Consulting and the Chairman together with the Company Secretary. The evaluation questionnaire was approved in advance by the Chairman. This year one questionnaire was used to assess the performance of the Board and its Committees given the changes to the Board during the year. The evaluation was conducted at the end of the year to allow the new Non-Executive Directors to attend at least two Board meetings before completion. The questionnaire responses were anonymous. The resulting report was received and analysed in draft by the Chairman prior to being submitted to the Nomination Committee for review on behalf of the Board at its meeting in January 2023. Further detail on the Nomination Committee deliberations can be found in the Nomination Committee report.

The evaluation noted the positive performance of the Board in several areas at this early stage given the recent appointment of the three new Non-Executive Directors. In addition, it highlighted areas which would benefit from further improvement.

Following careful consideration of the findings of the review, the Board and its committees noted a number of strengths, including:

- The strategy day had provided useful insights and provided a good framework for reviewing progress. There is a clear strategy implementation plan.
- The meetings are well structured, with good debate encouraged. The contributions from the Non-Executive Directors reflect each individual's area of expertise.

At this early stage of the new Board working together, few issues were signposted through this evaluation and these are outlined below.

2022 outcomes and actions

	ESG	Risk	Diversity	Board Papers
2022 Outcomes and actions	To ensure that ESG issues are regularly considered as the strategy evolves. The Board will ensure that it continues to review the approach to sustainability and that it is embedded across the business.	Risk is discussed in detail at the Board and within Committees. The evaluation results were good in this area but it was identified that the Board could heighten awareness of emerging risks over the coming years.	To continue to focus on developing diversity throughout the organisation. The Board will support the development of the Diversity and Inclusion Plan.	To signpost the issues that require Board engagement and the key areas for decision.

The Board discussed the report and agreed actions to take forward based on the suggestions in the report. The Company Secretary is responsible for tracking these actions and reporting back to the Board periodically on the progress made.

Performance review of the Chairman

The Senior Independent Director, following results of the Board evaluation and consultation with other Directors, provided feedback to the Chairman on his own performance. The output of this review noted that the Chairman was engaged and had shown strong commitment to his role. He was developing a culture in the Boardroom which facilitated openness and debate. Regular contact with the Non-Executive Directors before each Board meeting to give an additional opportunity to ensure their interests and concerns were brought into the boardroom and assist in further improving the level of challenge. During the year he had been instrumental in ensuring we had the most effective board composition and combination of skills to support the delivery of the revised strategy.

Individual director performance reviews

As part of the annual effectiveness review of the Directors, the Chairman provided feedback to each Director on their own performance and discussed training and development opportunities.

Following the results of the evaluation, the Board confirms that all Directors, including the Chair of the Board, continue to be effective and demonstrate commitment to the role, including dedicating sufficient time to attend all necessary meetings and to carry out all other duties required of them.

AUDIT COMMITTEE REPORT

Robin Williams, Chair of the Audit Committee

"The influx of new ideas through recent Committee appointments will continue to enhance the contribution of the Committee"

Key responsibilities of the committee are:

- To monitor the integrity of the Group's financial statements and results announcements and to review significant financial reporting issues and judgements, as well as other required disclosures.
- To review the adequacy and effectiveness of the Group's internal controls and risk management systems, and the adequacy, effectiveness and output of the internal audit function.
- To recommend the external auditor appointment and removal, assess audit quality, assess independence and approve fees, monitor non audit services and be responsible for audit tendering.

Audit, Risk and Internal Control

Statement from the Chair of the Audit Committee

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended 31 December 2022.

I joined the Board and became Chair of the Audit Committee on the 10 October 2022 when Amanda Aldridge stepped down. I would like to thank her for her contribution during her time on the Committee. The experience of each member of the Committee is summarised on pages 86 and 87. I have over 30 years' experience with listed companies, including as founder CEO and Executive Director on the Boards of FTSE250 companies within the packaging and the building materials industries. I have Chaired a number of Full List and AIM Audit Committees in recent years as a non-executive director.

I have undertaken a comprehensive induction programme during which I met Board members, senior management and I have undertaken site visits. I have been briefed on strategy and operations and met a number of times with the lead partner from the External Auditors in addition to meetings with all key members of the finance team and the Head of Internal Audit and the Company Secretary.

These meetings will be an essential part of my schedule going forward to ensure I am fully briefed on the key issues, technical matters and judgements and to make sure that sufficient time is devoted by the Committee to key areas.

Chris Payne was appointed as permanent Chief Executive on 8 March 2022. From April 2022, he was supported by Patrick Butcher on an interim CFO basis. We were pleased to announce the appointment of Adam Philips on 21 November 2022 who will join the Board as Chief Financial Officer in March 2023, at which point Patrick Butcher will leave the company following a suitable handover period. As described in last year's report, the Committee was mindful to satisfy itself that sufficient financial resource was in place to support Chris Payne and the Committee is content that this has been the case throughout the financial year.

In this report we share some of the Committee's discussions from the year including the Committee's assessment of significant accounting matters and key judgements in relation to the Group's financial statements, as well as further information about how we have discharged our duties over the year.

Membership and Meetings

The Committee had four scheduled meetings during the year, which took account of the financial calendar, the audit cycle and provided time to address other requirements and priorities.

All members of the Committee are independent Non-Executive Directors. Myself, (as Chair) have, and my predecessor Amanda Aldridge had, recent and relevant financial experience. The Board is satisfied that as a whole all members of the Committee are financially literate and have a wide range of relevant expertise which allows them to challenge and analyse the issues that are discussed.

The Chief Executive, Chief Financial Officer, Chair and the Auditor attend the Committee's meetings at the invitation of the Committee Chair. The Director of Group Finance and other members of senior management are invited to attend the meeting where appropriate. Meetings of the Committee with the Auditor, without the presence of management were held during the year, usually prior to each meeting. I hold meetings with the Lead Audit Partner outside of the formal meeting schedule and keep in regular contact with the interim Chief Financial Officer. The role of Secretary to the Committee is performed by the Company Secretary.

In addition to attending the Committee meetings, the Committee members met with operational and finance team members, and other members of senior management during the year.

How the Committee spent its time

- Financial Reporting 30%
- External Audit 30%
- Internal Controls and Risk 25%
- Governance 15%

AUDIT COMMITTEE REPORT
CONTINUED

Main role and key responsibilities

The Audit Committee is appointed by the Board and operates under written terms of reference (available in the investors section at www.headlam.com)

In last year's report, the Committee's priorities for 2022 were outlined. The table below sets out how the Committee has focused on these priorities during 2022.

Key Priorities for 2022	How they were addressed
To continue our focus on the business processes and assurance framework including mapping of risks and controls to key business processes and increased focus on the level of internal assurance provided and commissioned from third parties.	The Committee welcomed the refresh of the Company's risk management framework, which has enhanced the mapping of key controls to business risks. Preparatory work has been done off the back of this on reviewing minimum control standards by business process, which will inform the internal assurance agenda for 2023. The Committee considered and approved the job description for a Head of Internal Audit and Mani Roberts joined the Group in September 2022.
To consider the impact of the BEIS consultation once the final report is issued.	In May 2022, the government published its response to the BEIS consultation. It appears that the government is intending to take an incremental approach to the changes it wishes to implement. There was, therefore, limited impact in 2022.
To develop the Company's approach to assurance over ESG disclosures.	The newly established ESG Committee held a discussion during the year regarding external assurance of its sustainability report and data. However, it was not deemed necessary at this time due to the Company being supported by two specialist sustainability advisers and in light of the concentration of its geographies in low risk areas, the Company being outside the FTSE 350 Index, and the Committee having confidence in the quality and outputs of its work and overall ESG strategy.

The Committee intends, over the next year, to build on the progress made during 2022. Our main areas of focus during 2023 will be:

- The development by the executive of a plan to meet the emerging requirements from the BEIS review
- The continued improvement of the system of internal controls, including any ERP development across the Group
- The development by the Head of Internal Audit of a robust internal assurance plan
- A specific focus on the assurance of the control framework around cyber risk.
- Supporting a successful Chief Financial Officer transition.

Activities of the Audit Committee during the year

The key activities of the Audit Committee in discharging its principal areas of responsibility are outlined below.

Financial Reporting

- Reviewed the half year and annual financial statements and reports, and the significant financial reporting judgements and estimates.
- Considered the impact of the inflationary environment and other risk disclosures in the half year and annual financial statements and reports.
- Reviewed the process established for ensuring that the report and accounts are fair, balanced and understandable, and provided the information necessary for shareholders to assess the Group's performance, business model and strategy
- Considered liquidity risk and the basis for preparing the half year and full year accounts on a going concern basis and reviewed the related disclosures in the Annual Report and Accounts
- Reviewed the financial modelling and stress testing conducted for the going concern assessment.
- Reviewed and challenged the viability assessment process in support of the long-term viability statement based on scenarios arising from identified key risks and their impacts.
- Reviewed the Auditor's findings and recommendations, and management's response.
- Reviewed and approved the Committee Report to be published in the Annual Report and Accounts.

External Audit

- Considered and approved the external audit plan, the materiality level, the engagement risk profile and the key members of the external audit team.
- Discussed the audit fee and the increase proposed due to increased regulatory requirements and increased costs within the audit profession. Information on the audit fees can be found on page 207.
- Discussed the reports on audit findings and met with the Auditor without management present. There were no significant issues to report.
- Considered the independence and objectivity of PwC LLP. The Committee confirmed the independence of PwC. See page 122.
- Reviewed the effectiveness of the external audit process. The committee concluded that the audit was effective and a recommendation was made to the Board on the reappointment of PwC at the AGM. See page 118 for the conclusions of the AQR report.

Internal Controls and Risk

- Approved the establishment of an internal audit function and approved the job description for the Head of Internal Audit. Following appointment, the Committee received an initial view of the internal control environment and draft work plan for 2023.
- Considered reports from management and the Auditor on their assessment of the control environment.
- Reviewed the effectiveness of the risk management framework and considered the systems and processes for identifying, managing and mitigating risks.
- Assisted the Board in its assessment of the emerging and principal risks, reviewed minutes from the Executive Risk Committee and challenged management on its activities, ensured that the Board reviewed and discussed the Risk Register.
- Reviewed reporting disclosures in relation to internal controls, risk management, principal risks and uncertainties and the work of the Committee.

Governance

- Reviewed and approved the Committee's Terms of Reference and annual programme of business.
- Approved the Speak Up, Fraud and Anti-Money Laundering and the prevention of Bribery Policies. Further information can be found on page 118.
- Considered the Company's approach to the avoidance of modern slavery and human trafficking.
- Received updates on corporate governance requirements relevant to its responsibilities.

AUDIT COMMITTEE REPORT
CONTINUED

Significant financial reporting issues and areas of estimate and judgement

The Committee received and discussed reports and recommendations from management and the Auditor setting out the significant areas of judgement and estimation.

Significant issues and areas of estimate and judgement	How they were addressed
Supplier arrangements The Group has a significant number of rebate agreements with suppliers. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased and significant amounts had not been received at the year-end.	Management explained to the Committee the process of calculating the amounts expected to be received and confirming these balances with suppliers and discussed the assumptions made in the calculations. The Committee challenged the assumptions used by management and reviewed the level of cash receipts and credit notes received after the year-end. The work of the Auditor in relation to supplier rebates was discussed by the Committee. Based on this, the Committee was satisfied that the amounts recognised have been appropriately scrutinised and that the assumptions upon which the calculation was based are sufficiently robust.
Non-underlying items The Group accounting policy for non-underlying items states that performance measures will be presented which exclude items which are associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. Management must exercise judgement in deciding whether items should be treated as non-underlying by reference to this policy.	The Committee considered the presentation of non-underlying items in accordance with the Group accounting policy. The Committee received reports from management and the Auditor, outlining the judgements applied including consideration of materiality. The items treated as non-underlying are in respect of the amortisation of acquired intangible assets and insurance proceeds (following fire). The Committee also considered whether the Annual Report and Accounts was fair, balanced and understandable and challenged management's reconciliation of adjusted profit measures back to IFRS. The Committee concluded that the disclosure of non-underlying items was sufficient and appropriate for the user of the accounts to understand the nature of the items and reason for their treatment as non-underlying.

Significant issues and areas of estimate and judgement	How they were addressed
Carrying value of assets The Group had £7.6 million of goodwill allocated on its balance sheet at 31 December 2022, resulting from past acquisitions, along with intangible assets, property, plant and equipment and right-of-use assets. The assessment of the recoverable amount of these assets are estimated based on future cashflows and any impairment has the potential to be material.	Management performed the annual impairment review of goodwill, along with impairment reviews for other groups of assets at both June 2022 and December 2022 where indicators of impairment were identified. Management concluded that no impairment was necessary during 2022. The key assumptions used in an impairment review are the level of revenue growth, gross margin and the discount rate. Climate change risks were also considered by management and included in the sensitivity analysis. Judgements are made by the Directors in identifying the cash generating units ('CGU') and, during the year, there was a change in the assessment of CGUs, now considering each distribution centre to be the smallest groups of assets. The Committee considered the impairment reviews carried out by management and discussed the basis of the key assumptions and the sensitivities performed. The Committee also considered the Auditor's findings and discussed this matter with the Auditors. Based on this the Committee was satisfied that the approach taken by management was robust and that the assumptions made were reasonable.
Valuation of employee benefit liabilities In the UK, the Company operates a defined benefit pension scheme (the 'Scheme'), further details of which are set out in note 21 to the financial statements. Calculation of the Scheme liabilities involves estimation which requires making certain assumptions, notably in relation to inflation rates, mortality rates and the discount rate to apply to determine present value. The selection of these assumptions is subjective and small changes in these assumptions can have a material impact.	In selecting the assumptions, management took advice from the Group's external actuary and considered the appropriateness of this advice in light of the specific circumstances of the Scheme. Management explained to the Committee how they arrived at the key assumptions and discussed the sensitivity analysis they had undertaken. The Committee considered the views and procedures of the Auditor, which entailed a benchmarking of management's assumptions with the Auditor's expectations. The Committee were satisfied that the assumptions had been appropriately selected.
Recognition of insurance proceeds Insurance proceeds are recognised when their recovery is virtually certain and the amounts can be measured reliably. This requires management to exercise judgement over whether the assets can be measured reliably.	Management explained to the Committee the level of insurance proceeds that had been received in the year following the fire that destroyed a building in Kidderminster in December 2021, along with the judgements that had been made relating to the insurance proceeds for the reinstatement of the damaged property and contents and why they could not be measured reliably at December 2022. The Committee considered the judgements made by management and discussed with the Auditor the work they undertook in this area. The Committee also reviewed the contingent asset disclosure. Based on this the Committee was satisfied that the approach taken was appropriate.

AUDIT COMMITTEE REPORT
CONTINUED

Internal audit

The Committee undertook an assessment of the need for a Group internal audit function during the year. In the absence of a formal internal audit function, assurance had previously been provided to the Committee in the form of internal control audits undertaken by the Group finance team; various additional reports provided by management including a summary of all sources of assurance in place throughout the Group and internal self-certification reports relating to the compliance with regulation and Company policies.

The Committee agreed with management that assurance activity would continue to increase as a result of legislation and that a central resource to aggregate and review reporting would be recruited to further develop risk procedures and ongoing monitoring and oversight over all assurance reporting activities. The Committee considered and approved the job description for a Head of Internal Audit and Mani Roberts joined the Group in September 2022.

The Internal Audit function once fully established will support the Group's strategy and objectives by evaluating and assessing the effectiveness of risk management systems, business policies and procedures, systems and key internal controls. Once any recommendations to address issues are made, they will be reviewed by management and the Internal Audit function will then monitor implementation and report back to the Committee at each meeting.

External Auditor

Non-audit services

During the year under review, no non-audit services were provided by the Auditor and therefore no fees were paid to the Auditor for non-audit services. The general policy is that the external Auditor must not carry out any non-audit services. The Group's statutory Auditor will only be engaged to carry out non-audit services in exceptional circumstances or where there is a regulatory request and any such engagement would be approved by the Audit Committee. This is to ensure the independence of the Auditor is safeguarded. The Committee last reviewed its policy for the provision of non-audit services ('Non-Audit Policy') in 2021. Under the Non-Audit Policy and in line with the EU Audit Directive, non-audit fees paid to the Auditor should not exceed 70% of the average audit fee for the preceding three periods.

The Non-Audit Policy can be viewed in the Environmental, Social and Governance section of the Company's website (www.headlam.com).

Independence and objectivity

The Committee annually reviews the appointment of the Auditor and considers their independence and objectivity.

PwC was appointed as Auditor in 2016 following a full tender exercise. Gill Hinks took over as lead audit partner for Headlam Group plc following the conclusion of the 2019 audit. She will serve as lead audit partner for a maximum of five years, in accordance with current professional standards.

The Committee considered the conduct of the Auditor and the level of challenge displayed during the course of the year-end audit, in particular the depth of discussions and the challenge to the Group's approach to its significant judgements.

The Auditor has processes in place to ensure that independence is maintained and has written to the Committee confirming that, in their opinion, they remain independent within the meaning of the relevant regulations on this matter and their own professional standards and that no conflict of interest exists that would affect their professional judgement

Taking into account the Auditor's confirmation, its own deliberations and feedback from management, the Committee agreed that the Auditor remained independent from management and able to display an independent view on the position of the business.

Effectiveness of External Audit

Following the 2021 year-end audit, an effectiveness review was performed which aimed to ensure that the audit had been robust and encouraged open feedback and communication between the Auditor and the Committee. Feedback was obtained from members of the Committee, regular attendees and members of the finance team using a specifically designed questionnaire. The questionnaire covered several themes including the calibre of the Auditor, the team and relationship with the business and the independence and objectivity displayed. The progress achieved against the agreed audit plan and the competence with which the auditor handled the key accounting and audit judgements were also considered.

The results were positive and of particular note was the strength of audit governance, independence and objectivity demonstrated by the Auditor and the technical knowledge of the audit team.

In addition, the Committee noted the results of the FRC Audit Quality Review of the audit for the year ended 2021. No key findings were identified. See page 118 for further information.

Following the review, the Committee concluded that the external auditor, PwC LLP, remained independent and that the external audit process remained effective.

Consideration of Auditor appointment

In determining whether to recommend the Auditor for reappointment this year, the Committee considered the length of tenure and ability to perform an independent audit as well as the quality of planning and the ability to meet deadlines. They also considered the expertise of the Lead Audit Partner and the wider audit team and concluded that a comprehensive and timely audit had been undertaken.

The Committee therefore concluded that it was in the best interest of Company shareholders to reappoint PwC as the Company's external Auditor. The Committee's recommendation, that a resolution to reappoint PwC LLP be proposed at the AGM, was accepted and endorsed by the Board.

Misstatements

Management reported to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The Auditor reported to the Committee the misstatements that had been found in the course of the audit work and no material amounts remain unadjusted.

Information security and cyber risk

The Company has a clear approach to identifying and mitigating information security risk which is outlined further on page 85. The Committee, with its membership consisting of only Non-Executive Directors, oversees the Company's approach to information security and cyber risk management as part of its review of the risk management and internal control framework and its oversight of the work of the Executive Risk Committee. Information security and cyber risks are mitigated through processes and procedures employed by the Group, monthly training provided to all colleagues with email access and annual cyber awareness training; in addition to the independent assurance and annual penetration testing.

Risk management and internal control effectiveness review

The Board has ultimate responsibility for the effective management of risk throughout the Group, including determining its risk appetite and identifying key strategic and emerging risks. The role of the Committee is to monitor, on behalf of the Board, the Group's financial and non-financial risk and internal control management systems and assess their effectiveness.

In supporting the Board in its assessment of the effectiveness of risk management and internal control process, the Committee relies on a number of different sources of assurance: at each meeting, the Committee reviews the minutes of and considers assurance provided by the Executive Risk Committee as part of its assessment of the effectiveness of the risk management framework; reports provided by management and the Executive Risk Committee; and the assurance provided by third parties in specific risk areas.

The Committee also receives reports from the Auditor on matters identified during the course of its statutory audit work. The Committee takes into account the resources within the finance team including the structure of the team, and the qualifications, experience and competence of the people within it, in forming its view.

The Group's control framework has developed over a number of years and is intended to manage rather than eliminate the risk of failure to achieve business objectives. Such a framework can only provide reasonable and not absolute assurance against material misstatement or loss. The control framework is evolving in line with the strategic objectives and further improvements are planned for 2023.

AUDIT COMMITTEE REPORT
CONTINUED

Health and safety risks are managed by the Executive Risk Committee but performance is monitored directly by the Board at each of its scheduled meetings.

An overview of the risk management framework and the principal risks and uncertainties it identifies, is set out on pages 81 to 86.

The Committee was satisfied that the reporting disclosures in respect of internal controls and risk management are a fair representation of the Group's position.

Interaction with the FRC

The Company's Interim Results for the period ended 30 June 2021 were subject to review by the FRC's Corporate Reporting Review team. The Company received correspondence requesting further clarification of the presentation of the cash flow statement relating to the disposal of Belcolor. The Company responded to the FRC's enquiries providing the additional information and made certain disclosure enhancements as part of the 2021 Annual Report and Accounts (see page 188 of the 2021 Annual Report and Accounts) in line with its commitment to transparent reporting. The FRC closed its enquiry in February 2022.

The Audit for the year ended 31 December 2021 was chosen by the FRC for an Audit Quality Review (AQR) as part of their routine quality monitoring process. The Chair of the committee, received a full copy of the AQR report in December and discussed the findings with PwC before reporting back to the Committee.

During the year, the Audit Quality Review (AQR) team carried out a review of PwC's audit of the Group's 2021 Annual Report and Accounts. PwC confirmed the findings of the AQR to the Audit Committee at the March 2023 meeting. The Audit Committee discussed the content of the AQR with PwC, noting that there were no significant areas for improvement identified within the report, nor any material issues in relation to the Financial Statements. The Audit Committee is pleased to note that none of the AQR team's findings were considered to be of sufficient significance to be included in their report, with the testing of supplier rebates considered to be an example of good practice.

Fair, balanced and understandable

At the request of the Board, the Committee reviewed the Group's Annual Report and Accounts and considered if when taken as a whole, it was fair, balanced and understandable as required by the Code.

The key themes are considered early in the process which involved various teams and individuals within the Group including the Executive Director, Finance Team, Director of IR and ESG, senior managers of the businesses and Company Secretary working together with support and advice from the Company's advisers.

Each Director has the opportunity to review and feedback on a full copy of the report which provides additional oversight and seeks to ensure the contact is balanced with both negative and positive factors being presented so that stakeholders receive a balanced picture of the performance of the Company. This collaborative approach also helps ensure consistency between the Strategic Report, the Governance section and the Financial Statements.

It was recommended to the Board that the 2022 Report and Accounts did reflect a fair, balanced and understandable assessment of the Company's position and prospects and contained sufficient information for shareholders to assess the Company's position, performance, business model and strategy.

Speak Up Policy, Fraud and the Bribery Policies

Following a comprehensive review of the existing Whistleblowing Policy the Group has launched a new Speak Up Policy that sets out the formal process by which an employee of the business may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The channels through which an employee can raise concerns are clearly defined and now include a Speak Up Committee (speakup@headlam.com) consisting of the Chief People Officer, Company Secretary, Director of Group Finance and Head of Internal Audit.

In addition, an independent external organisation has been engaged to provide a further channel for concerns to be raised confidentially and anonymously through a website or via the telephone. When an incident is logged the Policy clearly defines the procedures in place to investigate and to inform the Board of the result of any investigations.

The Group is committed to a zero-tolerance position with regard to bribery. The Anti-Corruption and Bribery, and Fraud and Anti-Money Laundering policies were each considered by the Committee during the year and recommended to the Board for approval. Further information on Anti-Corruption and Bribery is available on page 170.

Committee effectiveness review

The effectiveness of the Committee was evaluated as part of the Board evaluation. This was an externally facilitated self-evaluation process using questionnaires. Further details of this can be found on page 114. The review found that the Committee is operating effectively.

Summary

The Committee has concluded, as a result of its work during the year, that it has acted in accordance with its terms of reference and fulfilled its responsibilities.

I will be available at the AGM to answer any questions about the work of the Audit Committee.

This report forms part of the Corporate Governance Report and is signed on behalf of the Audit Committee by:

Robin Williams

Chair of the Audit Committee
8 March 2023

NOMINATION COMMITTEE REPORT

Keith Edelman, Nomination Committee Chair

"Our Board appointments give us a full complement of independent expertise with strong skills and insight to drive and oversee the delivery of the Company's strategy"

Key responsibilities:

- Monitoring the structure, size and composition of the Board, its committees and the senior management to ensure they have the right balance of skills, knowledge, experience and diversity to lead the Group effectively both now and in the future.
- Making recommendations to the Board of any changes required and leads the process regarding appointments to the Board, including the role as Chair.
- Succession planning for the Board (including Committee Chairs) and senior management and making recommendations to the Board.

Full details of responsibilities delegated to the Nomination Committee by the Board are set out in the written terms of reference which are available on the Company's website.

Statement from the Chair of the Nomination Committee

On behalf of the Board, I am pleased to present the Nomination Committee report for the year ended 31 December 2022.

It has been a particularly busy year for the Committee with the focus on the recruitment of three Non-Executive Directors and the appointment of a Chief Financial Officer.

Board composition and Succession Planning – The focus for 2022

The development of the revised strategy during the year resulted in the need to review the skills and experience required on the Board. Following a skills review, the Nomination Committee led the process to recruit individuals with the comprehensive skills set to deliver the strategic objectives of the Group and to ensure its continued success in delivering value for all its stakeholders.

Chair

Philip Lawrence indicated that he would be stepping down from his role as Chair and not seeking re-election at the 2022 Annual General Meeting. He did not participate in any discussions in relation to potential candidates to fill his role. The Committee agreed that to ensure continuity during this period of transition, they would recommend to the Board that I should be appointed as Chair having already held the role as Senior Independent Non-Executive Director. I did not take part in any discussions in relation to my appointment to the role.

Senior Independent Director and Remuneration Committee Chair

As a result of my appointment to Chair of the Board, it was necessary to consider the roles of Senior Independent Non-Executive Director and Chair of the Remuneration Committee in line with the UK Corporate Governance Code provision 32. The Committee therefore decided that Simon King, having served on a Remuneration Committee for over 12 months and given his experience be appointed as Senior Independent

Non-Executive Director and Chair of the Remuneration Committee. Simon King did not take part in any discussions in regard to his appointment to these roles. He held these positions until he stepped down from the Board on the 10 October 2022.

Chief Executive

As previously reported the recruitment process was led by Warren Partners LLP, who had no other connection to the Company or individual directors.

All the members of the Committee had the opportunity to interview each candidate and Chris Payne was subject to the same recruitment process as other candidates who were short listed for interview.

Following the process, it was agreed that the Nomination Committee recommend to the Board that Chris Payne should be appointed as Chief Executive.

The Committee agreed that Chris had performed well as Interim Chief Executive, establishing momentum in the business and moving the agreed strategy forward.

Chief Financial Officer

Chris Payne was appropriately supported by the Board, a senior interim finance director and the senior finance management team while we undertook the recruitment process for a Chief Financial Officer.

The Committee, the Chief Executive and the Chief People Officer worked with Independent Search Partnership to ensure a thorough process was followed. Seven candidates including two female and an ethic minority candidate were interviewed. Three candidates were then short listed for interview by the CEO and the interim finance director and the preferred candidate was then interviewed by the CEO and Chair and all the Non-Executive Directors. As a result, the Committee recommended the appointment of Adam Philips as Chief Financial Officer. Adam has a proven track record of delivering to a high level across a variety of roles and he has significant experience in financial accounting, reporting and investor relations. He is currently Group Financial Controller at National Express Group Plc.

Non-Executive Director Changes

As reported in last years' report, it was the Board's intention to appoint a new Independent Non-Executive Director. Following an open recruitment process using Teneo (formerly Ridgeway Partners), Karen Hubbard was appointed to the Board on 31 August 2022. The Committee also recommended that she should be appointed as a member of the Audit, Nomination and Remuneration Committees. Karen has over 25 years' experience in retail, at both Executive and Director levels across various industries and markets. She has experience of running multi-channel businesses, as a Non-Executive Director and in ESG matters. Her biography can be found on page 93.

Amanda Aldridge stepped down as a Non-Executive Director and Chair of the Audit Committee on 10 October 2022. Simon King stepped down as a Senior Independent Non-Executive Director, Chair of the Remuneration Committee and as the Non-Executive Director responsible for the Employee voice on the Board on 10 October 2022.

NOMINATION COMMITTEE REPORT
CONTINUED

In their time with the Company, both made significant contributions to the Board and the Committees and helped shape the revised strategy and we thank them for all their hard work and dedication.

The search process for a replacement for a Chair of the Audit Committee was conducted by Eton Bridge and resulted in a number of excellent candidates. Following interviews, it was the view of all Committee members that Robin Williams presented as the preferred candidate. Robin has over 30 years' experience with listed companies, including as founder CEO and Executive Director with FTSE250 companies within the packaging and the building materials industries. His biography can be found on page 93.

The Committee recommended to the Board that Robin Williams be appointed as a Non-Executive Director and that he should be invited to become Chair of the Audit Committee and join both the Nomination and Remuneration Committees.

The recruitment agency was also instructed to produce a list of candidates for the additional vacant NED position. Following previous skill assessments of the Board, it had been agreed that the Board would benefit from additional skills in marketing and social media. It was also noted that the required candidate would need experience as a Remuneration Chair.

Following the interview process, the Committee agreed that Jemima Bird, would be a good addition to the Board bringing over 20 years' retail experience working with many of the UK's leading high street brands. She has also held numerous Executive Commercial, Marketing and Operations positions. Jemima also has experience as Remuneration Chair at Revolution Bars plc, which met the requirements of Provision 32 of the UK Corporate Governance Code. As I had worked for a number of years with Jemima at Revolution Bars Group plc, I stood down from the Committee during the discussions concerning her appointment. Her biography can be found on page 93.

The recommendation was made to the Board that Jemima Bird be appointed as a Non-Executive Director and that she should be invited to become a member of the Audit, Nomination and Chair of the Remuneration Committee.

Each candidate was considered on merit against the comprehensive candidate brief developed by the Committee. A clear specification was agreed for the independent search agents and are selected on the basis they will put forward a diverse list of candidates.

Following the resignation of Simon King, it was agreed to recommend to the Board that Stephen Bird be appointed as Senior Non-Executive Director. His profile and extensive experience are outlined on page 92.

Simon King undertook the role as the Director accountable for workforce engagement until his resignation. Following his resignation, Karen Hubbard was appointed to the role. In December 2022, she was also appointed as the Non-Executive Director overseeing the ESG Committee.

The Committee agreed that these appointments would give the Board a full complement of independent expertise with strong skills and insight to drive and oversee the Company's strategy. The candidates appointed were outstanding and brought differing skills, style and experience that would benefit the Board. All our new Non-Executive Directors are highly financially literate. External references were taken up on all appointees.

The Board evaluation confirmed that although it was early days the Board had already seen the value of these appointments in the quality of the discussions and increased challenge at Board meetings.

The new Non-Executive Directors have been completing a thorough induction process since joining the Company. This has included meetings with a significant number of senior managers and several site visits as well as meeting with key advisors. Further information can be found on page 113.

Strengthening the Senior Management Team

The Committee continued to focus on the Company's talent management strategy with the new Chief Executive to ensure the right people with the right skills were in place in key operational roles to deliver the strategy and ensure performance management was strengthened throughout the business.

As a result, a number of senior appointments were made during the year. Clare Moore joined us as Chief People Officer and Toni Wood as Chief Customer Officer. Toni has the remit of leading customer and digital strategy. They both joined the Executive Committee. Biographies can be found on pages 94 and 95.

Kevin Williams, a highly experienced Trade Counter Managing Director joined us to drive this key component of our strategy.

Diversity

Board Diversity

Board diversity and the advantages it can make to decision making are acknowledged by the Board and the Committee and were considered throughout the year. Appointments were made on merit against objective criteria and the recruitment agencies we appointed during the year were instructed to present a diverse list of candidates for all roles. A wide range of candidates representing gender and ethnic diversity were short listed and interviewed during the recruitment process. Each short list included a female candidate.

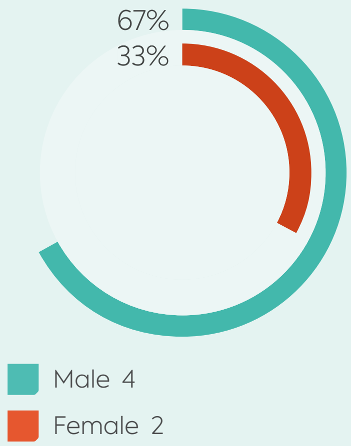
All appointments were made to ensure the correct complementary skills were on the Board and the strength of the experience around the table would give the right level of support to the newly appointed Chief Executive and Chief Financial Officer. The Committee continues to be committed to increasing gender diversity at Board level and will act positively to seek to achieve this when the opportunity arises.

The Committee is aware of the revised listing rule that requires companies to report information and disclose against targets on the representation of women and ethnic minorities on their boards and executive management on a comply or explain basis. The required disclosures and commentary will be included in our 2023 Annual Report.

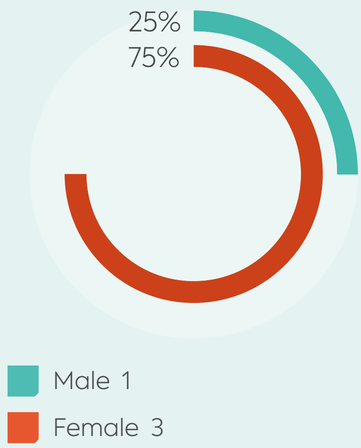
Gender and ethnic diversity were considered at every stage of the recruitment processes that we undertook during the year. The Board does not currently have a director of colour or from an ethnic minority background and does not publish specific targets on ethnicity but are committed to increasing gender and ethnic diversity at Board level when the opportunity arises and the appropriate candidate can be identified. It remains the policy that all appointments to the Board and Executive team should be made on merit and against objective criteria, whilst addressing diversity considerations of the Board. However, whilst adopting this approach, the Board's diversity objective is to have a broad range of age, gender, ethnicity, approach, skills, experience and educational/professional backgrounds represented at Board level and in senior management positions. Recruitment agents engaged by the Company for the Board and senior management positions are selected on the basis that they will put forward candidates in order to assist with the achievement of the Company's diversity objectives, including female candidates from ethnic minority backgrounds.

The Board Diversity Policy can be found on our website at www.headlam.com

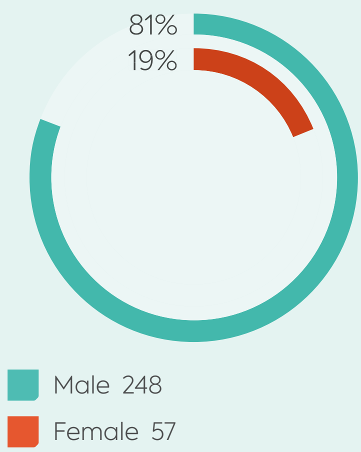
Board



Executive Team



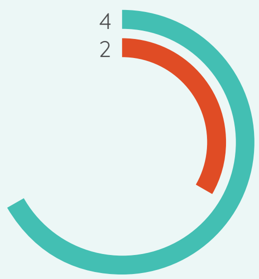
Managers



For employee split see page 32

NOMINATION COMMITTEE REPORT
CONTINUED

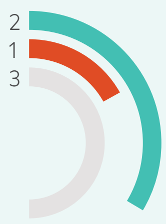
Board Tenure



- 0-3 years
- 3-6 years

See page 168 for further information

Board Age



- 50-55
- 55-60
- 60+

Further information on the Board evaluation can be found on pages 1114 and 114

For information on the Employee Voice see page 103

For information on the ESG Committee, see page 109.

The Board biographies as at the date of this report are detailed on pages 92–93 of the 2022 Annual Report and Accounts.

Group-wide diversity

In order to increase diversity and assist in providing a more diverse pipeline for senior management roles, the Committee approved the appointment of a third-party expert to conduct a business wide diversity review in 2022. This engaged with internal stakeholders via an anonymous employee survey, a desktop review of relevant policies and documents, eight one-to-one interviews with senior leaders and influencers and six focus groups with a wide range of employees attending.

A detailed report was received and the newly appointed Chief People Officer alongside the Chief Executive and the Committee will be responsible for planning the approach to diversity as a result of this report and to produce a comprehensive plan to increase diversity. The Committee acknowledges there is work to be done in this area and the Company has improved the support within the People team to ensure there is resource available. For any diversity strategy to be successful it needs to be aligned to the culture and values of the Company and linked to company strategy. The Purpose, values and strategy will be part of a group wide communication and education programme early in 2023 and this needs to be embedded to support the successful implementation of any identified and agreed diversity objectives over the longer term. The succession planning process in the broader organisation allows active steps to be taken towards monitoring and increasing all forms of diversity not just at board and senior management level.

Workforce Engagement

The Committee considered the appointment of a designated Non-Executive Director for workforce engagement and agreed that one should be appointed. Further information on the establishment of the Employee Forum and how the employee voice is heard in the boardroom can be found on page 103.

Retirement and Re-election of Directors

All Board members will stand for election or re-election at the 2023 AGM.

Each director has been subject to a performance evaluation and the Committee has conducted its own annual review of the appropriateness of the Directors' skills and experience; their time commitment to the Company; and their contribution to the Board during the year. As part of this review, each Director has confirmed that they continue to allocate sufficient time to discharge their responsibilities effectively and the Committee evaluates their ability to do so taking into consideration other external commitments in addition to their individual performance throughout the year and their skills and experience set against the agreed strategy.

Following this review the Committee and subsequently the Board has concluded that each Director continues to make an effective and valuable contribution and demonstrates commitment to their role. It is recommended that shareholders approve the resolutions to be proposed to the forthcoming AGM relating to the re-election of each Director.

A year of change

This has been a year of significant Board change, which when Adam Philips joins us later in the year, will be completed.

The Committee has performed its role making significant decisions with the long-term success of the business and the benefit of all stakeholders in mind and I would like to thank my fellow directors and colleagues for their significant contributions in supporting the work we have undertaken to ensure that we have a strong and capable Board and management team to dive forward our ambitions.

This report and the information on pages 132 and 133 forms part of the Corporate Governance Report and is signed on behalf of the Nomination Committee by:

Keith Edelman

Chair of the Nomination Committee
8 March 2023

Priorities for 2023

Over the coming year, our focus will be to:

- Review the recommendations arising from the diversity assessment with the new Chief People Officer and ensure a plan is in place to improve diversity for the business as a whole.
- Continue to strengthen the breadth and diversity of pipeline for management succession across the business.

NOMINATION COMMITTEE REPORT CONTINUED

Membership and Attendance at Meetings Held in 2022

The Nomination Committee is chaired by Keith Edelman. Philip Lawrence chaired the Committee until his resignation from the Board on 19 May 2022. The Committee comprises a majority of Independent Non-Executive Directors as required by the Code and their biographies are set out on pages 86 and 87. Appointments to the Nomination Committee are made by the Board. The Committee considers the composition of the Board and its committees on an annual basis.

The Nomination Committee met on five occasions in order to fulfil its responsibilities delegated to it by the Board. Attendance is shown in the table on page 108.

Only members of the Nomination Committee are entitled to be present at meetings but other Directors (including the Chief Executive), members of the Executive Team and advisers may be invited to attend at the discretion of the Chairman. The Company Secretary performs the role of Secretary to the Committee.

No Director is involved in any decisions regarding their own continuation in office, re-appointment or re-election, including the Chairman.

Appointment and Re-appointment of Directors

The Committee has procedures in place for a formal, rigorous and transparent process leading to Board appointments, ensuring that appointments to the Board are made on merit, against objective criteria and promote diversity of gender, social and ethnic backgrounds.

The Chair and the other Non-Executive Directors are appointed for an initial period of three years which, with the approval of the Nomination Committee and the Board would normally be extended for a two further three years terms. All appointments are subject to annual election by the shareholders.

The letters of appointment of all Non-Executive Directors (alongside the service contracts for the Executive Directors) are available for inspection at the Company's registered office during normal office hours. Copies are also made available at each of the Company's Annual General Meetings for 15 minutes prior to the meeting and throughout.

Time commitments

The letters of appointment clearly set out the time commitment expected from each Non-Executive Director and this is reviewed annually by the Committee to ensure it remains appropriate. Each Non-Executive Director confirms at the time of their appointment, and each year thereafter, with careful consideration to their external appointments, that they can continue to dedicate sufficient time to the Group's business.

All directors have demonstrated strong time commitment to their roles during the year and have all been part of the recruitment process for Board positions.

The Committee confirms that they are fully satisfied that each Director dedicates the appropriate amount of time to their roles on the Board and the Committee.

Board and Committee Evaluation

The effectiveness of the Committee was evaluated as part of the Board performance evaluation process. Full details of this process can be found on page 114. The review found that the Committee was operating effectively and that its role and remit remained appropriate. No significant matters were raised.

Board Size and Composition

The composition and performance of the Board and its Committees was considered by the Nomination Committee as part of its annual assessment and it was concluded that the Board and each Committee continue to function effectively. The Committee concluded that the composition of the Board is compliant with the provisions of the Code; is appropriate to meet the business and operational objectives; and is sufficient to bring a balanced and experienced view to the decision-making process.

Activities of the Nomination Committee during the year

The Nomination Committee agrees an annual workplan and in addition to matters relating specifically to its terms of reference, agendas incorporate matters arising and topical items upon which the Nomination Committee has chosen to focus.

The key activities of the Nomination Committee during the year in discharging its principal areas of responsibility are shown below:

Skills assessment and succession

- Led the process for the appointment of the Chief Financial Officer
- Reviewed the skills and experience required by the Board in the context of wider business needs and culture, long-term strategic objectives and stakeholder feedback
- Reviewed the skills and experience of Non-Executive Directors to fully support the achievement of the Group's strategic objectives
- Led the process for the appointment of three Non-Executive Directors
- Considered the methods for gathering the views of the workforce and appointment of a dedicated Non-Executive Director to the role
- Reviewed succession plans for Board, Executive team and senior management
- Supported the recruitment of key management positions

Governance

- Reviewed the structure, size and composition of the Board and its Committees
- Reviewed and updated the terms of reference of the Committee and its annual plan
- Reviewed the time commitment required of Non-Executive Directors and evaluated whether enough time had been committed to fulfil their duties
- Agreed that all Non-Executive Directors (excluding the Chair) remain independent
- Recommended the re-election of all directors due to retire at the AGM
- Reviewed the role descriptions of the Chairman, Chief Executive and Senior Independent Director positions
- Considered and reapproved the policy on approving external Appointments
- Approved the Board diversity Policy

Evaluation

- Reviewed the results of the Board effectiveness in relation to the Board and its own performance
- Considered the composition, size and diversity of the Board

Reporting

- Considered and recommended to the Board the Nomination Committee Report for inclusion in the Annual Report and Accounts

DIRECTORS' REMUNERATION REPORT

Jemima Bird, Chair of the Remuneration Committee

"Our focus over the last year has been to review the Policy to ensure it remains appropriate and aligned to our strategy"

Key responsibilities:

- Designing the framework and policy for Executive Directors' remuneration and determining remuneration packages for the Executive Directors, Chair and Senior Managers
- Establishing remuneration schemes that promote long-term shareholding by Executive Directors and that support alignment with Shareholders' interests, both in post and post cessation.
- Reviewing workforce remuneration and related policies

Annual Statement from the Chair of the Remuneration Committee

On behalf of the Board, for the first time as Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for 2022.

The Report includes this Annual Statement, a revised Directors' Remuneration Policy ('Policy') and the Annual Report on Remuneration for the financial year ended 31 December 2022. The Directors' Remuneration Report (excluding the Policy) will be subject to an advisory shareholder vote at the AGM on 25 May 2023 and the Policy will be subject to a binding shareholder vote at the same meeting. This new Policy, subject to the approval of shareholders, will last for three years from the date of approval or until another policy is approved at a general meeting in the interim.

Proposed changes to Policy

Shareholders approved our current Policy at the 2020 AGM with over 93% of votes cast in favour. The Policy was updated a year later to align it to the UK Corporate Governance Code although shareholder approval was not required given the Policy changes were positive for shareholders and negative for Directors. The three-year term of the current Policy is due to expire in 2023 and the Committee therefore wishes to seek approval for a new Policy at the 2023 AGM.

Some of the changes we are proposing formalise some of the features we have already been operating in practice since the 2021 AGM. In addition, against a background of the Policy expiry, progress on strategy and strengthening of the leadership team both at Board and Executive Committee level, and in light of shareholder feedback, the Committee is proposing a number of further changes. The Committee's key conclusions in this regard are as follows:

- **No changes to the overarching framework** – The Committee believes that the current Policy framework continues to be appropriate and that no significant changes are required at this stage. We operate a simple and transparent structure which is well understood by the management team. The framework comprises salary, benefits, workforce-aligned pension plus an annual bonus and Performance Share Plan (the 'PSP'), both of which are subject to stretching performance conditions. Incentive pay is subject to withholding and recovery provisions and a part of any annual bonus payment is deferred into shares for a period of time. A post-vesting holding period operates for the PSP and significant in-employment and post-cessation share ownership guidelines apply. These features enhance the alignment of interests between our Executive Directors, shareholders and other key stakeholders and contribute to an appropriate level of risk mitigation.
- **PSP award limit** – The current incentive Policy for Executive Directors is based on a 125% of salary maximum annual bonus in combination with up to 100% of salary PSP awards (noting that past PSP awards were typically granted at 80% of salary). The Committee believes this has resulted in packages being overly skewed towards the short, rather than the long term. Following a review, and noting feedback from a number of shareholders in this regard, the Committee wishes to increase the PSP award limit in order to rebalance Executive Director packages towards the longer term and to ensure remuneration levels are market aligned. As such, the Committee is proposing to increase the PSP award limit from 100% to 150% of salary whilst maintaining the annual bonus maximum at 125% of salary. Reflecting the increased award potential, the 200% of salary exceptional award limit in the PSP rules will be removed and financial and non-financial performance targets will be set to reflect the additional potential. A separate resolution to amend the PSP rules for the above will be presented at the 2023 AGM.
- **Pension contributions** – The maximum pension provision in the current shareholder-approved Policy for incumbents is 15% of salary. However, we have been operating with a lower cap of 11% of salary since the 2021 AGM. The Policy maximum will now be reduced further to 8% of salary. This aligns with the contribution level: (i) received by a significant proportion of our employees; and (ii) available to all new joiners under the Headlam Master Trust Pension Scheme.
- **Post-employment shareholding requirement** – We have been operating a post-employment shareholding requirement since the 2021 AGM and we are now taking the opportunity to formally build this into our new Policy. We are also strengthening our requirement by bringing it into line with The Investment Association's guidance such that 200% of salary will need to be held for a full two years.

The Committee has considered the proposed changes to the Policy and our approach to implementation carefully, taking account of feedback from shareholders and proxy voting agencies. We are confident that the changes will meet our aims of strengthening the link between strategy and incentives, more closely aligning with the market, and enhancing protection for shareholders and other key stakeholders.

Changes to the Board

Chris Payne was appointed Chief Executive on 8 March 2022 having previously acted as Interim Chief Executive (from 7 October 2021) and as Chief Financial Officer prior to that. On promotion to Chief Executive, Chris's salary was set at £425,000 and was increased to £475,000 from 1 January 2023 following satisfactory individual and Company performance.

Adam Phillips will be appointed as Chief Financial Officer on 20 March 2023. Adam's salary was set at £290,000 with an increase to £325,000 from 1 January 2024 subject to individual and Company performance.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Business performance and incentive out-turn for 2022

As stated in the Chair's statement on page 6, 2022 was a busy year, with many achievements including pleasing progress in early stage delivery on the strategy. However, the year also presented very challenging headwinds, not least significant operational cost increases and an inflationary environment which resulted in a cost of living crisis, materially impacting a large proportion of the Company's domestic marketplace. This served to subdue overall financial performance and mask early contributions from the strategy, although they served as an important counterbalance to the weak UK residential sector so that group revenue was broadly maintained year on year.

For 2022, the Chief Executive had a maximum annual bonus opportunity equal to 125% of base salary, with 70% of the bonus assessed against the Company's underlying profit before tax performance and 30% against key strategic and ESG-related objectives as detailed on page 155. Following the Committee's assessment, the performance against the profit before tax targets was between threshold and target and the strategic and ESG-related targets were met in full resulting in a total bonus payment of 38% of maximum awarded to Chris Payne.

In respect of PSP awards granted in September 2020 which will vest in September 2023, which are based on a relative Total Shareholder Return measured against the constituents of the FTSE SmallCap Index (excluding investment trusts), Headlam's TSR was just below median based on interim performance to 31 December 2022. Further details of the 2020 PSP award are set out on page 156.

Discretion

The Remuneration Committee is conscious of its role in ensuring that remuneration is appropriate when considering the performance of the business and the individual directors. During the year it considered the formulaic outcomes of the annual bonus plan and the long-term incentive plan and was satisfied that the payments made under these incentive schemes were appropriate. Therefore, no discretion has been exercised in respect of the year ended 31 December 2022,

Remuneration for 2023

Base salary

As set out in last year's report, following his appointment as Chief Executive on 8 March 2022, Chris Payne's base salary was set at £425,000 from appointment and increased to £475,000 from 1 January 2023 following a Committee assessment of both individual and Company performance. This remains below the level of Chris's predecessor (£494,000 at the point of cessation in 2021).

Adam Phillips will join the Board as Chief Financial Officer on 20 March 2023 with a base salary set at £290,000. Subject to individual and Company performance as reviewed by the Board this base salary will increase to £325,000 from 1 January 2024. This remains below Chris Payne's salary as Chief Financial Officer (£364,000).

Pension

Executive Directors will receive an 8% of salary pension contribution which aligns with the contribution level: (i) received by a significant proportion of our employees; and (ii) available to all new joiners under the Headlam Master Trust Pension Scheme.

Annual bonus and PSP

Maximum bonus potential will remain at 125% of salary and, consistent with last year, 70% of the annual bonus opportunity will be based on a sliding scale underlying profit before tax target and 30% will be based on a number of key strategic and ESG-related objectives. The profit before tax target and strategic and ESG objectives, which are considered to be commercially sensitive at this time, together with the level of achievement, will be detailed in the 2023 Annual Report and Accounts.

Subject to shareholder approval of the revised Policy, it is the Committee's intention to make PSP awards up to 150% of salary following the 2023 AGM. As per last year's award, vesting will be subject to EPS targets for the majority of the award and relative TSR targets for a minority element. However, in addition, and reflecting the increasing importance of the Company's ESG strategy, a target based on achieving the reduction pathway required for Scope 1 and 2 total emissions compared to baseline to achieve the interim target aligned with the Science Based Targets initiative ('SBTi') will be introduced for a minority of the 2023 (and subsequent) awards.

The combination of a holding period requirement under the PSP, the deferral into shares under the annual bonus scheme and the shareholding guidelines will continue to provide alignment between the interests of Executive Directors, the shareholders and delivery of the strategy.

Shareholder views and voting outcomes

The Remuneration Committee conducted a consultation exercise with our larger shareholders and the major proxy voting agencies during the course of 2022 on the changes we are proposing to our approach for 2023 and was grateful for the responses and the level of support received. As such, no changes were made to the original proposals. The Committee was pleased with the level of support received for the Directors' Remuneration Report at the 2022 AGM with over 96% of votes cast in favour of the advisory resolution. We hope we will again receive your support at the forthcoming AGM.

2023 AGM Resolutions

In addition to the resolutions to approve this Directors' Remuneration Report, the proposed Remuneration Policy and changes to the PSP limit, we will also be seeking approval for a new below Board level share plan. The Headlam Management Incentive Plan will enable the grant of market value options below the executive team to focus and incentivise senior managers for multi-year strategy delivery.

Conclusion

We remain committed to a responsible approach to executive pay, as I trust this Directors' Remuneration Report demonstrates. I would be happy to meet or speak with shareholders if there are any questions or feedback on our approach to executive remuneration.

Jemima Bird

Chair of the
Remuneration Committee
8 March 2023

DIRECTORS' REMUNERATION REPORT
CONTINUED

At a glance remuneration overview

Executive Remuneration for the year ending 31 December 2023

Fixed Remuneration			
	Salary	Workforce Aligned Pension	Benefits
	(c. 30% of total reward assuming maximum performance)		

Variable Remuneration	Annual Bonus	Performance Share Plan
	Link to Strategy	
	Performance measures support Group strategy to: • increase profitability for shareholders • deliver key strategic and ESG-related priorities	Performance measures support Group strategy to deliver: • higher returns to shareholders • increased earnings • the ESG strategy
	Potential	
	(Maximum 125% of Salary) 1/3rd deferred into shares under the Deferred Bonus Plan	(Maximum 150% Salary) Two year post vesting holding period Dividend equivalents accrue to extent awards vest
	Performance measures support Group strategy to: • increase profitability for shareholders • deliver key strategic and ESG-related priorities	Performance measures support Group strategy to deliver: • higher returns to shareholders • increased earnings • the ESG strategy
	FY2023 Performance Metrics	
	• Underlying Profit Before Tax – 70% (to support profitability of the business) • Key strategic and ESG-related objectives – 30% (to support business growth and ESG objectives)	• Underlying Basic Earnings Per Share (EPS) – 70% (to support the growth of earnings) • Relative Total Shareholder Return (TSR) – 20% (to align the interests of Directors with those of shareholders) • ESG-related objectives – 10% (to support key strategic and ESG objectives)

Shareholder alignment	In employment	Post employment
	• 200% of salary	• Lower of shareholding at cessation of employment and 200% of salary to be held for two years post cessation

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy for the Company.

The three-year term of our current shareholder-approved Directors' Remuneration Policy expires in 2023 and, as a result, we are seeking approval for a new Policy at the 2023 AGM. The Policy in this report will therefore be put to a binding shareholder vote at the AGM on 25 May 2023 and will take formal effect from that date, subject to shareholder approval. The Policy will formally apply for three years beginning on the date of approval unless a new Policy is presented to shareholders in the interim. Following approval all payments to Directors will be consistent with the approved Policy.

Considerations when determining the remuneration policy

The overarching objective of the remuneration policy is to promote the long-term success of the Group. In seeking to achieve this objective the policy has been designed based on the following key principles:

- To operate remuneration arrangements which are simple and transparent, and which help to build and maintain a sustainable performance culture;
- To appropriately align executive reward with the Group's strategic objectives and with the best interests of shareholders and other key stakeholders;
- To promote appropriately the long-term success of the Group, and to not pay more than is necessary in doing so; and
- To have a competitive mix of base salary and short- and long-term incentives, with an appropriate proportion of the package determined by the rigorous application of stretching targets linked to the Group's performance.

When designing the policy, the Remuneration Committee takes into account the provisions of the 2018 UK Corporate Governance Code and other good practice guidelines from institutional shareholders and shareholder bodies.

In reviewing our Policy during the course of 2022, and in planning for its implementation, we have been careful to take full account of the provisions of the Code. In summary, with regard to how we have sought to comply with the six factors outlined in Provision 40 of the UK Corporate Governance Code, the following are worthy of particular note:

- Clarity – Our Policy is transparent and well understood by our senior executive team. It has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation when changes are being made).
- Simplicity – A key objective of the Committee is to ensure that our remuneration framework is straightforward to communicate and operate. We have operated the same simple and transparent overarching structure for many years and applied it on a consistent basis across all employees.
- Risk – Our Policy has been designed to ensure that it is aligned with the Board's system of risk management and risk appetite. Any inappropriate risk-taking is discouraged and mitigated through, for example (i) the operation of arrangements that provide an appropriate balance of fixed pay to short- and long-term incentive pay and with multiple performance measures operating based on a blend of financial, non-financial and shareholder return targets, (ii) the significant proportion of long-term share-based pay in our packages (together with the operation of significant in-employment and post-employment shareholding guidelines), (iii) the deferral of a proportion of annual bonus into shares and the operation of a post-vesting holding period for the PSP, and (iv) the operation of robust recovery and withholding provisions.

DIRECTORS' REMUNERATION REPORT
CONTINUED

- **Predictability** – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. The Remuneration Committee has full discretion to alter the pay-out levels or vesting outcomes to ensure payments are appropriately aligned with the underlying performance of the Company.
- **Proportionality** – There is a clear link between individual awards, delivery of strategy and our long-term performance. Ensuring our Executive Directors are not rewarded for failure underscores our approach (e.g. through the significant proportion of our packages based on long-term performance targets linked to the KPIs of the Company, our ability and openness to the use of discretion to ensure appropriate outcomes, and the structure of our Executive Directors' contracts).
- **Alignment to culture** – Our aim is to align our Remuneration Policy to Headlam's culture and values. The Remuneration Committee strives to instil a sustainable performance culture at the management level that cascades throughout the Company. The Board sets the framework of KPIs against which we monitor the performance of the Company and the Remuneration Committee links the performance metrics of our incentive arrangements to those KPIs. We are keen to foster a culture of share ownership throughout the Company and operate all-employee share scheme arrangements in pursuit of this objective.

Consideration of employment conditions elsewhere in the Group

In setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group. Salary increases will ordinarily be (in percentage of salary terms) no higher than those of the wider workforce. The Company operates an Employee Forum at which aspects of remuneration across the Group (including Executive Director remuneration) is discussed. In addition, the Chair of the Remuneration Committee receives feedback on remuneration matters directly from the designated workforce engagement Non-Executive Director and the Group People Director updates the Remuneration Committee periodically on remuneration arrangements and employment conditions across the Group.

Shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration. The Committee will seek to engage directly with larger shareholders and their representative bodies should any material changes be made to the Policy. The Committee also considers shareholder feedback received in relation to the remuneration-related resolutions each year following the AGM. This, plus any additional feedback received from time to time, is then considered as part of the Committee's annual review of remuneration policy and its implementation.

Changes to the remuneration policy approved at the 2020 AGM

Shareholders approved our current Remuneration Policy at the 2020 AGM with 93% of votes cast in favour. The Policy was updated a year later at the 2021 AGM to align it to the 2018 UK Corporate Governance Code although shareholder approval was not required given the Policy changes were positive for shareholders and negative for Directors. Some of the changes we are proposing formalise some of the features we have already been operating in practice since the 2021 AGM. In addition, against a background of the Policy expiry, progress on strategy and strengthening of the leadership team both at Board and Executive Committee level, and in light of shareholder feedback, the Committee is proposing a number of further changes. Details of the substantive changes proposed in the new Policy, along with the rationale for each, are provided in the annual statement on page 134. We set out below a summary of the changes:

- PSP award limit – The Committee wishes to increase the PSP award limit in order to rebalance Executive Director packages towards the longer term and to ensure remuneration levels are market aligned. As such, the Committee is proposing to increase the PSP award limit from 100% to 150% of salary whilst maintaining the annual bonus maximum at 125% of salary. Reflecting the increased award potential, the 200% of salary exceptional award limit in the PSP rules will be removed and financial and non-financial performance targets will be set to reflect the additional potential. A separate resolution to amend the PSP rules for the above will be presented at the 2023 AGM.
- Safeguards and flexibility – Some more flexibility has been built into the Policy to ensure that (i) the parameters within which performance measures for the incentive arrangements can be selected are sufficiently broad and (ii) the Committee has the appropriate latitude to adjust formulaic outcomes in light of overall Group performance.
- Pension contributions – The maximum pension provision in the shareholder-approved Policy for incumbents is 15% of salary. However, we have been operating with a lower cap of 11% of salary since the 2021 AGM. The Policy maximum will now be reduced further to 8% of salary to align with workforce contributions going forward.
- Post-employment shareholding requirement – We have been operating a post-employment shareholding requirement since the 2021 AGM and we are now taking the opportunity to formally build this into our new Policy. We are also strengthening our requirement by bringing it into line with best practice guidance such that 100% of the 'in-employment' shareholding guideline (i.e. 200% of salary) will need to be held for a full two years (to date we have set the required holding at 100% of the in-employment shareholding guideline for the first year and 50% of the in-employment guideline for the second year).
- In-employment shareholding guidelines – We toughened the approach to our in-employment shareholding guidelines at the 2021 AGM such that rather than requiring 50% of the net of tax shares which vest from the PSP and Deferred Bonus Plan to be retained against the shareholding guideline, 100% of the net of tax shares will be required to be retained until such point as the shareholding guideline has been achieved. This will now be formally adopted into the new Policy.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Summary Policy table for Executive Directors

Component	Purpose and link to strategy	Operation
Base salary	To provide a competitive base salary for the market in which the Group operates to attract and retain Executives of a suitable calibre.	Salaries are usually reviewed annually, with any increases typically effective 1 January. Salaries are typically set after considering: • pay and conditions elsewhere in the Group; • overall Group performance; • individual performance and experience; • progression within the role; and • competitive salary levels in companies of a broadly similar size and complexity and market forces.
Benefits	To provide broadly market competitive benefits as part of the total remuneration package.	Executive Directors receive benefits in line with market practice, and these include life assurance, private medical insurance, company car or car allowance and, where relevant, relocation expenses. Executive Directors are also provided with the opportunity to join any HMRC approved all-employee share plan arrangements on the same basis as other employees. Executive Directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and other benefits might be provided from time to time based on individual circumstances and if the Committee decides payment of such benefits is appropriate. Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit).
Retirement benefits	To provide employees with long-term savings to allow for retirement planning.	The Group may offer participation in a defined contribution pension plan or may permit Executive Directors to take a cash supplement in lieu of pension up to the same value.
Annual bonus	Rewards performance against targets which support the strategic direction of the Group. Bonus deferral provides a retention element through share ownership and direct alignment with shareholders' interests.	Awards are based on performance typically measured over one year. Pay-out levels are determined by the Committee after the year end based on performance against pre-set targets. Executive Directors will defer at least one-third of any bonus award into shares, typically for a two-year period. The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred would, in the opinion of the Committee, be so small as to make deferral administratively burdensome. Deferred shares will typically take the form of nil-cost share options but may be structured as an alternative form of share award. Deferred bonus awards may be granted on the basis that the participant shall be entitled to an additional benefit (in cash or shares) in respect of dividends paid over the deferral period, calculated on such basis as the Committee shall determine. The vesting of the deferred shares is not subject to the satisfaction of any additional performance conditions. The annual bonus plan includes provisions which enable the Committee (in respect of both the cash and the deferred elements of bonuses) to recover or withhold value in the event of certain defined circumstances.

Maximum opportunity	Performance measures
While there is no maximum salary, increases will normally be in line with the typical range of salary increases awarded (in percentage of salary terms) to the wider workforce. Larger salary increases may be awarded to take account of individual circumstances, such as: • where an Executive Director has been promoted or has had a change in scope or responsibility; • where the Committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance; • where there has been a change in market practice; or • where there has been a significant change in the scale of the role or the size and/or complexity of the business. Increases may be implemented over such time period as the Committee deems appropriate.	Although there are no formal performance conditions, any increase in base salary is only implemented after careful consideration of individual contribution and performance and having due regard to the factors set out in the Operation column of this table.
Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level that the Committee considers appropriate against the market and provides a sufficient level of benefits based on individual circumstances.	Not applicable.
Workforce aligned (currently 8% of base salary).	Not applicable.
125% of base salary.	Targets are set annually with measures linked to the Group's strategy and aligned with key financial, strategic and/or individual targets. The majority, if not all, of the annual bonus will be assessed against key financial performance metrics of the business and any balance will be based on non-financial strategic, ESG-related and/or personal objectives. A graduated scale of targets is set for each measure, with up to 10% of each element payable for achieving the relevant threshold performance level and 100% of maximum potential for achieving stretch performance. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Component	Purpose and link to strategy	Operation
Performance Share Plan ('PSP')	To incentivise Executive Directors, and to deliver genuine long-term performance-related pay, with a clear line of sight for Executives and direct alignment with shareholders' interests.	Awards will be in the form of nil-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the Committee, with performance normally measured over at least a three-year performance period. The Committee retains discretion to adjust vesting levels in exceptional circumstances, including but not limited to regard of the overall performance of the Company or the grantee's personal performance. Awards will usually be subject to a two-year holding period following the end of the performance period, and shares will typically not be released to participants until the end of any such holding period. Awards under the PSP may be granted on the basis that the participant shall be entitled to an additional benefit (normally in shares) in respect of dividends paid over the holding period. This amount shall be calculated on such basis as the Committee determines. The PSP includes provisions which enable the Committee to recover or withhold value in the event of certain defined circumstances.
Shareholding guidelines	To further align the Executive Directors' long-term interests with those of shareholders.	**In employment:** Until the guideline has been reached Executive Directors are required to retain all of the net number of vested shares from the PSP and DBP. Vested shares which are subject to a holding period under the PSP and shares which are subject to DBP awards will count towards the limit (on a net of assumed tax basis). **Post employment:** Executive Directors will normally be required to hold shares at a level equal to the lower of their shareholding at cessation of employment and 200% of salary for two years post cessation in respect of any share awards granted after the 2021 AGM and excluding own shares purchased.

Non-Executive Directors (including the Chairman)

Component	Purpose and link to strategy	Operation
Annual Fee	To attract individuals with appropriate knowledge and experience.	Fees are normally reviewed annually taking into account factors such as the time commitment and contribution of the role and market levels in companies of comparable size and complexity. The Chairman is paid an all-inclusive fee for all Board responsibilities. Fees for the other Non-Executive Directors may include a basic fee and additional fees for further responsibilities (for example, chairmanship of Board committees or holding the office of Senior Independent Director). In exceptional circumstances, if there is a temporary yet material increase in the time commitments for Non-Executive Directors, the board may pay extra fees on a pro rata basis to recognise the additional workload.

Maximum opportunity	Performance measures
150% of salary.	PSP performance measures may include, and are not limited to, relative TSR, EPS, strategic measures and ESG-related objectives. A maximum of 25% of any element vests for achieving the threshold performance target and 100% for maximum performance. Performance metrics and weightings are reviewed annually and may be varied for future award cycles as appropriate to reflect the prevailing strategic priorities of the Group at that time.
200% of salary.	Not applicable.

Maximum opportunity	Performance measures
Neither the Chairman nor the Non-Executive Directors participate in any of the Group's performance related schemes (i.e. annual bonus or incentive arrangements). Nor do they receive any pension or private medical insurance or taxable benefits, other than the potential to receive gifts at the end of a long-standing term of appointment. Non-Executive Directors may be eligible to receive benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate and the Company repays any reasonable expenses that a Non-Executive Director incurs in carrying out their duties as a director, including any tax liabilities thereon, if appropriate.	Not applicable

DIRECTORS' REMUNERATION REPORT
CONTINUED

Explanation of performance measures chosen

Performance measures for the annual bonus are selected annually to align with the KPIs and prevailing strategic imperatives of the Group, and the interests of shareholders and other stakeholders. Financial measures (e.g. underlying profit before tax) will be used for a majority of the bonus with any remainder based on key strategic, ESG-related and/or personal objectives designed to ensure that Executive Directors are incentivised to deliver across a range of objectives. 'Target' performance is typically set in line with the business plan for the year, with threshold to stretch targets set around this based on a sliding scale which takes account of relevant commercial factors. Only modest rewards are available for delivering threshold performance levels, with rewards at stretch requiring material outperformance of the business plan. Details of the specific measures used for the annual bonus are set out in the annual report on remuneration.

Performance measures for the PSP are selected in order to provide a robust and transparent basis on which to measure the Group's performance, to demonstrably link remuneration outcomes to delivery of the business strategy over the longer term, and to provide strong alignment between senior management and shareholders. In achievement of these aims, PSP awards granted in respect of 2023 will be based on underlying basic Earnings Per Share ('EPS'), relative Total Shareholder Return ('TSR') and ESG-related metrics. EPS is currently a critical KPI for the Group, supporting a focus on profitability and growth; TSR is aligned with the Group's focus on creating value for our shareholders; and ESG-related objectives are being built in to reflect the increasing importance of this aspect of the Group's overall strategy. However, the policy provides for Committee discretion to alter the PSP measures and weightings to ensure they can continue to facilitate an appropriate measurement of performance over the life of the policy, taking account of any evolution in the Group's strategic ambitions.

When setting performance targets for the bonus and PSP, the Committee will take into account a number of different reference points, which may include the Group's business plans and strategy, external forecasts and the wider economic environment.

The Committee retains discretion to amend the bonus pay-out and to reduce the PSP vesting level if any formulaic outcome is not reflective of the Committee's assessment of overall business performance over the relevant performance period.

Malus and clawback

In respect of the 2022 annual bonus (and for each year thereafter) in addition to share awards granted on or after December 2020 the following provisions apply:

- Prior to the payment of an annual bonus or vesting of a DBP or PSP award, the Committee may operate 'malus' (or 'withholding') to cancel the award.
- For up to two years following the payment of an annual bonus award, the Committee may operate 'clawback' (or 'recovery') to require the repayment of any cash amount paid or may cancel any deferred bonus award.
- For up to two years after the vesting of a PSP award, the Committee may operate clawback to cancel the award during the holding period (or require repayment of the award if it has been released prior to the end of the holding period); reduce future vesting under the Company's share plans; or reduce the number of shares already vested but unexercised.

The circumstances in which malus and clawback may be operated are as follows:

- The Company materially misstated its financial results (excluding any changes resulting from a change in accounting standards);
- The Executive's conduct being such that it would entitle (or, where the Employment has terminated prior to the date on which the Board becomes aware of such act or omission, would have entitled) the Group to terminate the Employment summarily;
- A material error having occurred in determining whether any corporate or personal performance conditions relating to the bonus or PSP award have been met (or any other material error having

occurred in calculating the sum that was awarded as a bonus or the size of the PSP award);

- Circumstances which in the opinion of the Board would have (or would have if made public) a sufficiently significant impact on the reputation of the Company or Group;
- The Company becomes insolvent or otherwise suffers a corporate failure and the Board determines that such circumstances arose from events occurring (in whole or substantial part) during any period in which the relevant individual was a participant; or
- Such other exceptional circumstances which, in the Remuneration Committee's absolute discretion, justify such reimbursement being imposed.

Discretion retained by the Committee in operation of the incentive plans

The Committee will operate the Company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards. These include making awards and setting performance criteria each year, dealing with leavers, and adjustments to awards and performance criteria following acquisitions, disposals, special dividends, changes in share capital and to take account of the impact of other merger and acquisition activity, and to settle awards in cash. The Committee also retains discretion within the policy to adjust the targets, set different measures and/or alter weightings for the annual bonus plan and PSP, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the long-term incentive plans to adjust performance conditions to ensure that the awards fulfil their original purposes (for example, if an external benchmark or measure is no longer available).

All assessments of performance are ultimately subject to the Committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the Annual Remuneration Report.

Differences in pay policy for Executive Directors compared to employees more generally

The Remuneration Policy applied to the Executive Directors is similar to the policy for the wider senior management team in that a significant element of remuneration is dependent on Group performance and the key principles of the remuneration philosophy are applied consistently across the Group below this level, taking into account seniority and market practice. Key features include:

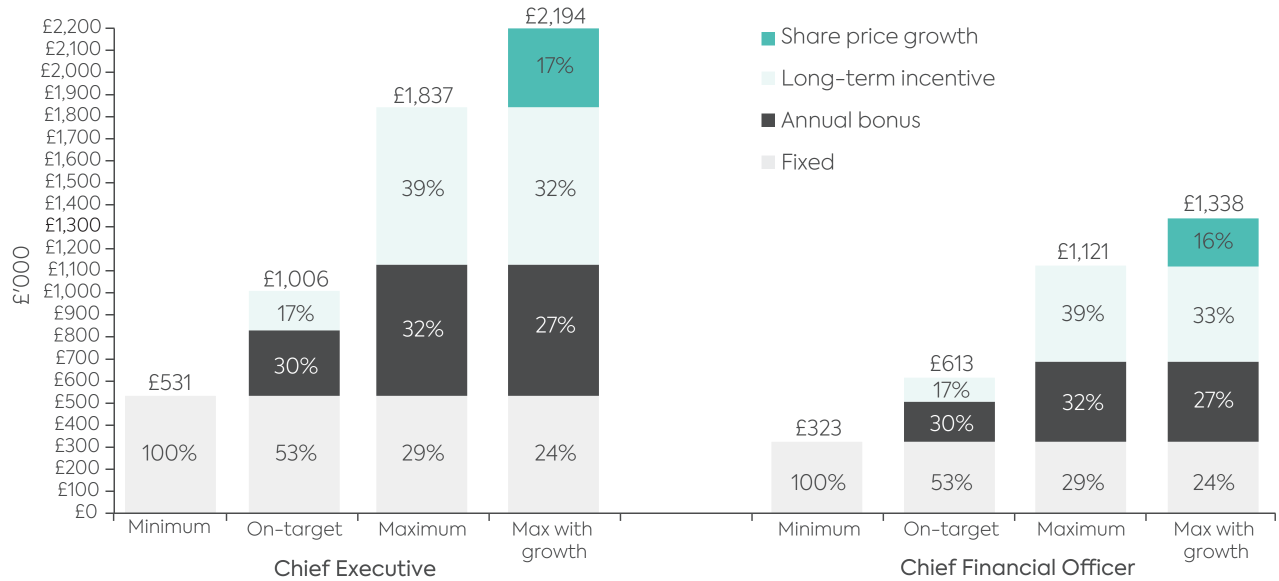
- We aim to provide market competitive levels of remuneration across the workforce in order to recruit and retain high calibre employees at all levels;
- We have aligned pension contributions for Executive Directors with the workforce;
- All UK employees have the opportunity to participate in an HMRC-approved employee share scheme arrangement; and
- Employees at selected levels participate in an annual bonus arrangement.

At senior levels, remuneration is increasingly long-term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Illustrations of application of remuneration policy

The charts below set out for the Chief Executive and Chief Financial Officer an illustration of the application for 2023 of the proposed Remuneration Policy set out above. The charts show the split of remuneration between fixed pay and annual bonus and PSP on the basis of minimum remuneration, remuneration receivable for performance in line with the Group's expectations, maximum remuneration (not allowing for any share price appreciation) and maximum remuneration (assuming 50% share price growth).



In illustrating the potential reward, the following assumptions have been made.

	Fixed pay	Annual bonus	PSP
Minimum performance	Fixed elements of remuneration only – base salary (being the salary effective 1 January 2023 (or date of joining if later), an estimated value for benefits and cash in lieu of pension of 8% of salary	No annual bonus award.	No vesting.
On-target (performance in line with expectations)		50% of maximum awarded (equivalent to 62.5% of salary) for achieving target performance.	25% of maximum award vesting (equivalent to 37.5% of salary) for achieving target performance.
Maximum performance		125% of salary awarded for achieving maximum performance.	100% of maximum award vesting (equivalent to 150% of salary) for achieving maximum performance.
Maximum performance plus 50% share price growth			100% of maximum award vesting (equivalent to 150% of salary) for achieving maximum performance plus hypothetical share price growth of 50%.

Notes to the scenarios methodology:

- Annual bonus includes amounts deferred into shares.
- PSP is measured at face value, i.e. no assumption for dividends or share price growth (other than in the fourth scenario).
- Any potential amounts relating to all-employee share schemes have been excluded.

Recruitment remuneration

The policy aims to facilitate the appointment of individuals of sufficient calibre to lead the business, to execute the Group's strategy effectively and to promote the long-term success of the Group for the benefit of shareholders and other stakeholders. When appointing a new Executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Group and not to pay more than is appropriate.

The Committee will take into consideration a number of relevant factors, which may include the calibre and experience of the individual, the candidate's existing remuneration package, and the specific circumstances of the individual, including the jurisdiction from which the candidate was recruited.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Policy. The Committee may include other elements of pay which it considers are appropriate; however, this discretion is capped and is subject to the principles and the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed and the circumstances of the appointment. This may include agreement on setting the salary at below the market rate with a series of future staged increases planned in order to bring the salary up to a market level, in line with progression in the role, increased experience and/or responsibilities, and subject to satisfactory performance, where it is considered appropriate.
- Retirement benefits will be workforce aligned and other benefits will be provided in line with the above policy.
- If the Executive Director will be required to relocate in order to take up the position, it is the Group's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- If an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance, subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.
- The Committee may also alter the performance measures, performance period, vesting period, deferral period and holding period of the annual bonus or PSP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 275% of salary.
- The Committee may make additional payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited. Any such payments or awards are limited to the expected value of the forfeited awards. Where considered appropriate, such buyout awards will be liable to forfeiture or 'malus' and/or 'clawback' on early departure.
- Any share awards referred to in this section, including any buyout awards, will be granted as far as possible under the Group's existing share plans. If necessary, and subject to the limits referred to above, awards in relation to a recruitment may be granted outside of these plans as permitted under the Listing Rules which allow for the

DIRECTORS' REMUNERATION REPORT CONTINUED

grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

- Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.
- Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts and letters of appointment

Executive Directors' service contracts are on a rolling basis and may be terminated on up to 12 months' notice by the Group or by the Executive.

All Non-Executive Directors have letters of appointment providing for fixed-term agreements with the Group which may be terminated by the giving of three months' notice by either party (Chairman six months' notice). The agreements last for an initial period of three years and may then be extended for two additional periods of three years, subject to re-election by shareholders at the relevant AGM.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office during normal hours of business.

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below:

	Policy
Payment in lieu of notice	If notice is served by either party, the Executive Director can continue to receive base salary, benefits and pension for the duration of their notice period, during which time the business may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Group has discretion to make a payment in lieu of notice. Such a payment would include base salary and, at the election of the Committee, compensation for benefits and pension contributions (if applicable) for the unexpired period of notice.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure (i.e. normal good leaver provisions) and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid in respect of a good leaver will normally be prorated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances) and normally subject to deferral policy. Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
Deferred bonus awards	The extent to which any unvested deferred bonus award will vest will be determined in accordance with the rules of the Deferred Bonus Plan ('DBP'). If a participant ceases employment for any reason (other than summary dismissal, in which case his award will lapse), his award will ordinarily continue until the normal vesting date. The Committee retains discretion to release awards when the participant leaves. Awards (in the form of nil cost options) which have vested and been released but remain unexercised at the date of cessation may be exercised, for such period as the Committee determines, if a participant leaves for any reason (other than summary dismissal).

	Policy
PSP	The extent to which any unvested award will vest will be determined in accordance with the rules of the PSP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will be released at cessation or on the normal release date or at some other time (such as following the end of the performance period). In any case, the extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards may then be exercised during such period as the Committee determines. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a 'holding period'), his award will ordinarily continue until the normal release date when it will be released to the extent it vested. The Committee retains discretion to release awards when the participant leaves. Awards (in the form of nil cost options) which have vested and been released but remain unexercised at the date of cessation may be exercised, for such period as the Committee determines, if a participant leaves for any reason (other than summary dismissal).
Change of control	The extent to which unvested awards under the DBP and PSP will vest will be determined in accordance with the rules of the relevant plan. Awards under the DBP will vest in full in the event of a takeover, merger or other relevant corporate event. Unvested awards under the PSP will vest early on a takeover, merger or other relevant corporate event. The Committee will determine the level of vesting taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period. Awards under the PSP which have vested but not been released (i.e. awards which are subject to a holding period) will be released, to the extent vested.
Mitigation	If an Executive Director's employment is terminated, any compensation payment will be calculated in accordance with normal legal principles including the application of mitigation to the extent appropriate to the circumstances of the termination. Payments will be made in instalments and reduced to the extent employment is taken up elsewhere.
Other payments	Payments may be made either in the event of a loss of office or a change of control under any of the Group's HMRC-favoured all-employee share plans in line with the associated plan rules. There is no discretionary treatment for leavers or on a change of control under these schemes. In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees and other benefits that may be considered appropriate taking into account the circumstances of the termination. The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Where a buy-out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

Where the Committee retains discretion, it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

There is no entitlement to any compensation in the event of Non-Executive Directors' fixed-term agreements not being renewed or the agreement terminating earlier.

Existing contractual arrangements and historical awards

The Committee retains discretion to make any remuneration payment or payment for loss of office outside the policy in this report (including exercising any discretions available to it in connection with any such payment):

- where the terms of the payment were agreed before the policy came into effect (including the satisfaction of options granted under the CIP), provided in the case of any payment whose terms were agreed after the previous Directors' Remuneration Policy was approved and before the policy in this report became effective, the remuneration payment or payment for loss of office was permitted under that former policy;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Group.

External appointments

The Board believes that experiences of other companies' practices and challenges is valuable both for the personal development of its Executive Directors and for the Group. Any external appointments are subject to board approval (which would not be given if the proposed appointment would lead to a material conflict of interest). Fees received by Executive Directors in respect of external non-executive appointments are retained by the individual Director. Details of such appointments are included in the Annual Report on Remuneration.

Annual Report on Remuneration

Certain information provided in this part of the Directors' Remuneration Report is subject to audit. This is annotated as audited. Any information not annotated as audited is unaudited.

Single total figure of remuneration for each Director

The tables below report the total remuneration receivable in respect of qualifying services by each of the Executive Directors for the years 2022 and 2021.

Executive Directors' remuneration as a single figure – 2022 (audited)

Executive Director	Base salary/ fees £000	Non-salary benefits[2] £000	Pension related benefits[3] £000	Annual performance bonus[4] £000	Share-based incentive schemes[5] £000	Total £000	Total fixed £000	Total variable £000
Chris Payne[1]	416	19	35	204	–	674	470	204

1 Chris Payne served as interim Chief Executive up to 28 February 2022 and was appointed Chief Executive from 1 March 2022.

2 Non-salary benefits include the provision of a company car or car allowance, private medical insurance and other benefits deemed to be an employment benefit such as some fuel costs.

3 The amount of employer contribution to a scheme or paid as cash in lieu of retirement benefits based on a fixed percentage of base salary.

4 Details of the annual bonus award are set out on the following page.

5 As a result of the COVID-19, the grant of 2020 PSP awards was delayed until 11 September 2020 with performance based on relative Total Shareholder Return measured against the constituents of the FTSE SmallCap Index (excluding investment trusts) over the three years from grant. Based on an interim assessment as at 31 December 2022, Headlam's TSR was below median (suggesting nil vesting) albeit the final outcome will not be known until September 2023.

Executive Directors' remuneration as a single figure – 2021 (audited)

Executive Director	Base salary/ fees £000	Non-salary benefits[1] £000	Pension related benefits[2] £000	Annual performance bonus £000	Share-based incentive schemes[3] £000	Total £000	Total fixed £000	Total variable £000
Chris Payne	364	18	40	455	–	877	422	455
Former Director								
Steve Wilson[4]	378	13	–	473	–	864	391	473
Total	**742**	**31**	**40**	**928**	**–**	**1,741**	**813**	**928**

1 Non-salary benefits include the provision of a company car or car allowance, private medical insurance and other benefits deemed to be an employment benefit such as some fuel costs.

2 The amount of employer contribution to a scheme or paid as cash in lieu of retirement benefits based on a fixed percentage of base salary.

3 Performance conditions for the PSP were tested after 31 December 2021 and 0% of the award vested in March 2022.

4 Steve Wilson stepped down from the Board on 6 October 2021.

The following tables report the total remuneration receivable in respect of qualifying services by each of the Non-Executive Directors for the years 2022 and 2021.

Non-Executive Directors' remuneration as a single figure – 2022 (audited)

	Base salary/ fees £000	Non-salary benefits £000	Pension related benefits £000	Annual performance bonus £000	Share-based incentive schemes £000	Total £000	Total fixed £000	Total variable £000
Philip Lawrence[1]	58	–	–	–	–	58	58	–
Amanda Aldridge[2]	59	–	–	–	–	59	59	–
Keith Edelman[3]	118	–	–	–	–	118	118	–
Simon King[4]	62	–	–	–	–	62	62	–
Steven Bird[5]	52	–	–	–	–	52	52	–
Karen Hubbard[6]	17	–	–	–	–	17	17	–
Robin Williams[7]	13	–	–	–	–	13	13	–
Jemima Bird[7]	13	–	–	–	–	13	13	–
Total	**392**	**–**	**–**	**–**	**–**	**392**	**392**	**–**

1 Appointed 01.06.18. Left 19.05.22

2 Appointed 01.02.18. Left 10.10.22

3 Appointed 01.10.18. Chair from 19.05.22

4 Appointed 14.05.21. Left 10.10.22

5 Appointed 13.09.21

6 Appointed 01.09.22

7 Appointed 10.10.22

DIRECTORS' REMUNERATION REPORT
CONTINUED

Non-Executive Directors' remuneration as a single figure – 2021 (audited)

Director	Base salary/ fees £000	Non-salary benefits £000	Pension related benefits £000	Annual performance bonus £000	Share-based incentive schemes £000	Total £000	Total fixed £000	Total variable £000
Philip Lawrence	143	–	–	–	–	143	143	–
Amanda Aldridge	53	–	–	–	–	53	53	–
Stephen Bird[1]	14	–	–	–	–	14	14	–
Keith Edelman	61	–	–	–	–	61	61	–
Simon King[1]	28	–	–	–	–	28	28	–
Former Director								
Alison Littley[2]	13	–	–	–	–	13	13	–
	312	–	–	–	–	312	312	–

1 Stephen Bird joined the Board on 13 September 2021 and Simon King joined the Board on 14 May 2021.

2 Alison Littley stepped down from the Board on 31 March 2021.

Annual performance bonus in respect of financial year 2022

For 2022, the Interim Chief Executive/Chief Executive had a maximum annual bonus opportunity equal to 125% of base salary with 50% of maximum payable for a target level of performance. The bonus was assessed against the Company's underlying profit before tax (PBT) (70% of bonus opportunity) and against the achievement of a number of key strategic and ESG-related objectives (30% of bonus opportunity) as shown in the tables below:

Performance metric	Weighting	Threshold performance	Target performance	Maximum performance	Actual performance	Bonus earned (% max)	Bonus Receivable (£) Chris Payne
Underlying PBT	70%	£36.9m	£41.0m	£49.2m	£37.1m	12%	44,444
Strategic/ESG objectives	30%	See table right				100%	159,375
	100%					38%	203,819

Strategic and ESG-related objectives

The following non-financial strategic objectives for Chris Payne were designed to focus on the achievement of certain key elements of Company strategy.

Objective	Target	Committee Assessment	Potential Bonus (% of bonus opportunity)	Bonus achieved (% of bonus opportunity)
Key Accounts (Growth)	Sign at least three material new, or materially expanded, customer contracts in 2022.	Target met. Two new material contracts were secured during 2022 and one material contract was significantly expanded.	7.5%	7.5%
Trade Counters (Growth)	Continue with the trade counter roll-out and deliver at least one new counter or major refit per month in 2022.	Target met. Five new trade counters, six refits and three counter relocations were delivered (i.e. 14 in total against a target of 12)	7.5%	7.5%
Customer (Growth)	Develop a proposition in respect of a material contract with the house builder or contractor during 2022.	Target met. The board was pleased to see a new contract signed with a major house builder during the year.	7.5%	7.5%
Carbon Footprint ESG	Develop and implement a new ESG Committee during 2022 and increase plug-in hybrid and low emission vehicles across the fleet to at least 50% by the end of 2022.	Target met. The ESG Committee was successfully established in 2022 and the proportion of the non-commercial fleet increased to 69% in respect of plug-in and low emission vehicles.	7.5%	7.5%
Total			30%	30%

Consistent with the remuneration policy, one-third of the bonus award will be deferred into shares for a two-year period.

DIRECTORS' REMUNERATION REPORT
CONTINUED

2020 PSP due to vest in 2023

Awards granted under the PSP in September 2020 are based on relative TSR performance with an underlying financial performance underpin measured over the three-year period from grant. As described in the 2020 annual report, the Committee had originally intended to make PSP awards in 2020 in line with the normal approach at that time of basing vesting 80% on EPS and 20% on relative TSR. However, given the onset of the pandemic, the Committee concluded that due to the uncertainty surrounding the full impact of COVID-19, the awards should be delayed by six months and that relative TSR should govern 100% of the headline level of vesting. The interim performance outcome as at 31 December 2022 (noting that the final assessment will not be calculated, and the final vesting value known, until September 2023) was as follows:

Vesting (% of maximum)	TSR relative performance against constituents of the FTSE SmallCap Index (excluding investment trusts)
0%	Below median
25% (threshold)	Median
100% (maximum)	Upper quartile
Interim assessment at 31 December 2022	Just below median
Forecast vesting as at 31 December 2022	–

Director	Shares granted	Shares vesting (estimate)	Value of shares vesting (estimate)
Chris Payne	103,669	–	–

Share awards granted during the financial period

PSP awards

PSP awards were granted to the Chief Executive on 8 April 2022 as follows (audited):

Director	Number of nil-cost options over which award granted	Value of Award £000	% of salary	% of award vesting at threshold	Date of grant	Performance period
Chris Payne	111,548	425	100	25	8 April 2022	3 years

The share price used to determine the number of shares under the PSP was 381 pence, being the average mid-market closing share price for the five business days prior to the date of award.

The Awards are subject to an underlying Basic Earnings Per Share ('EPS') performance condition (80% of the award) and a relative Total Shareholder Return ('TSR') performance condition (20% of the award). The performance targets are shown in the table below:

Performance Target	% vesting	Underlying Basic EPS growth (80% of award)	TSR relative performance against constituents of the FTSE SmallCap Index (excluding investment trusts) (20% of award)
Below Threshold	–	Less than 6% p.a.	Below median
Threshold	25	6% p.a.	Median
Maximum	100	10% p.a.	Upper quartile

Straight-line vesting between points.

The vesting of the awards is additionally subject to a financial underpin whereby the extent of vesting may be adjusted to reflect the overall financial performance of the Company over the three-year performance period. The Remuneration Committee also has full discretion to ensure that the final outcome is warranted based on the performance of the Company in the light of all relevant factors and to ensure there have been no windfall gains. Any awards vesting are additionally subject to a two-year holding period following the date of vesting.

DBP awards

In addition, following payment of the annual bonus in respect of the financial year ended 31 December 2021, the Company granted nil-cost options to Chris Payne over 39,822 shares under the Deferred Bonus Plan ("DBP") on 8 April 2022. The award will not vest until the second anniversary of the grant date, and is subject to dividend equivalents in the form of additional shares. The number of ordinary shares over which the awards were granted was calculated based on a share price of 381 pence per ordinary share as per the PSP award above.

Dilution

The Remuneration Committee supports the Investment Association ('IA') guidelines regarding dilution and regularly monitors compliance with these requirements. The Company's share plan rules limit the number of newly issued shares which can be granted in a ten-year period to 10% of the issued share capital under all-employee share plans, and 5% under the discretionary share plans.

As at the date of this report, the Company's usage of shares against the limits detailed above in respect of the all-employee schemes was estimated at 4% of the issued share capital (excluding treasury shares) and in respect of grants under discretionary plans was 0% of the issued share capital (excluding treasury shares). It is the Remuneration Committee's intention that options exercised under the Sharesave scheme will continue to be satisfied by shares held in treasury.

Further information on share-based payments is set out in note 22 to the financial statements.

Pension-related benefits

Chris Payne received pension contributions from the Company equivalent to 11% of his base salary for the period prior to his promotion to Chief Executive. On promotion to Chief Executive his pension contributions reduced to 8% of base salary which aligns with the contribution level (i) received by a significant proportion of our employees and (ii) available to all new joiners under the Headlam Master Trust Pension Scheme.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Payment for loss of office and to past Directors (audited)

As disclosed in last year's Directors' Remuneration Report, Steve Wilson stepped down from the Board on 6 October 2021. Steve was paid £423,833 in lieu of basic salary and benefits for the remainder of his twelve-month notice period during 2022 and received private medical expenses insurance at the same level of cover enjoyed at the time of his departure with a value equal to £1,919.

There have been no further payments to past directors to be reported for the year under review except as outlined elsewhere in this report.

Executive Directors' share awards outstanding

Chris Payne

Scheme	Number of shares / options as at 31 December 2021	Shares / options granted	Shares / options lapsed	Shares / options exercised	Number of shares/ options at 31 December 2022	Date of grant	Share price at grant (pence)	Exercise price (pence)	Market price on exercise date (pence)	Vesting date	Expiry date
PSP	–	111,548	–	–	111,548	8 April 2022	381	Nil	–	April 2025[1]	April 2032
PSP	64,137	–	–	–	64,137	9 April 2021	454	Nil	–	April 2024[1]	April 2031
DBP	–	39,822	–	–	39,822	8 April 2022	381	Nil	–	April 2024	April 2032
PSP	103,669	–	–	–	103,669	11 Sept 2020	281	Nil	–	Sept 2023[1]	Sept 2030
DBP	24,076	–	–	–	24,076	11 Sept 2020	281	Nil	–	Sept 2022	Sept 2030
PSP	63,707	–	63,707	–	–	10 April 2019	448	Nil	–	Mar 2022	April 2029
PSP	2,770	–	–	2,770	–	25 Sept 2017	536	Nil	380	Mar 2020	Sept 2027
SAYE	7,929	–	–	–	7,929	5 Oct 2020	271	227	–	Nov 2023	April 2024

1 Award vests on date shown but is subject to a further two-year holding period during which time the option may not be exercised.

Statement of Directors' shareholding and share interests (audited)

The interests of Directors and their connected persons in the Company's ordinary shares as at 31 December 2022 were as set out below. There have been no changes to those interests between 31 December 2022 and the date of signing of these financial statements and reports.

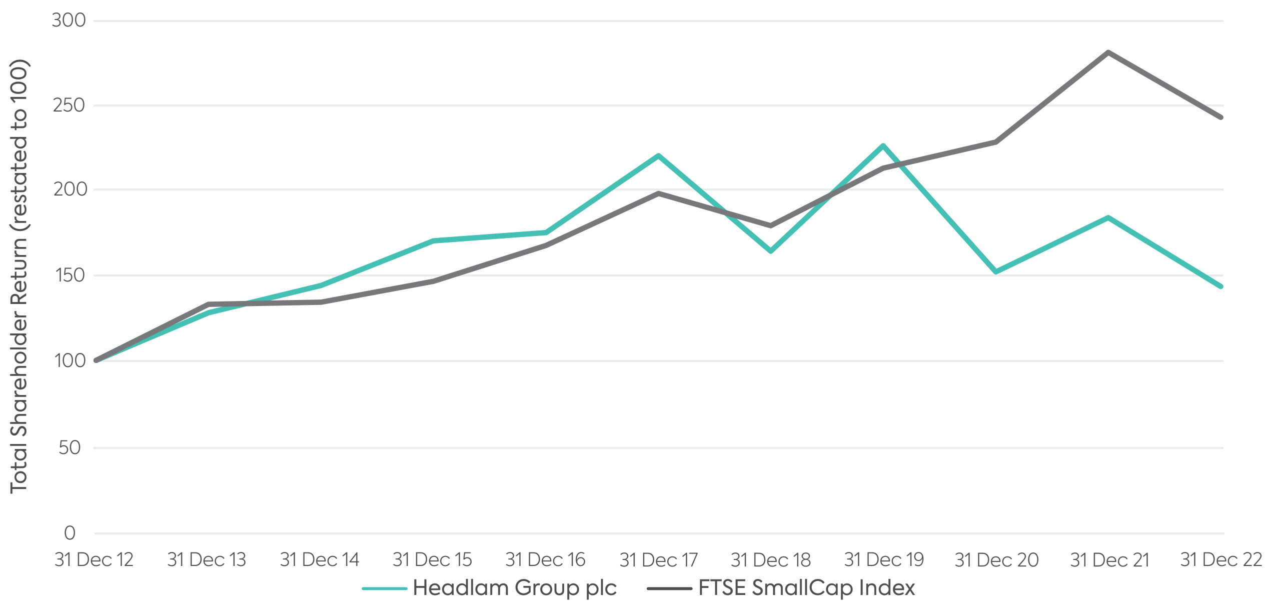
		Interests in Share Schemes					
Directors	Owned Shares at 31 December 2022	PSP	Deferred Bonus	CIP	SAYE	Shares under Shareholding Guidelines[1]	Guidelines achieved (%)
Chris Payne	1,489	279,354	63,898	Nil	7,929	35,355	13
Keith Edelman	19,479	N/A	N/A	N/A	N/A	N/A	N/A
Jemima Bird	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Stephen Bird	5,000	N/A	N/A	N/A	N/A	N/A	N/A
Karen Hubbard	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Robin Williams	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Former Directors[2]						N/A	N/A
Philip Lawrence	11,184	N/A	N/A	N/A	N/A	N/A	N/A
Amanda Aldridge	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Simon King	25,933	N/A	N/A	N/A	N/A	N/A	N/A

1 This includes all owned shares plus those vested scheme interests included on a net of tax basis as allowed under the Company's share ownership policy.

2 Interests shown to the date of stepping down from the Board.

TSR graph

The graph below shows the value at 31 December 2022 of £100 invested in the Company on 1 January 2013 compared to the value of £100 invested in the FTSE SmallCap Index, making the assumption that dividends are reinvested to purchase additional equity.



The FTSE SmallCap Index has been selected as a comparator due to the Company being a constituent. This allows comparison of the Company's performance against the performance of the Index as a whole.

Chief Executive remuneration table

The table below sets out the remuneration of the Chief Executive for the latest ten financial year periods.

Period		Chief Executive single figure of total remuneration (£000)	Annual bonus (% of maximum opportunity)	Long-term incentive vesting rates against maximum opportunity (%)
2022	Chris Payne	674	38	–
2021	Chris Payne	205[1]	100	–
2021	Steve Wilson	864[2]	100	–
2020	Steve Wilson	514	–	–
2019	Steve Wilson	798	45.5	5.7
2018	Steve Wilson	588	–	53.5
2017	Steve Wilson	1,069	65.8	97.5
2016	Steve Wilson	1,067[3]	76.8	98.6
	Tony Brewer	737[4]	n/a	88.9
2015	Tony Brewer	1,175	87.1	n/a
2014	Tony Brewer	1,134	81.4	n/a
2013	Tony Brewer	927	42.7	n/a

1 The remuneration shown is on a pro-rated basis for the period Chris Payne was Interim Chief Executive from 7 October 2021 to 31 December 2021 only.

2 Steve Wilson stepped down as Chief Executive and a Director on 6 October 2021. The 2021 figures reflect his remuneration earned from the start of 2021 until the date of his resignation as a Director. This remuneration is for a part year and does not include a termination payment.

3 The remuneration shown is for the full year and incorporates his remuneration as Group Finance Director from 1 January 2016 until 14 September 2016 when he became Chief Executive.

4 Tony Brewer stepped down as Chief Executive and a Director on 14 September 2016. The 2016 figures reflect his remuneration earned from the start of 2016 until the date of his resignation as a Director. This remuneration is for a part year and does not include a termination payment.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Percentage change in remuneration of Directors compared with other employees

The table below shows the percentage increase/(decrease) in each Executive and Non-Executive Directors' remuneration compared with the Company's employees as a whole between the financial periods 2020, 2021 and 2022. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	2022			2021			2020		
Director	Salary and fees (% change)	All taxable benefits (% change)	Annual bonuses[3] (% change)	Salary / fees (% change)	All taxable benefits[2] (% change)	Annual bonuses (% change)	Salary / fees (% change)	All taxable benefits (% change)	Annual bonuses (% change)
Executive Director									
Chris Payne	25	27	(55)	–	(10)	100	2	–	(100)
Non-Executive Directors									
Keith Edelman[6]	95	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Stephen Bird[4]	282	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jemima Bird[7]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Karen Hubbard[7]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Robin Williams[7]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Former Directors									
Philip Lawrence[8]	(60)	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Amanda Aldridge[8]	12	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Simon King[4]	120	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Steve Wilson[5]	N/A	N/A	N/A	(23)	(24)	100	2	2	(100)
Alison Littley[5]	N/A	N/A	N/A	(75)	N/A	N/A	8	N/A	N/A
All employees[1]	3	(6)	(74)	–	5	100	2	(14)	(100)

1 Reflects the average percentage change in salary, benefits and bonus for employees of the parent company (excluding the Board).

2 This reflects annual bonus paid for performance during 2021, with payments made in March 2022, as per the single figure table.

3 This reflects annual bonus paid for performance during 2022, with payments made in March 2023, as per the single figure table.

4 Stephen Bird and Simon King joined the board on 13 September 2021 and 14 May 2021 respectively. Simon King stepped down from the Board on 11 October 2022.

5 Alison Littley and Steve Wilson left the Board on 31 March 2021 and 6 October 2021 respectively and their pro-rated salary is reflected in the percentage change shown.

6 Keith Edelman was promoted from Senior Independent Director to Non-Executive Chairman on 19 May 2022.

7 Jemima Bird and Robin Williams joined the Board on 11 October 2022 and Karen Hubbard joined the Board on 1 September 2022.

8 Philip Lawrence stepped down from the Board on 19 May 2022 and Amanda Aldridge stepped down from the Board on 11 October 2022.

Relative importance of spend on pay

The table below shows the overall expenditure on dividends and on pay as a whole across the Company along with the percentage change between each.

	2022 £000	2021 £000	% change
Dividends[1]	27,292	6,588	314.3
Pay	94,766	101,426	(6.6)

1 Includes dividends paid during the financial year.

CEO pay ratio

The data shows how the Chief Executive's single figure remuneration for 2022 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for the year ended 31 December 2022 for full-time equivalent UK employees, on a Group basis, ranked at the 25th, 50th and 75th percentile.

	Method	25th percentile ratio	Median (50th percentile) ratio	75th percentile ratio
2022	Option A	29.2:1	24.0:1	16.9:1
2021[1]	Option A	51.1:1	38.9:1	26.5:1
2020	Option A	25.8:1	20.7:1	14.4:1
2019	Option A	39.3:1	31.8:1	22.7:1

1 The remuneration for comparison for 2021 reflects the total remuneration included in the single total figure of remuneration table paid to Steve Wilson and Chris Payne in relation to the period that each were undertaking the role of Chief Executive. Pension payments have been omitted from the CEO pay ratio calculation for the period that Steve Wilson was Chief Executive to maintain consistency as he did not receive a pension payment. Pension payments have been included for the period in which Chris Payne was Chief Executive to align with his pay package.

Option A was selected given that this method of calculation was considered to be the most efficient and robust approach in respect of gathering the required data and was consistent with reporting for previous years.

The salary and total pay and benefits for the UK employees at the relevant percentiles, and upon which the pay ratios have been calculated, are as follows:

Year	Percentile	Salary (£)	Total pay and benefits (£)
2022	25th percentile	22,518.00	23,060.86
	Median	27,403.14	28,092.41
	75th percentile	34,484.36	39,767.78

The CEO pay ratios for 2022 are lower than those for 2021. This is primarily due to the CEO single figure reducing year on year which reflects the lower annual bonus award for 2022 (38% of maximum) compared to 2021 (100% of maximum). As such, given that the change in the ratios is due to the CEO's performance related pay (which will by its nature fluctuate year on year) rather than a material change to employee pay, the Remuneration Committee considers the median CEO pay ratio to be representative of the UK employee base.

Executive Directors' service contracts

Chris Payne was appointed on 13 September 2017 and the date of his current service contract is 8 March 2022. His service contract may be terminated on 12 months' notice from either party.

Non-Executive Directors' letters of appointment

Details of the current Non-Executive Directors' appointment dates are set out below:

Non-Executive Director	Date of appointment	Expiry of current term
Keith Edelman	1 October 2018	30 September 2024
Jemima Bird	11 October 2022	10 October 2025
Stephen Bird	13 September 2021	12 September 2024
Karen Hubbard	1 September 2022	31 August 2025
Robin Williams	11 October 2022	10 October 2025

DIRECTORS' REMUNERATION REPORT
CONTINUED

Statement of implementation of remuneration policy in 2023

Details of how the Company will operate the Remuneration Policy in 2023 are provided below.

Base salaries for 2022

Chris Payne's salary increased from £425,000 to £475,000 effective 1 January 2023. This was the second of two planned increases following Chris's promotion to Chief Executive and follows an assessment by the Committee of individual and Company performance.

Adam Phillips will join the Board as Chief Financial Officer on 20 March 2023 with a base salary set at £290,000. Subject to individual and Company performance as reviewed by the Board this base salary will increase to £325,000 on 1st January 2024. This remains below Chris's salary as Chief Financial Officer (£364,000).

Pension

Executive Director annual pension contribution is 8% salary.

Annual bonus

The maximum annual bonus opportunity for 2023 will remain at 125% of base salary and on-target bonus will continue to 50% of maximum potential. The payment of the annual bonus will be based 70% on underlying profit before tax ('PBT') performance and 30% linked to the achievement of a number of key strategic and ESG-related objectives. The strategic targets relate to various measurable objectives that underpin Company growth and ESG strategy. Full disclosure of the targets will be provided in the 2023 Annual Report and Accounts. In line with our Remuneration Policy, one-third of any amount earned will be deferred into shares for two years.

PSP

In considering the performance targets for the 2023 PSP Awards the Committee has considered the need to set stretching and challenging targets which are aligned to the short- and long-term performance of the Group. The Committee will once again set targets based on underlying Basic EPS Growth and relative TSR. However, in addition, and reflecting the increasing importance of the Company's ESG strategy, an ESG target will be introduced for 10% of the 2023 (and subsequent) awards. The ESG target for the 2023 PSP awards will be based on a reduction in greenhouse gas emissions based on an interim target aligned with the SBTti of a 46% reduction by 2030 against a 2019 baseline (noting the Company's commitment to get to net zero emissions (Scope one and two) by 2035). Subject to the approval of our revised Policy, awards in respect of 2023 will be granted in the form of nil cost options over ordinary shares in the Company at the level up to 150% of salary.

The proposed performance targets are set out in the table below:

Vesting (% of maximum)	Underlying Basic EPS for 2025 (70% of award)	TSR v FTSE SmallCap (ex ITs) (20% of award)	tCO_2e% reduction (10% of award)
0%	Less than 32.5p	Below median	Less than 22%
25%	32.5p	Median	22%
100%	38.5p	Upper quartile	25%

Straight-line vesting between points.

In addition to the above performance targets, the Committee will consider whether there has been any windfall gains at the point of vesting.

To balance the overall long-term nature of the package, and in line with best practice, awards will be subject to a two-year holding period following the date of vesting.

Non-Executive Directors' fees for 2023

The following fees are to be applied for the financial year ended 31 December 2023.

Role	Fees effective 1 Jan 2023 £000	Fees effective 1 Jan 2022 £000
Chairman fee	150.0	150.0
Non-Executive Director base fee	50.0	50.0
Senior Independent Director fee	10.0	10.0
Audit Committee chair fee	7.5	7.5
Remuneration Committee chair fee	7.5	7.5
Employee Forum and ESG committee fee	7.5	–

Remuneration Committee activity

The Board approved the terms of reference, delegating certain responsibilities to the Remuneration Committee, most recently on 21 September 2022. The terms of reference are reviewed periodically and are available on the Company's website within the Governance section at www.headlam.com. The Remuneration Committee comprises the Chairman and each of the other Non-Executive Directors. Attendance at scheduled meetings of the Committee during the year was as follows:

Members	Meetings attended	Eligible to attend
Keith Edelman	5	5
Jemima Bird[1]	2	2
Stephen Bird	5	5
Karen Hubbard[1]	2	2
Robin Williams[1]	2	2
Former Member		
Philip Lawrence[2]	2	2
Amanda Aldridge[2]	3	3
Simon King[2]	3	3

1 Jemima Bird and Robin Williams joined the Committee on 10 October 2022 and Karen Hubbard joined the Committee on 1 September 2022

2 Philip Lawrence stepped down from the Board and Committee on 19 May 2022 and Amanda Aldridge and Simon King stepped down from the Board and Committee on 10 October 2022.

Members additionally correspond on urgent matters between formal Committee meetings. Other Directors may attend Remuneration Committee meetings by invitation, including the Chief Executive and CFO where appropriate. The Committee also receives assistance from the People Director, the Company Secretary and from independent external advisers, FIT Remuneration Consultants LLP. The Company Secretary acts as Secretary to the Committee.

No one attending a Remuneration Committee meeting may participate in discussions relating to their own terms and conditions of service or remuneration.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Main Role and Key Responsibilities

The Remuneration Committee's main responsibilities include:

- Designing the framework and policy for Executive Directors' remuneration and determining remuneration packages for the Executive Directors, Chairman and Senior Management, including the Company Secretary, to promote the achievement of the Group's strategy and long-term sustainable success. When setting executive remuneration, take into account the link between Executive Director and senior manager remuneration and that provided to the wider workforce;
- Establishing remuneration schemes that promote long-term shareholding by Executive Directors and that support alignment with Shareholders' interests, both in post and post cessation;
- Approving the design and operation of the Company's short-term and long-term incentive arrangements. This includes agreeing the targets that are applied to awards made to Executive Directors and the Senior Management Team;
- Oversight of the administration of share plans as required;
- Review workforce remuneration and related policies; and
- Determine the policy for and scope of pension arrangements for Executive Directors and Senior Management.

Remuneration Committee Activities

The key matters discussed at the meetings of the Remuneration Committee in 2022 were as follows:

Remuneration

- Reviewed wider workforce remuneration arrangements, and annual bonus scheme and considered in conjunction with pay strategy for Executive Directors and Senior Management;
- Considered pay awards for Executive Directors and Senior Management;
- Considered Annual Bonus payments;
- Reviewed and confirmed that no vesting would occur for the 2019 PSP;
- Approved the Annual Bonus payments for 2022;
- Approved the PSP Award and targets;
- Considered remuneration for Executive Directors, Senior Management and the Chairman; using updated benchmarking data where appropriate; and
- Considered appropriate package for the new Chief Financial Officer.

Governance

- Undertook a comprehensive review of the Directors' Remuneration Policy which culminated in the preparation of a revised Policy. This Policy is to be put to shareholders for approval at the 2023 AGM;
- Sought the views of our major shareholders and the main voting agencies as part of a comprehensive investor consultation exercise to inform the design process for the revised Policy;
- Reviewed guidance from investor bodies and institutional shareholders;
- Consulted with proxy voting recommendation agencies prior to the AGM;
- Received feedback from the Employee Forum in December 2022 on matters relating to remuneration;
- Received an AGM debrief and governance update and considered recommendations made by the voting agencies in their AGM reports;
- Reviewed its own terms of reference; and
- Approved its annual workplan.

Reporting

- Approved the Remuneration Report (including CEO pay ratio and Gender pay gap disclosure).

Effectiveness

- Reviewed the Committee's effectiveness; and
- Reviewed the performance of its independent advisor FIT Remuneration and determined that they should remain in office.

Remuneration Committee effectiveness

The effectiveness of the Remuneration Committee was evaluated as part of the Board performance evaluation process. The review found that the Committee is operating effectively and that its role and remit remained appropriate.

Advisers

FIT Remuneration Consultants LLP (FIT) has served as independent adviser to the Remuneration Committee throughout the year under review. FIT also provided additional related advice to the Company in relation to drafting this report, share plan rule drafting and Non-Executive Director fee benchmarking. FIT's fees in respect of advice provided during the year ended 31 December 2022 were £38,444 (excluding VAT) and were charged on a time and disbursements basis. FIT is a member of the Remuneration Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK. The Remuneration Committee reviewed the performance of the FIT and was satisfied that all advice received was of good quality, objective and independent.

Statement of shareholders' votes

The following table sets out the results of the binding vote on the Directors' Remuneration Policy at the 2020 AGM and the advisory vote on the Directors' Remuneration Report at the 2022 AGM.

	% of votes cast For	% of votes cast Against	Number of shares Withheld
2020 Remuneration Policy	92.57	7.43	6,513,388
2022 Directors' Remuneration Report	96.06	3.94	1,438

This report has been approved by the Board of Directors and signed on its behalf by Jemima Bird, Chair of the Remuneration Committee.

Jemima Bird

Chair of the Remuneration Committee
8 March 2023

OTHER STATUTORY DISCLOSURES

The Directors present their report, together with the audited financial statements, for the year ended 31 December 2022. This report contains additional information which the Directors are required by law and regulation to include within the Annual Report and Accounts. In conjunction with the information from the Chairman's Statement on page 6 to the Statement of Directors' Responsibilities on page 173, this section constitutes the Directors' Report in accordance with the Companies Act 2006 and the Management Report as required by DTR 4.1.5 R(2).

Principal activities

The principal activities of the Group are the sales, marketing, supply and distribution of floorcoverings and certain other ancillary products in the UK and certain Continental Europe territories. The principal activity of the Company is that of a holding company and its subsidiaries are listed on page 247. Further details of the Group's activities and future plans are set out in the Strategic Report on pages 10 to 89.

Headlam Group plc is a company incorporated and domiciled in the UK, company number 00460129. The address of the registered office is PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW.

Strategic report and future developments

The Group is required by the Companies Act 2006 to include a Strategic Report in this document. The information that fulfils the requirements of the Strategic Report, and which is incorporated in this report by reference, can be found on pages 10 to 89. The Strategic Report includes certain disclosures required to be contained in the Directors' Report as follows: the viability statement (page 87), approach to diversity (pages 32 and 130), workforce engagement (pages 32 and 103), an indication of likely future developments (page 38, Chief Executive's Review), and the approach to risk management (pages 81 to 86).

Directors

The following were Directors of the Company during the period ended 31 December 2022 and at the date of this report unless otherwise stated:

- Keith Edelman
- Chris Payne
- Stephen Bird
- Jemima Bird – appointed 10 October 2022
- Karen Hubbard – appointed 1 September 2022
- Robin Williams – appointed 10 October 2022
- Amanda Aldridge – resigned 10 October 2022
- Simon King – resigned 10 October 2022
- Philip Lawrence – resigned 19 May 2022

Corporate governance statement

The corporate governance statement as required by the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) 7.2.1 is set out on page 98 and is incorporated into this report by reference.

Acquisitions

There were no acquisitions during the period under review.

Post balance sheet events

In the period from 1 January 2023 to 2 March 2023 1,566,622 shares were purchased by the Company.

The Group requested a one-year extension to existing banking facilities which was granted by the banks in February 2023 and will now expire in October 2027.

On 4 January 2023 the Group acquired 100% of the issued share capital of Birch Close Trading Limited, and its subsidiaries, for a consideration of £4.7 million. The acquired group trades as Melrose Interiors ('Melrose'), which is the largest independent supplier to the UK online rug industry, and has operations in third-party logistics, recycling and an in-house rug, sampling and pattern book department. Melrose brings a number of new larger customers to the Group, including major high street and online retailers, a customer segment where the Group is targeting growth and will work with Melrose to scale up opportunities.

Financial results and ordinary dividends

The results for the year and financial position at 31 December 2022 are shown in the

Consolidated Income Statement on page 184 and Statements of Financial Position on page 186.

An interim dividend of 6.2 p per ordinary share (2021: 5.8p) was paid on 28 November 2022 to shareholders on the register at the close of business on 28 October 2022. The Directors propose a final dividend of 11.2p per ordinary share (2020: 8.6p) in respect of the financial year ended 31 December 2022. The payment of the final dividend will be subject to shareholder approval at the AGM. If approved the total dividend for FY22 will be 17.4 p per ordinary share.

The final dividend (if approved by shareholders) will be paid on 2 June 2023 to shareholders on the register of members at the close of business on 12 May 2023, the associated ex-dividend date being 11 May 2023.

Share capital

As at 31 December 2021, the issued share capital of the Company comprised a single class of ordinary shares of 5p each ('Ordinary Shares').

The Company's Ordinary Shares are listed on the Main Market of the London Stock Exchange. No new Ordinary Shares were issued during the year. The Company's total issued share capital therefore remains 85,639,209 Ordinary Shares as at 31 December 2022. During the year, the Company purchased 3,122,721 shares into treasury pursuant to the authority granted by shareholders at the Company's Annual General Meeting on 21 May 2021 and 19 May 2022, and 1,566,622 shares were purchased into treasury since 1 January 2023 to the date of the signing of this Report.

The balance of shares in treasury stock following completion of the Share buy Back programme on 3 March 2023 was 4,997,717 Ordinary Shares (6.2 % of the Company's total issued share capital).

Details of share capital are set out in note 23 to the financial statements.

Details of the Company's share capital are set out in note 23 to the financial statements, which should be treated as forming part of this report. Subject to the provisions of the Articles of Association and the Companies Act 2006, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the Directors may decide. There are, however, no restrictions on the transfer of securities in the Company, except that certain restrictions may from time to time be imposed by law or regulation, for example, insider trading laws, and pursuant to the Listing Rules of the Financial Conduct Authority (the 'Listing Rules'), and the UK Market Abuse Regulation, whereby certain employees require the approval of the Company to deal in the Company's shares On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website by the next business day after the meeting. The holders of ordinary shares are entitled to receive the Annual Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights. Further shareholder information is available in the Notice of AGM which contains explanations as to the resolutions proposed.

Subject to certain limits, at the AGM on 19 May 2022, the Directors were granted general authority to allot shares in the Company together with an authority to allot shares in the Company in connection with a rights issue and in respect of cash without first offering them to existing shareholders. The Directors will be seeking to renew these authorities to allot unissued shares and to disapply statutory pre-emption rights at the forthcoming AGM. Full details are set out in the Notice of AGM which is contained in a separate circular to shareholders.

The Company announced a share buyback programme ('SBB') on 9 March 2022. The first purchases under this SBB were undertaken on 10 March 2022 using the authority granted at the 2021 AGM where authority was given to purchase shares in the Company up to 10% of the issued share capital. Under this authority there was a minimum and maximum price to be paid for such shares.

From 10 March 2022 to market close on 31 December 2022, the Company purchased 3,122,721 Ordinary Shares through the SBB (all held in treasury) for a total consideration of £9.8 million.

It was announced on 28 November 2022 that the Company in discussions with its brokers, Panmure Gordon and Peel Hunt (the 'Joint Brokers'), had agreed that the SBB may on any given trading day exceed 25 per cent but remain below 50 per cent of the

OTHER STATUTORY DISCLOSURES
CONTINUED

average daily trading volume and, accordingly, the Company would not benefit from the exemption contained in Article 5(1) in MAR. The Company previously announced on 9 March 2022 that the SBB would be conducted so as to fall within the exemption contained in Article 5(1) of MAR.

On 3 March 2023 the completion of the SBB was announced.

In line with usual practice, the Directors will also seek to renew the authority to purchase shares under the at the forthcoming AGM. The Company intends to exercise this authority: (i) to purchase and hold shares in treasury to fulfil the Company's future obligations under its employee share schemes; and/or (ii) after following its Capital Allocation Priorities as detailed on page 55 and considering market conditions and the share price prevailing at the time, where the Board believes that the purchase and subsequent cancellation of shares would be in the best interest of shareholders generally. A full explanation and details are set out in the Notice of AGM sent in a separate circular to shareholders and which is also available on the Company's website, www.headlam.com.

Directors
Biographies of Directors currently serving on the Board are set out on pages 92 and 93.

Changes to the Board during the period are set out on page 166. Details of the Directors' service agreements are set out below:

	Date of appointment	Date of original letter of appointment/service agreement	Effective date of current letter of appointment/service agreement	Next due for election/re-election
Executive Directors				
Chris Payne	13 September 2017	n/a	8 March 2022	25 May 2023
Non-Executive Directors				
Keith Edelman (Chair)	1 October 2018	15 August 2018	1 October 2021	25 May 2023
Stephen Bird	13 September 2021	10 August 2021	13 September 2021	25 May 2023
Jemima Bird	10 October 2022	10 October 2022	10 October 2022	25 May 2023
Karen Hubbard	1 September 2022	1 September 2022	1 September 2022	25 May 2023
Robin Williams	10 October 2022	10 October 2022	10 October 2022	25 May 2023

Remaining service agreement term for Non-Executive Directors as at 31 December 2022 (in whole months)

- Keith Edelman – 21 months
- Stephen Bird – 19 months
- Jemima Bird – 33 months
- Karen Hubbard – 32 months
- Robin Williams – 33 months

The Directors shall be not less than three and not more than eight in number, although the Company may by ordinary resolution vary these numbers. Directors may be appointed by the ordinary resolution of the shareholders or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company after their appointment, at which they are then eligible to stand for election.

As noted elsewhere in this report, all Directors are subject to annual election by shareholders at the AGM in line with the provisions of the UK Corporate Governance Code.

Related party transactions
The Board and certain members of Senior Management are related parties within the definition of IAS 24 (Revised) 'Related Party Disclosures' ('IAS 24') and the Board are related parties within the definition of Chapter 11 of the UK Listing Rules ('Chapter 11'). There is no difference between transactions with key personnel of the Company and transactions with key personnel of the Group. During the year, the Group did not enter into any transaction which, for the purposes of IAS 24, is considered to be a 'related party transaction'. No related party transactions that require disclosure have been entered into during the year under review.

Directors' Powers

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by the Company by special resolution, the business of the Company will be managed by the Board which may exercise all the powers of the Company, whether relating to the management of the business of the Company or otherwise. The matters reserved for the Board are detailed in a specific schedule, which is reviewed annually and is available on the Company's website, www.headlam.com.

Change of control

The Group has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a successful takeover bid. The significant agreements in this respect are the Group's banking facility and certain of its employee share schemes. The Group's term loan facilities include a provision such that, in the event of a change of control, the lender may cancel all or any part of the facility and/or declare that all amounts outstanding under the facility are immediately due and payable by the Group. Outstanding options granted under the SAYE scheme may be exercised within a period of six months from a change of control of the Company following a takeover taking place.

Rights under employees' share schemes

As at 31 December 2022, Kleinwort Hambros, as trustee of the Headlam Group Employee Trust Company Limited ('Trust') held 715,612 shares, approximately 0.84% of the issued share capital of the Company (excluding treasury shares) for the purpose of satisfying options and awards under the various employee share schemes operated by the Company. Kleinwort Hambros waives dividends due on all but 0.01p per share of their total holding.

Details of employee share schemes are set out in note 22 to the Financial Statements. Details of long-term incentive schemes for the Directors are shown in the Remuneration Report starting on page 134.

Securities carrying special rights

There are no requirements for prior approval of any transfers and no person holds securities in the Company carrying special rights with regard to control of the Company.

Substantial interests in voting rights

Notifications of the following voting interests in the Company's ordinary share capital had been received by the Company (in accordance with Chapter 5 of the DTR), with the information received from the discloser stated to be correct at the time of disclosure.

As at and up to 31 December 2022, the persons set out in the table below have notified the Company, pursuant to DTR 5.1, of their interests in the voting rights in the Company's issued share capital.

Ordinary shares of 5p each	Number of shares[1]	% of total voting rights[2]
Aberforth Partners LLP	8,400,426	10.11%
JO Hambro Capital Management Limited	4,190,238	less than 5%

As at 8 March 2023, one further notification had been received as outlined below.

Ordinary shares of 5p each	Number of shares[1]	% of total voting rights[2]
Ruffer LLP	4,042,500	4.95%

1 Represents the number of voting rights last notified to the Company by the respective shareholder in accordance with DTR 5.1.

2 Based on the Total Voting Rights in the Company as at the notification date.

OTHER STATUTORY DISCLOSURES
CONTINUED

Directors' interests and indemnity arrangements

During the year, no Director held any material interest in any contract of significance with the Company or any of its subsidiary undertakings, other than service agreements between each Executive Director and the Company. In addition, the Company has purchased and maintained throughout the year and up to the date of approval of the financial statements, Directors' and Officers' liability insurance in respect of itself and its Directors. The Directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision extends to include the Directors of Headlam Group Pension Trustees Limited, a corporate trustee of the Scheme, in respect of liabilities that may attach to them in their capacity as Directors of that corporate trustee. These provisions were in force throughout the year and are currently in force. Details of Directors remuneration, service agreements, and interests in the shares of the Company are set out in the Directors' Remuneration Report.

Anti-Corruption and Bribery

It is the Company's policy to conduct all business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships. The policy which is detailed on the Company's website, www.headlam.com, applies to all employees, directors, officers, agency workers, seconded workers, volunteers, interns, agents, contractors, external consultants, third-party representatives and business partners. Any individual who breaches the policy will face action, which in the case of employees could result in dismissal for gross misconduct.

Modern Slavery Act

The Board fully supports the aims of the Modern Slavery Act and the Company has a zero-tolerance approach to slavery and human trafficking. During the year the Company has issued a new supplier Code of Conduct and has appointed an external specialist, who during 2022 undertook a full audit of our supplier base to help to mitigate any potential ethical and modern slavery risks in the supply chain.

Our suppliers are expected to engage and adhere to the Headlam Group Code of Conduct and Headlam works with all suppliers to ensure compliance. However, if any supplier is found to be involved in any form of Modern Slavery or unethical behaviour, the Company will look to suspend or cease trading with that supplier.

Full information can be found in the Company's Modern Slavery Statement which is published annually on the Company's website and which details the actions undertaken to prevent slavery and human trafficking in both the Company's organisation and its supply chain.

Human Rights

We support the United Nations' Universal Declaration of Human Rights and have policies and processes in place to ensure that we act in accordance with our cultural values which encompass areas such as equal opportunities, diversity, inclusion and respect, anti-corruption and bribery, whistleblowing and fraud. We do not believe this to be a material issue in our business.

Employment Policies

The Group is an equal opportunities employer and we are committed to the elimination of unlawful and unfair discrimination and the fair and equal treatment of all colleagues and applicants during the recruitment and selection process, training and career development. We have a zero-tolerance approach to matters of discrimination, harassment and bullying across the business. Polices are in place for reporting and dealing with such matters.

This commitment applies regardless of anyone's physical ability, sexual orientation or gender identity, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin. Our Company policies ensure this is reflected in the culture of the business and include an Equal Opportunities policy and an Inclusion and Respect at Work policy. Full consideration is given to employment applications from people with diverse backgrounds, including disabilities whenever suitable vacancies exist. If a colleague becomes disabled efforts are made to ensure their continued employment within the company with appropriate training as required.

Further details on diversity are included in the Nomination Committee Report on page 126.

Employee involvement and Communication

We are committed to keeping our colleagues informed and communicating with them on matters of importance relating to our company performance and their employment. We also recognise that communication should be two-way and we actively encourage feedback and involvement from our colleagues, either through formal channels such as our Employee Forum (page 103), our full employee or pulse surveys, or more informal methods such as the dedicated internal communications email address or MyHub portal.

Further information can be found on page 32

A summary of how Directors have engaged with employees and had regard to employee interests and the effect of that regard on the principal decisions taken by the Company during the financial year is provided on pages 101 to 103.

Sharesave

During the year, the Company invited all eligible employees to participate in its HMRC approved Sharesave Scheme. This Scheme allows eligible employees to save up to £500 per month in one or a combination of Sharesave Schemes in order to further align their interests with the performance of the Group. At 31 December 2022, approximately 24% UK employees participate in one or more of the active Sharesave Schemes.

Engagement with suppliers, customers and other stakeholders

The directors understand the need to develop good business relationships with its suppliers, customers and other stakeholders and the success with which this is achieved is paramount to business success. Further information on the Company's approach to engagement with its stakeholders and how this feeds through into the decision-making process can be found on pages 28 to 31.

Directors' and auditor's responsibilities

A statement by the Directors on their responsibilities in respect of the Annual Report and Accounts is given on page 173 and a statement by the Auditor on their responsibilities is given on page 176.

Political donations and expenditure

The Company's policy is not to make any donations for political purposes in the UK or to donate to political parties or incur political expenditure outside of the UK. Accordingly, neither the Company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2021: £nil).

Charitable donations

The Company has in place a Local Communities Programme which supports locally-focused charitable giving and community involvement by each of the Company's businesses, allowing local communities to benefit directly.

An outline of the Company's approach to charitable donations is given as part of the People Report on page 32.

Charitable giving is undertaken through both monetary and product donations to good local causes. Monetary donations made during the year in support of charitable causes nationally, and those of interest to employees amounted to £50,866 (2021: £6,854).

Amendments to the Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The Company's Articles of Association were last amended at the general meeting held on 21 May 2021 with the updated articles being filed with the Registrar of Companies.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Group together with details of our treasury policy and management are set out in note 24 to the financial statements on pages 190 to 247.

External auditor

PricewaterhouseCoopers LLP have indicated their willingness to continue as Auditor and their reappointment has been approved by the Audit Committee. Resolutions to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the 2023 AGM.

OTHER STATUTORY DISCLOSURES
CONTINUED

AGM

This year's AGM will be held at the Company's head office in Coleshill on Thursday, 25 May 2023 at 11.00am. The notice convening this meeting is in a separate document to this Annual Report and Accounts along with the explanatory notes regarding the resolutions that will be proposed at the meeting.

Other disclosures

Certain information that is required to be included in the Directors' Report can be found elsewhere in this document as referred to below, each of which is incorporated by reference into the Directors' Report:

- Information on greenhouse gas emissions can be found on page 78.
- Information on energy consumption can be found on page 78.
- Information on energy efficiency can be found on page 80.
- For the purposes of Listing Rule (LR) 9.8.6R(8) the information on climate-related financial disclosures consistent with the TCFD recommendation and the TCFD recommended disclosure can be found on pages 72 to 76.
- Further details of the actions which the Group is taking to reduce emissions can also be found in the Sustainability Report.
- An indication of likely future developments in the Group's business can be found throughout the Strategic Report, starting on page 9.
- The long-term viability statement can be found on page 87.
- Information on the appropriateness of adopting the going concern basis of the accounts can be found on page 88.
- Our approach to risk management can be found on pages 81 to 86.
- Information for shareholders can be found on the Company's website.
- A list of the Company's overseas subsidiaries is on page 247.

This report was approved by the Board and signed on its behalf by:

Caroline Farbridge

Company Secretary
8 March 2023

Company registration number: 00460129

Listing Rule (LR) 9.8.4R information Section

(1)	Capitalised interest	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(3)	Smaller related party transactions	Not applicable
(4)	Details of long-term incentive schemes established specifically to recruit or retain a Director	Not applicable
(5) (6)	Waiver of emoluments by a Director	Not applicable
(7) (8)	Allotments of equity securities for cash	Not applicable
(9)	Participation in a placing of equity securities	Not applicable
(10)	Contracts of significance	Not applicable
(11) (14)	Controlling shareholder disclosure	Not applicable
(12) (13)	Dividend waiver	Page 232

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Directors' confirmations

The directors consider that 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 position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Annual Report and Accounts confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Chris Payne

Director

8 March 2023


Kersaint Cobb

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HEADLAM GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion, Headlam Group PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2022 (the "Annual Report"), which comprise: the Group and Company Statements of Financial Position as at 31 December 2022; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Group and Company Cash Flow Statements, and the Group and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The Group financial statements are a consolidation of a number of reporting components, comprising the group's operating businesses, centralised functions and non-trading entities.
- We performed full scope audits on the financial information of four UK reporting components: HFD Limited, MCD Group Limited, Domus Group of Companies and Headlam Group PLC (the company) due to their size and risk characteristics. These UK reporting components comprise 87% of consolidated revenue and 94% of consolidated underlying profit before tax.
- In addition, we targeted significant balances in other components. These were identified as cash balances within the components of Headlam BV, LMS and Dersimo. We also tested a sample of LMS cost of sales transactions to supporting proof of purchase and cash payment.
- All work was performed by the group team and no reliance was placed upon the work of component auditors. Our audit of the Company Financial Statements included substantive procedures over all material balances and transactions.
- Finally, we performed analytical procedures on insignificant trading components for group reporting purposes.

Key audit matters

- Supplier arrangements (group)
- Impairment assessment (group and parent)

Materiality

- Overall group materiality: £1,800,000 (2021: £1,800,000) based on 5% of underlying profit before tax.
- Overall company materiality: £1,700,000 (2021: £1,700,000) based on 1% of total assets, capped at allocated component materiality of £1,700,000 (2021: £1,700,000).
- Performance materiality: £1,350,000 (2021: £1,350,000) (group) and £1,275,000 (2021: £1,275,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

The disposal of Belcolor, which was a key audit matter last year, is no longer included because of the disposal and associated accounting implications were relevant to 2021 and have no impact on the 2022 financial year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Supplier arrangements (group)	
Refer to the Audit Committee Report on page 120 and the use of estimates and judgements in the Accounting Policies on page 191. The group has a significant number of rebate agreements with suppliers. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased. Consequently, the calculation of these rebates can be complex and requires accurate inputs and calculations to be made. The majority of agreements are co-terminous with the financial year, meaning that, although the calculation of the rebate does not rely on estimates of future purchases, there are significant amounts of rebates receivable subject to recovery at the year end.	We tested a sample of rebate balances by requesting confirmations directly from the counterparty. For those balances where no counterparty confirmation was subsequently received, we recalculated the amount due, based on the supporting purchase agreements, and tested the calculation inputs back to underlying financial records. No material inconsistencies or exceptions were noted. For those balances subject to testing, we agreed post year end settlements back to evidence of cash receipt or credit notes received, to provide evidence over the recoverability of the balances. In addition for any amounts not yet settled, we assessed the recoverability, for example, through consideration of any evidence to suggest the counterparty was not able to pay the amounts due and the timing of payments received in previous years. In order to assess management's ability to accurately calculate rebates receivable balances, we compared cash receipts received during the year against balances accrued at the previous year end. No material inconsistencies or exceptions were noted.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HEADLAM GROUP PLC

Key audit matter	How our audit addressed the key audit matter
Impairment assessment (group and parent)	
Refer to the Audit Committee Report on page 121 and the use of estimates and judgements in the Accounting Policies on page 192. The directors are required to perform an annual assessment of the carrying value of goodwill. The determination of the appropriate level at which to define a cash-generating unit (CGU) is disclosed as a judgement and has been reassessed by the directors in the current year to reflect the evolving business strategy. They are also required to exercise judgement as to whether impairment triggers, which require a full impairment assessment to be performed, have been identified in relation to the Group's tangible and intangible assets and the Company's investments. For certain underperforming cash generating units, impairment triggers were identified. Where a full impairment assessment was required to support the carrying value of the assets and investments held, discounted cash flow models have been prepared which include a number of judgemental assumptions including the potential impact associated with climate change. We focused on this area, as the estimation of future discounted cash flows is inherently subjective and involves judgement and therefore was an area of significant audit effort. The assumptions which are deemed to be the most significant in these forecasts are in respect of revenue, gross margin and discount rate.	We evaluated management's judgement that distribution centres are the appropriate level at which to define a CGU compared to the requirements of IAS 36, being that a CGU is the smallest group of assets generating largely independent cash inflows. We concluded that it was appropriate, on the basis that given the evolving business strategy, management now budget, review performance, and make decisions at a distribution centre level and the locations within each distribution centre have a high level of interdependence. We evaluated management's assessment of potential impairment triggers across all of the Group's CGUs (Group) and investments (Company) to identify any potential indicators of impairment in light of current and future market conditions. Where impairment triggers were identified, we obtained management's impairment models and tested their integrity and accuracy. We agreed the revenue and cash flows used as the basis of the model back to Board approved 5 year forecasts and reviewed them in light of recent trading results and historic performance. In addition we performed benchmarking against independent market indices, noting the correlation with macro-economic factors. We evaluated the extent to which the impact of climate change had been incorporated into the models. We engaged valuation experts to benchmark the discount rate calculated by management and concluded that it lay within our expected ranges. We reviewed management's sensitivity analysis on key assumptions, including the impact of a potential end-of-life disposal tax and implementation of sustainable vehicle fleets. We corroborated management's conclusion that no CGUs required any impairment and that none of the CGUs were materially sensitive to reasonably possible movements in the key assumptions. We reviewed the associated disclosures within the financial statements to ensure that they were appropriately disclosed. As a result of these procedures, we consider the directors' assessment of the carrying value of tangible and intangible assets and investments to be supportable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group operates as a supplier and distributor of floorcovering products and has two operating segments; the UK and Continental Europe. The Group financial statements are a consolidation of a number of reporting companies, comprising the group's operating businesses, centralised functions and non-trading group companies.

In establishing the overall approach to the group audit, we identified four UK reporting components which, in our view, required an audit of their complete financial information both due to their size and risk characteristics: HFD Limited, MCD Group Limited, Domus Group of Companies and Headlam Group PLC (the Company). These reporting components were audited by the group engagement team.

In addition, we targeted significant balances in other components. These were identified as cash balances within the components of Headlam BV, LMS and Dersimo. We also tested a sample of LMS cost of sales transactions to supporting proof of purchase and cash payment.

The work on these four components, together with additional procedures performed at the Group level, including analytical procedures and specific testing of the consolidation, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Our audit of the Company Financial Statements was undertaken by the Group audit team and included substantive procedures over all material balances and transactions.

The impact of climate risk on our audit

As part of our audit, we made enquiries of management to understand their process to assess the extent of the potential impact of climate change risks on the Group and its financial statements. Management's assessment has considered the climate-related risks disclosed in the Annual Report including the Group's transition to its net zero emissions targets in 2035 (Scope 1 & 2) and 2050 (Scope 1, 2 & 3), and potential exposure to increased costs of transitioning to a more sustainable business and potential new legislation. In particular, management considered the extent to which:

- The group may incur costs in the transition to net zero, for example, replacements to renewable energy, buildings and vehicles;
- The group may be exposed to government imposed end-of-life disposal taxes on bulky waste (extended producer responsibility); and
- The group may be exposed to changing consumer preferences towards more sustainable flooring products.

As disclosed within note 11 of the financial statements, management considers that the impact of climate change does not give rise to a material financial statement impact based on the assumption that the increased cost of sustainable products is passed onto consumers as consumer preferences shift towards more sustainable products in the medium term.

In response, we used our understanding of the Group to evaluate management's assessment; in particular, we considered how climate change risks, both physical and transitional, would impact the assumptions made in the forecasts prepared by management used in their impairment analyses and in their going concern and viability assessments. We concluded that climate change risks do not materially impact the Group's financial statements. We also read the disclosures made in relation to climate change in the other information within the Annual Report, and considered their consistency with the financial statements and our knowledge from the audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£1,800,000 (2021: £1,800,000).	£1,700,000 (2021: £1,700,000).
How we determined it	5% of underlying profit before tax	1% of total assets, capped at allocated component materiality of £1,700,000 (2021: £1,700,000)
Rationale for benchmark applied	Based on the benchmarks used in the annual report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HEADLAM GROUP PLC

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £407,000 and £1,700,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £1,350,000 (2021: £1,350,000) for the group financial statements and £1,275,000 (2021: £1,275,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £90,000 (group audit) (2021: £90,000) and £85,000 (company audit) (2021: £85,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's detailed cash flow forecasts and liquidity headroom under both base case and downside scenarios.
- Testing the cashflows were consistent with board approved forecasts and considering whether they were reasonable in light of previous performance, future expectations and management's track record of accurate forecasting.
- Assessing there were no doubts over the ability of the group to meet its debt covenants under both base case and downside scenarios.
- Confirmed the extension of existing banking facilities which was agreed on 17 January 2023.
- Assessing the adequacy of disclosures in the going concern statement on page 88 and statements in note 1a of the notes to the 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 the 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 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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have 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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Other Statutory Disclosures, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Other Statutory Disclosures

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Other Statutory Disclosures for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Other Statutory Disclosures.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HEADLAM GROUP PLC

In addition, 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 that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulation, health and safety legislation and taxation legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias in accounting estimates.
Audit procedures performed by the engagement team included:

- Inquiries of management and reviewing minutes of meetings of those charged with governance regarding any known or suspected instances of fraud or non-compliance with laws and regulations.
- Review of correspondence and discussions with legal advisors.

- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements.
- Testing of journals posted to revenue, rebates and cash that have unusual account combinations

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 20 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2016 to 31 December 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Gillian Hinks (Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

8 March 2023

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

Continuing operations	Note	Underlying 2022 £M	Non-underlying (Note 3) 2022 £M	Total 2022 £M	Underlying 2021 £M	Non-underlying (Note 3) 2021 £M	Total 2021 £M
Revenue	2	663.6	—	663.6	667.2	—	667.2
Cost of sales		(444.1)	—	(444.1)	(446.7)	—	(446.7)
Gross profit		219.5	—	219.5	220.5	—	220.5
Distribution costs		(129.5)	—	(129.5)	(125.9)	—	(125.9)
Administrative expenses		(51.3)	(1.5)	(52.8)	(57.3)	(8.2)	(65.5)
Other operating income		0.5	6.2	6.7	—	—	—
Operating profit/(loss)	2	39.2	4.7	43.9	37.3	(8.2)	29.1
Finance income	6	0.7	—	0.7	0.4	—	0.4
Finance expenses	6	(2.8)	—	(2.8)	(1.9)	—	(1.9)
Net finance costs		(2.1)	—	(2.1)	(1.5)	—	(1.5)
Profit/(loss) before tax	3	37.1	4.7	41.8	35.8	(8.2)	27.6
Taxation	7	(7.4)	(0.8)	(8.2)	(9.2)	1.5	(7.7)
Profit/(loss) from continuing operations		29.7	3.9	33.6	26.6	(6.7)	19.9
Profit from discontinued operation	25	—	—	—	0.1	4.4	4.5
Profit/(loss) for the year attributable to the equity shareholders		29.7	3.9	33.6	26.7	(2.3)	24.4
Earnings per share for profit from continuing operations							
Basic	9	35.5p		40.1p	31.5p		23.5p
Diluted	9	35.2p		39.8p	31.1p		23.2p
Earnings per share for profit from discontinued operations							
Basic	9	—		—	0.2p		5.3p
Diluted	9	—		—	0.2p		5.2p
Ordinary dividend per share							
Interim dividend for the financial year	23			6.20p			5.80p
Final dividend declared	23			11.20p			8.60p
Declared special dividend	23			—			17.70p

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £M	2021 £M
Profit for the year attributable to the equity shareholders		33.6	24.4
Other comprehensive income/(expense)			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	21	0.1	(2.6)
Related tax		—	0.8
		0.1	(1.8)
Items that are or may be reclassified to profit or loss			
Exchange differences arising on translation of overseas operations		0.4	(1.2)
Reclassification of foreign currency translation reserve on disposal of subsidiary	25	—	(4.8)
		0.4	(6.0)
Other comprehensive income/(expense) for the year		0.5	(7.8)
Total comprehensive income attributable to the equity shareholders for the year		34.1	16.6

Total comprehensive income/(expense) attributable to the equity shareholders for the year arising from:

	2022 £M	2021 £M
Continuing operations	34.1	16.9
Discontinued operations	—	(0.3)
	34.1	16.6

STATEMENTS OF **FINANCIAL POSITION**
AT 31 DECEMBER 2022

	Note	Group 2022 £M	Group 2021 £M	Company 2022 £M	Company 2021 £M
Assets					
Non-current assets					
Property, plant and equipment	10	119.9	113.3	2.6	1.0
Investment properties	10	—	—	89.6	91.4
Right of use assets	18	36.7	35.0	0.7	0.7
Intangible assets	11	17.8	18.1	3.0	1.9
Investments in subsidiary undertakings	12	—	—	101.1	100.4
		174.4	166.4	197.0	195.4
Current assets					
Inventories	14	139.8	130.9	—	—
Trade and other receivables	15	119.1	114.0	16.7	6.2
Cash and cash equivalents	16	2.1	61.2	20.7	63.4
		261.0	306.1	37.4	69.6
Non-current assets trade and other receivables					
Trade and other receivables	15	—	—	12.6	14.4
		—	—	12.6	14.4
		261.0	306.1	50.0	84.0
Total assets		435.4	472.5	247.0	279.4
Liabilities					
Current liabilities					
Other interest-bearing loans and borrowings	17	(0.3)	(0.6)	—	—
Lease liabilities	18	(11.4)	(10.5)	(0.1)	(0.1)
Trade and other payables	19	(153.2)	(178.0)	(42.5)	(36.7)
Employee benefits	21	(1.0)	(1.0)	(1.0)	(1.0)
Income tax payable	8	(1.9)	(1.0)	(2.5)	(0.7)
		(167.8)	(191.1)	(46.1)	(38.5)
Non-current liabilities					
Other interest-bearing loans and borrowings	17	—	(6.9)	—	—
Lease liabilities	18	(26.3)	(25.5)	(0.7)	(0.7)
Provisions	20	(1.7)	(2.7)	—	—
Deferred tax liabilities	13	(12.1)	(10.3)	(8.0)	(7.8)
Employee benefits	21	(2.7)	(3.9)	(2.2)	(3.3)
		(42.8)	(49.3)	(10.9)	(11.8)
Total liabilities		(210.6)	(240.4)	(57.0)	(50.3)
Net assets		224.8	232.1	190.0	229.1
Equity attributable to equity holders of the parent					
Share capital	23	4.3	4.3	4.3	4.3
Share premium		53.5	53.5	53.5	53.5
Other reserves	23	(15.8)	(1.6)	2.7	17.3
Retained earnings		182.8	175.9	129.5	154.0
Total equity		224.8	232.1	190.0	229.1

The notes on pages 190 to 247 are an integral part of these consolidated financial statements.

The Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement, however the profit for the year attributable to the equity shareholders is £2.1 million (profit in 2021: £36.7 million).

The financial statements on pages 184 to 249 were approved by the Board of Directors on 8 March 2023 and were signed on its behalf by

Chris Payne
Director

Company Number: 00460129

STATEMENT OF CHANGES IN EQUITY – GROUP
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2021		4.3	53.5	0.1	1.5	7.7	(5.9)	158.8	220.0
Profit for the year attributable to the equity shareholders		—	—	—	—	—	—	24.4	24.4
Other comprehensive expense		—	—	—	—	(6.0)	—	(1.8)	(7.8)
Total comprehensive (expense)/income for the year		—	—	—	—	(6.0)	—	22.6	16.6
Transactions with equity shareholders, recorded directly in equity									
Share-based payments	22	—	—	—	—	—	—	1.2	1.2
Share options exercised by employees		—	—	—	—	—	1.0	(0.3)	0.7
Deferred tax on share options		—	—	—	—	—	—	0.2	0.2
Dividends to equity holders	23	—	—	—	—	—	—	(6.6)	(6.6)
Total contributions by and distributions to equity shareholders		—	—	—	—	—	1.0	(5.5)	(4.5)
Balance at 31 December 2021		4.3	53.5	0.1	1.5	1.7	(4.9)	175.9	232.1
Balance at 1 January 2022		4.3	53.5	0.1	1.5	1.7	(4.9)	175.9	232.1
Profit for the year attributable to the equity shareholders		—	—	—	—	—	—	33.6	33.6
Other comprehensive income		—	—	—	—	0.4	—	0.1	0.5
Total comprehensive income for the year		—	—	—	—	0.4	—	33.7	34.1
Transactions with equity shareholders, recorded directly in equity									
Share-based payments	22	—	—	—	—	—	—	0.9	0.9
Share options exercised by employees		—	—	—	—	—	0.4	(0.2)	0.2
Deferred tax on share options		—	—	—	—	—	—	(0.2)	(0.2)
Repurchase of own shares		—	—	—	—	—	(15.0)	—	(15.0)
Dividends to equity holders	23	—	—	—	—	—	—	(27.3)	(27.3)
Total contributions by and distributions to equity shareholders		—	—	—	—	—	(14.6)	(26.8)	(41.4)
Balance at 31 December 2022		4.3	53.5	0.1	1.5	2.1	(19.5)	182.8	224.8

STATEMENT OF CHANGES IN EQUITY – COMPANY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2021		4.3	53.5	0.1	22.1	(5.9)	124.9	199.0
Profit for the year attributable to the equity shareholders		—	—	—	—	—	36.7	36.7
Other comprehensive expense		—	—	—	—	—	(2.0)	(2.0)
Total comprehensive income for the year		—	—	—	—	—	34.7	34.7
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	22	—	—	—	—	—	1.2	1.2
Share options exercised by employees		—	—	—	—	1.0	(0.3)	0.7
Deferred tax on share options		—	—	—	—	—	0.1	0.1
Dividends to equity holders	23	—	—	—	—	—	(6.6)	(6.6)
Total contributions by and distributions to equity shareholders		—	—	—	—	1.0	(5.6)	(4.6)
Balance at 31 December 2021		4.3	53.5	0.1	22.1	(4.9)	154.0	229.1
Balance at 1 January 2022		4.3	53.5	0.1	22.1	(4.9)	154.0	229.1
Profit for the year attributable to the equity shareholders		—	—	—	—	—	2.1	2.1
Other comprehensive income		—	—	—	—	—	0.1	0.1
Total comprehensive income for the year		—	—	—	—	—	2.2	2.2
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	22	—	—	—	—	—	0.9	0.9
Share options exercised by employees		—	—	—	—	0.4	(0.2)	0.2
Deferred tax on share options		—	—	—	—	—	(0.1)	(0.1)
Repurchase of own share		—	—	—	—	(15.0)	—	(15.0)
Dividends to equity holders	23	—	—	—	—	—	(27.3)	(27.3)
Total contributions by and distributions to equity shareholders		—	—	—	—	(14.6)	(26.7)	(41.3)
Balance at 31 December 2022		4.3	53.5	0.1	22.1	(19.5)	129.5	190.0

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

		Group		Company	
	Note	2022 £M	2021 £M	2022 £M	2021 £M
Cash flows from operating activities					
Profit before tax for the year:					
Continuing operations		41.8	27.6	3.2	38.9
Discontinued operations		—	5.8	—	—
		41.8	33.4	3.2	38.9
Adjustments for:					
Depreciation of property, plant and equipment, amortisation and impairment of intangible assets	3	7.7	9.2	1.8	2.0
Depreciation of right-of-use assets	3	12.5	13.5	—	—
Finance income	6	(0.7)	(0.4)	(0.7)	(0.3)
Finance expense	6	2.8	1.9	1.5	0.5
Profit on sale of property, plant and equipment	3	—	(11.1)	—	(5.1)
Insurance proceeds for property, plant and equipment following fire	28	(1.7)	—	(0.5)	—
Impairment of property, plant and equipment and inventory, following fire		—	7.3	—	2.3
Loss on sale of subsidiary		—	0.1	—	5.4
Share-based payments	22	0.9	1.2	0.2	0.4
Operating cash flows before changes in working capital and other payables		63.3	55.1	5.5	44.1
Change in inventories		(8.3)	(26.6)	—	—
Change in trade and other receivables		(3.5)	(16.6)	(8.0)	1.9
Change in trade and other payables		(34.2)	5.4	(1.1)	0.1
Cash generated from/(used in) the operations		17.3	17.3	(3.6)	46.1
Interest paid		(1.2)	(0.5)	(1.4)	(0.4)
Interest received		0.6	0.5	0.7	0.3
Tax (paid)/received		(5.8)	(3.5)	0.8	(0.3)
Net cash flow from operating activities		10.9	13.8	(3.5)	45.7
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		—	19.7	—	6.9
Disposal of discontinued operation, net of cash disposed of*	25	—	(3.5)	—	0.8
Acquisition of property, plant and equipment		(12.6)	(6.1)	(1.6)	—
Insurance proceeds for property, plant and equipment following fire	28	1.7	—	0.5	—
Acquisition of intangible assets		(1.2)	(0.8)	(1.1)	(0.7)
Net cash flow from investing activities		(12.1)	9.3	(2.2)	7.0
Cash flows from financing activities					
Proceeds from the issue of treasury shares		0.2	0.7	0.2	0.7
Payment to acquire own shares**	23	(9.8)	—	(9.8)	—
Proceeds from borrowings		25.0	—	25.0	—
Repayment of borrowings		(32.3)	(1.2)	(25.0)	—
Principal elements of lease payments		(14.0)	(15.0)	(0.1)	—
Dividends paid	23	(27.3)	(6.6)	(27.3)	(6.6)
Net cash flow from financing activities		(58.2)	(22.1)	(37.0)	(5.9)
Net (decrease)/increase in cash and cash equivalents		(59.4)	1.0	(42.7)	46.8
Cash and cash equivalents at 1 January		61.2	60.8	63.4	16.6
Effect of exchange rate fluctuations on cash held		0.3	(0.6)	—	—
Cash and cash equivalents at 31 December	16	2.1	61.2	20.7	63.4

* For cash flows of discontinued operations see note 25.

**During the period 3,122,721 shares were acquired for £9.8 million under the Group's Share Buyback Programme

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of the Financial Statements and Accounting Policies

Reporting entity

Headlam Group PLC (the 'Company') is a company incorporated and domiciled in the UK. The address of its registered office is PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW.

Statement of compliance

Both the Company's and the Group's financial statements have been prepared and approved by the Directors in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom's Financial Conduct Authority. On publishing the Company's financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The Company and Group financial statements were authorised for issuance on 8 March 2023.

Basis of preparation

The principal accounting policies applied in the preparation of the financial statements of the Company and the financial statements of the Group are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed below.

(a) Measurement convention

These financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest hundred thousand.

The Company and Group financial statements are prepared on the historical cost basis with the exception of derivative financial instruments and pension scheme assets and liabilities, both of which are stated at fair value.

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements the Directors are required to consider whether the Group can continue in operational existence for a period no shorter than 12 months from the date of approval of the financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 07 and Chief Executive's Review on pages 39 to 45.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 48 to 57. In addition, note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group meets its day-to-day working capital requirements through its banking facilities. On 17 January 2022, the Group refinanced its banking facilities. The Group now has a committed sterling revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million, with maturity in October 2027 following the one-year extension option being requested by the Group and agreed by the banks in February 2023.

The Group also has short term uncommitted facilities of £15.0 million and €4.2 million which are renewable on an annual basis.

As at 31 December 2022, the Company had cash and loans excluding lease liabilities of £1.8 million and had total banking facilities available of £100.3 million, of which £100.0 million was undrawn. Lease liabilities are excluded from this metric to be consistent with measurements used in the facility agreement and to allow comparison to total banking facilities available.

As detailed on pages 87 to 88 under Viability and Going Concern, the Directors have reviewed the Company's resilience to the principal risks and uncertainties by considering stress tested forecasts through adverse scenarios, which involve a reduction in market demand, including (A) a sustained recessionary environment, characterised by a long period of underperformance throughout the assessment period and (B) an economic crisis with a sharp decline in demand in the first year before a recovery. The testing indicated that the Company would be able to operate within its banking facilities and meet its financial covenants in both scenarios.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period no shorter than 12 months from the date of approval of the financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(b) Use of accounting estimates and judgements

Estimates

The preparation of financial statements in conformity with UK adopted International Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty at the Statement of Financial Position date that have significant risk of material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

- *Supplier arrangements*
  The Group has a number of rebate agreements with suppliers. The majority of agreements are co-terminus with the financial year, meaning that, although the calculation of the rebate does not rely on estimates of future purchases, there are significant amounts of rebates receivable subject to recovery at the year-end. At 31 December 2022, rebates receivable are estimated to be fully recoverable.

- *Employee benefits*
  The deficit relating to the Group's defined benefit plans is assessed annually in accordance with IAS 19 and after taking independent actuarial advice. The principal assumptions are set out in note 21. The amount of the deficit is dependent on plan asset and liability values and the actuarial assumptions used to determine the deficit. The assumptions include pension increases, price inflation, discount rate used to measure actuarial liabilities and mortality rates. Sensitivities in respect of these assumptions are detailed in note 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Presentation of the Financial Statements and Accounting Policies continued

Judgements

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements are as follows:

- *Non-underlying items*
  In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results, which requires application of judgement. These non-underlying items are defined as those items that are associated with the acquisition of businesses or other items which by virtue of their nature, size and expected frequency, require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year, see note 3.

  The following are the principal items classed as non-underlying:

  - Impairment of intangibles, fixed assets and right of use assets as they are significant, non-recurring items;
  - Amortisation of acquired intangibles as they relate to the acquisition of businesses;
  - Property disposal profits as they are not generated from the normal course of business;
  - Impairment of property, plant and equipment and inventory (following a fire) as it is a significant, non-recurring item;
  - Insurance proceeds (following fire) as it is a non-recurring item; and
  - Business restructuring cost which is a significant cash item that fell across 2020 and 2021, and for which no further costs are expected.
- *Recognition of insurance proceeds*
  Insurance proceeds are recognised when their recovery is virtually certain and the amounts can be measured reliably. This, therefore, requires judgement over whether the assets can be measured reliably. The Directors judge that the insurance amounts relating to the reinstatement of the damaged property and contents, following the fire that destroyed a building in Kidderminster in December 2021, cannot be measured reliably at 31 December 2022 because the decision to progress with the reinstatement was not final and a change to that decision would cause the insurance refund to be based on a negotiated settlement (dependent on negotiations with insurers) rather than the like-for-like reinstatement costs and the resulting values could be materially different. In addition, the competitive tendering process for the construction has not concluded and so the construction costs were not known. It has therefore been concluded that the insurance proceeds for the insurance claim relating to the reinstatement of the damaged property and contents should not be recognised (other than for the interim payments received in the year) but that a contingent asset should be disclosed (see note 28).

Other estimates and judgements

- *Impairment*
  The Group determines whether goodwill is impaired on an annual basis unless there is an indication of impairment at an earlier date. The Group also assesses whether property, plant and equipment, right of use assets and other intangible assets are impaired if there is an indication of impairment at the end of the reporting period. Judgements are made by the Directors in identifying the cash generating units ('CGU'), being the smallest groups of assets that generate independent cash flows, with the development of the business strategy, as well as in assessing whether any CGUs trigger an impairment review. Estimations are required of the value in use of the CGUs to which the assets are allocated. Estimating the value in use requires

the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment has been recognised in the current year. Further details on the impairment review can be found in note 11.

(c) Impact of newly adopted accounting standards

There were no newly adopted accounting standards by the Group and Company in 2022.

(d) IFRS not yet applied

There are no new standards, amendments to existing standards, or interpretations that are not yet effective that would be expected to have a material impact on the Group.

(e) Accounting Policies

Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiaries which together are referred to as the 'Group'. The Company's financial statements present information about the Company as a separate entity and not about its Group.

Subsidiaries are entities controlled by the Group. Control exists when the Group has power over an entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The financial results of subsidiaries are included in the Group's financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment and any gain on a bargain purchase is recognised in the Consolidated Income Statement immediately. Transaction costs are expensed as incurred, with the exception of costs that relate to the issue of debt or equity securities.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group's financial statements.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in UK sterling currency units (£), which is Headlam Group PLC's functional and presentational currency.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Presentation of the Financial Statements and Accounting Policies continued

Financial statements of foreign operations

The assets and liabilities of foreign subsidiaries are translated at foreign exchange rates ruling at the Statement of Financial Position date.

Foreign currency exposure

The revenues, expenses and cash flows of foreign subsidiaries are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign subsidiaries are taken directly to the translation reserve and reflected as a movement in the statement of comprehensive income.

When a foreign subsidiary is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss of disposal.

Note 24 contains information about the foreign currency exposure of the Group and risks in relation to foreign exchange movements.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis in order to depreciate assets to their residual value over their useful economic lives. Assets begin to be depreciated from the date they become available for use. The annual rates applicable are:

Land and buildings

Freehold and long leasehold properties	–	2%

Plant and equipment

Motor and commercial vehicles	–	10% – 25%
Office and computer equipment	–	10% – 33%
Warehouse and production equipment	–	10% – 20%

Land is not depreciated.

The residual balances are reviewed annually.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the income statement.

Assets under construction are reported within property, plant and equipment. These assets are stated at cost and are not depreciated until they are complete and utilised by the Group. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Investment properties

Investment properties are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis in order to depreciate assets to their residual value over their useful economic lives. The annual rate applicable is:

Freehold and long leasehold properties	–	2%

The residual balances are reviewed annually.

Goodwill and other intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill arises on the acquisition of subsidiaries and represents the excess of the fair value of the consideration of the business combination over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Transaction costs associated with acquisitions and movements in contingent consideration are recognised in the income statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment, or more frequently when there is an indicator that the unit may be impaired.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. This is in accordance with IFRS 1.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less cumulative amortisation and impairment losses. Other intangible assets are amortised from the date they are available for use.

Amortisation

Amortisation is charged to the income statement and is split over the estimated useful lives of each separately identifiable intangible asset unless such lives are indefinite. Amortisation occurs on brand names, order book, non-compete agreements, customer relationships, supply agreements and software development and is charged to administrative expenses in the income statement. The estimated useful lives are assessed to be:

Brand names	–	10 – 15 years
Order book	–	1 – 36 months
Non-compete agreements	–	1 – 3 years
Customer relationships	–	5 – 10 years
Supply agreements	–	1 – 5 years
Software development	–	5 – 10 years

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Presentation of the Financial Statements and Accounting Policies continued

Financial assets

At initial recognition, the Group measures a financial asset (unless it is a trade receivable without a significant financing component) at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. A trade receivable without a significant financing component is initially measured at the transaction price. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

There are three measurement categories under IFRS 9 into which debt instruments may be classified, these are;

- Amortised cost;
- Fair value through other comprehensive income;
- Fair value through profit and loss

All material financial assets of the Group are held at amortised cost. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss.

Financial assets are no longer recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Trade and other receivables

Trade receivables are recognised at the transaction price if the trade receivables do not contain a significant financing component. Other receivables are measured at fair value on initial recognition.

In line with the principles of IFRS 9, the Group assesses, on a forward-looking basis, the expected credit losses associated with its trade and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 24.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. This includes management's best estimate of overheads to be absorbed in the cost of inventory and rebates to be received from suppliers. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions to write down inventory to its net realisable value are calculated by reference to each individual product, based on the ageing profile, consideration of inventory sold for less than its carrying value, and consideration for discontinued items.

Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at amortised cost.

Cash and cash equivalents relate to cash balances held. Bank overdrafts that are repayable on demand and form an integral part of cash management of both the Company and Group are included as a component of cash and cash equivalents for the purpose only of the Cash Flow Statement.

Impairment

The carrying amounts of the Group's assets, other than financial assets, inventories and deferred tax assets, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Financial assets are assessed using an expected credit loss model.

Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment annually.

For the purposes of impairment testing, assets are grouped together into cash generating units, being the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows from other groups of assets. During the year, there has been a change in the assessment of cash generating units. With the development of the business strategy, performance is now assessed at a higher level, with each distribution centre (including satellite trade counters) reviewed, considering these to be the smallest groups of assets generating independent cash flows. In the prior year, each individual trading operation within each distribution centre was classified as a cash generating unit.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets, with the exception of the Group's receivables, is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade payables

Trade payables are initially recognised at fair value and then are stated at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Presentation of the Financial Statements and Accounting Policies continued

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are made for property dilapidations for the estimated costs of the repairs over the period of the tenancy where a legal obligation exists.

Contingent liability

Contingent liabilities are not recognised but are disclosed when the Group has a possible obligation as a result of past events and whose existence will be confirmed only by uncertain future events not wholly within the Group's control, or when the Group has a present obligation as a result of past events but either it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Contingent asset

Contingent assets are possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognised, but they are disclosed when it is more likely than not that an inflow of benefits will occur.

Employee benefits

The Company and the Group operate both defined benefit and defined contribution plans. The assets of the defined benefit plans are held in independent trustee-administered funds. The pension cost is assessed in accordance with the advice of a qualified actuary.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans 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 discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate 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 credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement immediately.

To the extent that any benefits vest immediately, the expense is recognised directly in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in finance expenses in the income statement.

All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of comprehensive income.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan. The Company does not have an unconditional right to a refund, or reduction in future contribution, under IFRIC 14. Consequently, the surplus balance sheet position at 31 December 2022 has been reduced to a deficit in recognition of the asset ceiling and the minimum funding requirement (i.e. the present value of future contributions the Company is contractually obliged to pay via the schedule of contributions).

The Group operates a UK defined benefit pension plan. In May 2021, the Group's defined benefit plan in Switzerland was disposed of with the disposal of Belcolor, its Swiss operation. In the UK, there is no contractual agreement or stated Group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the Company, which is the sponsoring employer.

The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary.

Share-based payment transactions

The Company and Group operate various equity-settled share option schemes under the approved and unapproved executive schemes and savings-related schemes.

For executive share option schemes, the option price may not be less than the mid-market value of the Group's shares at the time when the options were granted or the nominal value.

Further details of the share plans are given in the Remuneration Report on pages 134 to 165.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity over the period that the employees unconditionally become entitled to the award. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting and market conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

When options are granted to employees of subsidiaries of the Company, the fair value of options granted is recognised as an employee expense in the financial statements of the subsidiary undertaking together with the capital contribution received. In the financial statements of the Company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding increase in equity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Presentation of the Financial Statements and Accounting Policies continued

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Where the Group has committed to buy back its own shares, but not yet repurchased them, the amount of the commitment is recognised as a deduction from equity with a corresponding amount recognised as a liability. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Own shares held by Employee Benefit Trust

Transactions of the Group sponsored Employee Benefit Trust are included in the Group financial statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

Revenue

Revenue from the sale of floorcoverings is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of floorcoverings is recognised when control of the goods is transferred to the customer (which is typically the point at which goods are received by the customer), at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods. Provisions for returns, discounts and other allowances are reflected in revenue at the point of recognition.

Supplier arrangements

Rebates received from suppliers comprise volume related rebates on the purchase of inventories. Volume related rebates are accrued as units are purchased based on the percentage rebate applicable to the forecast total purchases over the rebate period, where it is probable the rebates will be received and the amounts can be estimated reliably. Rebates relating to inventories purchased but still held at the balance sheet date are deducted from the carrying value so that the cost of inventories is recorded net of applicable rebates. Rebates received for the financial year are deducted from cost of sales. Rebates recoverable at the end of the financial year are accrued within other debtors.

Insurance proceeds

Insurance proceeds are recognised when recovery is virtually certain and the amounts can be measured reliably. Insurance proceeds recognised are shown as other operating income, separately from any related costs. Insurance proceeds recoverable at the period end are recognised within other receivables.

Leases – Group as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability at the lease commencement date, with the exception of short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets, comprising mainly of IT equipment.

The Group has elected to use a practical expedient as permitted by IFRS 16, not to separate non-lease components and instead account for the lease and non-lease component as a single lease component.

Lease liability

Assets and liabilities arising from a lease are initially measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease liabilities for the Group include the net present value of the following payments:

- fixed payments, less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is measured at amortised cost using the effective interest method, by increasing the carrying amount to reflect interest in the lease liability and reducing the carrying amount to reflect the lease payments made. The lease liability is subsequently remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in the income statement.

The lease liability is presented separately in the Statement of Financial Position.

Right-of-use assets

Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life (in line with property, plant and equipment) and the lease term on a straight-line basis. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for remeasurements of the corresponding lease liability.

The right-of-use assets are presented separately in the Statement of Financial Position.

Short-term and low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Presentation of the Financial Statements and Accounting Policies continued

Sale and leaseback of property, plant and equipment

In determining whether a transaction is a sale-and-leaseback, the Group first considers whether the initial transfer of the underlying asset from the seller to the buyer is a sale in accordance with IFRS 15.

When a transaction meets the definition of a sale-and-leaseback, the Group derecognises the underlying asset and applies the lessee accounting model as per IFRS 16. The Group records a right-of-use asset at the retained portion of the previous carrying amount, such that the amount of any gain or loss on sale recognised is only that related to the rights transferred to the lessor.

Net financing costs

Net financing costs comprise interest payable, interest on lease liabilities, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments as outlined in the accounting policy relating to derivative financial instruments and hedging described above.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

Interest paid and interest received are classified as operating cash flows in the cash flow statement.

Dividends

Paid

Interim, final and special dividends are recognised when they are paid or when approved by the members in a general meeting. Final and special dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements.

Received

The Company receives dividends from its UK and Continental European subsidiaries. Dividends are recognised in the financial statements when they have been received by the Company.

Taxation

Income tax comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related tax is also recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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 Statement of Financial Position 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.

Non-underlying items

In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. These non-underlying items are defined as those items that are associated with the acquisition of businesses or other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year, see note 3.

The following are the principal items classed as non-underlying:

- Impairment of intangibles, fixed assets and right-of-use assets as they are significant, non-recurring items;
- Amortisation of acquired intangibles as they relate to the acquisition of businesses;
- Property disposal profits as they are not generated from the normal course of business;
- Impairment of property, plant and equipment and inventory (following a fire) as it is a significant, non-recurring item;
- Insurance proceeds (following fire) as it is a significant, non-recurring item;
- Business restructuring cost which is a significant cash item that fell across 2020 and 2021, and for which no further costs are expected.

See page 58 of the Financial Review for details on alternative performance measures.

Discontinued operation

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. The results of discontinued operations are presented separately in the income statement and the comparative period is re-presented to show the results of the discontinued operation separately. The segmental results are shown excluding the discontinued operation and the comparative period is re-presented to also exclude the discontinued operation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 Segment reporting

As at 31 December 2022, the Group had 16 operating segments in the UK and three operating segments in Continental Europe. Each segment represents an individual distribution centre operation, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Chief Executive. Discrete financial information is available for each segment and used by the Chief Executive to assess performance and decide on resource allocation. In the prior year each individual trading operation within each site was classified as a segment. With the development of the business strategy, performance is now assessed at a higher level, with each distribution centre (including satellite trade counters) reviewed.

The operating segments have been aggregated to the extent that they have similar economic characteristics. The key economic indicators considered by management in assessing whether operating segments have similar economic characteristics are the products supplied, the type and class of customer, method of sale and distribution and the regulatory environment in which they operate.

As each operating segment is a trading operation wholly aligned to the sales, marketing, supply and distribution of floorcovering products, management considers all segments have similar economic characteristics except for the regulatory environment in which they operate, which is determined by the country in which the operating segment resides.

The Group's internal management structure and financial reporting systems differentiate the operating segments on the basis of the differing economic characteristics in the UK and Continental Europe and accordingly present these as two separate reportable segments. This distinction is embedded in the construction of operating reports reviewed by the Chief Executive, the Board and the executive management team and forms the basis for the presentation of operating segment information given below.

The assets and liabilities in the prior year have been re-presented to better reflect their segmental allocation.

Continuing operations

	UK		Continental Europe		Total	
	2022 £M	Restated 2021 £M	2022 £M	Restated 2021 £M	2022 £M	Restated 2021 £M
Revenue						
External revenues	577.8	585.8	85.8	81.4	663.6	667.2
Reportable segment underlying operating profit	36.8	37.0	3.4	3.1	40.2	40.1
Reportable segment assets	371.0	378.8	40.7	30.3	411.7	409.1
Reportable segment liabilities	(173.8)	(201.4)	(22.8)	(27.7)	(196.6)	(229.1)

During the year there were no inter-segment revenues for the reportable segments (2021: £nil).

Reconciliations of reportable segment profit, assets and liabilities and other material items:

	2022 £M	2021 £M
Profit for the year		
Total underlying operating profit for reportable segments	40.2	40.1
Non-underlying items	4.7	(8.2)
Unallocated expense	(1.0)	(2.8)
Operating profit	43.9	29.1
Finance income	0.7	0.4
Finance expense	(2.8)	(1.9)
Profit before taxation	41.8	27.6
Taxation	(8.2)	(7.7)
Profit from continuing operations	33.6	19.9
Profit from discontinued operations	—	4.5
Profit for the year	33.6	24.4

	2022 £M	Restated 2021 £M
Assets		
Total assets for reportable segments	411.7	409.1
Unallocated assets:		
Intangible assets	3.0	—
Cash and cash equivalents	20.7	63.4
Total assets	435.4	472.5
Liabilities		
Total liabilities for reportable segments	(196.6)	(229.1)
Unallocated liabilities:		
Income tax payable	(1.9)	(1.0)
Deferred tax liabilities	(12.1)	(10.3)
Total liabilities	(210.6)	(240.4)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 Segment reporting continued

Continuing Operations	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 2022					
Capital expenditure	12.1	0.5	12.6	—	12.6
Depreciation	5.9	0.3	6.2	—	6.2
Depreciation of right of use assets	10.7	1.8	12.5	—	12.5
Non-underlying items	(4.8)	0.1	(4.7)	—	(4.7)
Other material items 2021 (Restated)					
Capital expenditure	5.7	0.4	6.1	—	6.1
Impairment of goodwill	1.2	—	1.2	—	1.2
Impairment of intangible assets	0.9	—	0.9	—	0.9
Impairment of property, plant and equipment and inventory (following fire)	7.3	—	7.3	—	7.3
Depreciation	4.8	0.4	5.2	—	5.2
Depreciation of right of use assets	11.6	1.9	13.5	—	13.5
Non-underlying items (excluding impairments)	(1.1)	(0.1)	(1.2)	—	(1.2)

The Chief Executive, the Board and the senior executive management team have access to information that provides details on revenue by principal product group for the two reportable segments, as set out in the following table:

Revenue by principal product group and geographic origin is summarised below:

	UK		Continental Europe		Total	
	2022 £M	2021 £M	2022 £M	2021 £M	2022 £M	2021 £M
Revenue						
Residential	382.8	407.2	52.5	49.7	435.3	456.9
Commercial	195.0	178.6	33.3	31.7	228.3	210.3
	577.8	585.8	85.8	81.4	663.6	667.2

3 Profit before tax

The following are included in profit before tax:

	2022 £M	2021 £M
Depreciation on property, plant and equipment	6.2	5.2
Depreciation of right of use assets	12.5	13.5
Amortisation and impairment of intangible assets	1.5	4.0
Reduction in impairment loss allowance (note 15)	(1.7)	(0.4)
Profit on sale of property, plant and equipment	—	(11.1)

Non-underlying income for continuing and discontinued operations after tax of £3.9 million (expense 2021: £2.3 million) relate to the following:

	2022 £M	2021 £M
Continuing operations:		
Impairment of intangibles, fixed assets and right of use assets	—	2.1
Amortisation of acquired intangibles	1.5	1.6
Property disposal	—	(5.1)
Impairment of property, plant and equipment and inventory (following a fire)	—	7.3
Insurance proceeds (following fire)	(6.2)	—
Business restructuring cost	—	2.3
	(4.7)	8.2
Taxation on non-underlying items	0.8	(1.5)
	(3.9)	6.7
Discontinued operation:		
Disposal of subsidiary (including Swiss property disposal)	—	(4.4)
	(3.9)	2.3

The business restructuring related to aligning overall headcount with trading patterns and evolving customer servicing, along with executive settlement agreements and were all cash in nature. Cumulative non-underlying business restructuring costs since their initiation as part of the business change strategy amounted to £4.7 million and covered the period July 2020 to December 2021.

See page 58 of the Financial Review for details on alternative performance measures.

Auditors' remuneration:

	2022 £M	2021 £M
Audit of these financial statements	0.2	0.2
Amounts received by the Auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	0.3	0.3
	0.5	0.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 Staff numbers and costs

The monthly average number of people employed, including Executive Directors, during the year, analysed by category, was as follows:

	Number of employees			
	Group		Company	
	2022	2021	2022	2021
By sector:				
Floorcoverings	2,152	2,077	—	—
Central operations	27	22	27	22
	2,179	2,099	27	22
By function:				
Sales and distribution	1,964	1,912	—	—
Administration	215	187	27	22
	2,179	2,099	27	22

The aggregate payroll costs were as follows:

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Wages and salaries	79.6	85.0	2.9	3.0
Equity settled share-based payment expense (note 22)	0.9	1.2	0.2	0.4
Social security costs	10.4	10.8	0.4	0.4
Other pension costs (note 21)	3.8	4.5	0.1	0.2
	94.7	101.5	3.6	4.0

5 Emoluments of key management personnel

Executive and Non-Executive Directors are considered to be the key management personnel of the Group.

	2022 £M	2021 £M
Short-term employee benefits	1.1	2.1
Equity settled share-based payment expense	0.3	0.3
	1.4	2.4

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year. Further details on Directors' remuneration, share options and long-term incentive schemes are disclosed in the Remuneration Report on pages 134 to 165.

Payment for loss of office to past directors

Steve Wilson stepped down from the Board on 6 October 2021. Steve was paid salary contractually due and received contractual benefits up to and including 6 October 2021. Not included in the table above is a further £0.4 million (2021: £0.1 million included in the table above) in relation to payments made for loss of office for the period 1 January 2022 to 6 October 2022. Further details can be found in the Directors' Remuneration Report on page 158.

6 Finance income and expense

	2022 £M	2021 £M
Interest income:		
Bank interest	0.6	0.3
Other	0.1	0.1
Finance income	0.7	0.4
Interest expense:		
Bank loans, overdrafts and other financial expenses	(1.3)	(0.4)
Interest on lease liability	(1.4)	(1.3)
Net interest on defined benefit plan obligations (note 21)	(0.1)	(0.1)
Other	—	(0.1)
Finance expenses	(2.8)	(1.9)

7 Taxation

Recognised in the income statement

	2022 £M	2021 £M
Current tax expense:		
Current year	7.2	6.4
Adjustments for prior years	(0.6)	(0.3)
	6.6	6.1
Deferred tax expense:		
Origination and reversal of temporary differences	0.8	—
Effect of change in UK tax rates	0.3	2.7
Adjustments for prior years	0.5	0.2
	1.6	2.9
Total tax	8.2	9.0
Total tax continuing operations in income statement	8.2	7.7
Total tax discontinued operations in income statement	—	1.3

	2022 £M	2021 £M
Tax relating to items charged/(credited) to equity		
Deferred tax on:		
Share options	0.2	(0.2)
Deferred tax on other comprehensive expense:		
Defined benefit plans	—	(0.8)
	0.2	(1.0)
Total tax reported directly in reserves	0.2	(1.0)

Factors that may affect future current and total tax charges

The UK headline corporation tax rate for the year was 19.0% (2021: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. UK deferred tax assets and liabilities have been calculated at a rate of 25% (2021: 25%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 Taxation continued

Reconciliation of effective tax rate

	2022		2021	
	%	£M	%	£M
Profit before tax on continuing operations		41.8		27.6
Profit before tax on discontinued operations		—		5.8
Total profit before tax		41.8		33.4
Tax using the UK corporation tax rate	19.0	7.9	19.0	6.3
Effect of change in UK tax rate	0.7	0.3	8.1	2.7
Local tax incentives	(0.7)	(0.3)	(0.5)	(0.2)
Non-deductible expenses/non-taxable income	1.2	0.5	1.0	0.4
Impact of losses not recognised	(0.3)	(0.1)	(0.3)	(0.1)
Adjustments in respect of prior years	(0.2)	(0.1)	(0.1)	(0.1)
Total tax in income statement	19.7	8.2	27.2	9.0
Add back tax on non-underlying items – continuing		(0.8)		1.5
Add back tax on non-underlying items – discontinued		—		(1.3)
Total tax charge excluding non-underlying items		7.4		9.2
Profit before non-underlying items		37.1		35.9
Adjusted effective tax rate excluding non-underlying items		20.1%		25.8%

8 Income tax payable

The Group's current tax liability of £1.9 million (2021: £1.0 million) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable. The Company's current tax liability of £2.5 million (2021: £0.7 million) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

9 Earnings per share

	2022 £M	2021 £M
Continuing operations earnings		
Earnings for basic and diluted earnings per share	33.6	19.9
Earnings for underlying basic and underlying diluted earnings per share	29.7	26.6
Discontinued operations earnings		
Earnings for basic and diluted earnings per share	—	4.5
Earnings for underlying basic and underlying diluted earnings per share	—	0.1

	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	83,626,126	84,484,084
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	83,626,126	84,484,084
Dilutive effect of share options	615,584	1,070,830
Weighted average number of ordinary shares for the purposes of diluted earnings per share	84,241,710	85,554,914
Continuing operations earnings per share		
Basic	40.1p	23.5p
Diluted	39.8p	23.2p
Underlying basic	35.5p	31.5p
Underlying diluted	35.2p	31.1p
Discontinued operations earnings per share		
Basic	—	5.3p
Diluted	—	5.2p
Underlying basic	—	0.2p
Underlying diluted	—	0.2p

At 31 December 2022, the Company held 4,046,617 shares (2021: 1,013,991) in relation to treasury stock and shares held in trust for satisfying options and awards under employee share schemes. These shares have been disclosed in the treasury reserve and are excluded from the calculation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 Property, plant and equipment

Group property, plant and equipment

	Land and buildings £M	Plant and equipment £M	Under construction £M	Total £M
Cost				
Balance at 1 January 2021	139.8	44.9	1.0	185.7
Additions	1.8	4.1	—	5.9
Disposals	(10.8)	(1.8)	—	(12.6)
Disposals relating to discontinued operation	—	(2.9)	—	(2.9)
Impairment of property (following a fire)	(3.1)	—	—	(3.1)
Reclassification	0.2	(0.2)	—	—
Effect of movements in foreign exchange	(0.7)	(0.4)	—	(1.1)
Balance at 31 December 2021	127.2	43.7	1.0	171.9
Balance at 1 January 2022	127.2	43.7	1.0	171.9
Additions	4.8	3.5	4.3	12.6
Disposals	(0.4)	(7.1)	—	(7.5)
Effect of movements in foreign exchange	0.3	0.3	—	0.6
Balance at 31 December 2022	131.9	40.4	5.3	177.6
Accumulated depreciation and impairment				
Balance at 1 January 2021	34.2	28.6	—	62.8
Depreciation charge for the year	2.4	2.8	—	5.2
Disposals	(5.1)	(1.3)	—	(6.4)
Disposals relating to discontinued operation	—	(1.5)	—	(1.5)
Impairment of property (following a fire)	(0.8)	—	—	(0.8)
Effect of movements in foreign exchange	(0.3)	(0.4)	—	(0.7)
Balance at 31 December 2021	30.4	28.2	—	58.6
Balance at 1 January 2022	30.4	28.2	—	58.6
Depreciation charge for the year	2.6	3.6	—	6.2
Disposals	(0.4)	(7.1)	—	(7.5)
Effect of movements in foreign exchange	0.2	0.2	—	0.4
Balance at 31 December 2022	32.8	24.9	—	57.7
Net book value				
At 1 January 2021	105.6	16.3	1.0	122.9
At 31 December 2021 and 1 January 2022	96.8	15.5	1.0	113.3
At 31 December 2022	99.1	15.5	5.3	119.9

Company investment properties and plant and equipment

	Investment properties £M	Plant and equipment £M	Plant and equipment under construction £M	Plant and equipment Total £M
Cost				
Balance at 1 January 2021	122.3	—	1.0	1.0
Disposals	(5.5)	—	—	—
Balance at 31 December 2021	116.8	—	1.0	1.0
Balance at 1 January 2022	116.8	—	1.0	1.0
Additions	—	0.8	0.8	1.6
Balance at 31 December 2022	116.8	0.8	1.8	2.6
Accumulated depreciation				
Balance at 1 January 2021	25.0	—	—	—
Disposals	(1.6)	—	—	—
Depreciation charge for the year	2.0	—	—	—
Balance at 31 December 2021	25.4	—	—	—
Balance at 1 January 2022	25.4	—	—	—
Depreciation charge for the year	1.8	—	—	—
Balance at 31 December 2022	27.2	—	—	—
Net book value				
At 1 January 2021	97.3	—	1.0	1.0
At 31 December 2021 and 1 January 2022	91.4	—	1.0	1.0
At 31 December 2022	89.6	0.8	1.8	2.6

The Company holds investment properties which are predominantly freehold distribution centres, occupied by its UK subsidiary companies for trading purposes. The Company obtains a valuation triennially, by an external valuer. Investment properties were valued by an independent professional valuer on 18 January 2023. This valuation of the investment properties, not including those under construction at the same date was £138.5 million, however the Company has chosen to hold them at cost. External valuers were also used to provide a valuation of the main sites for the Company's subsidiaries in France and the Netherlands, for the first time, which amounted to £10.3 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 Intangible assets

Group	Goodwill £M	Order book £M	Customer relationships £M	Brand names £M	Non-compete £M	Supply agreements £M	Software development £M	Total £M
Cost								
Balance at 1 January 2021	42.1	6.5	7.4	7.6	0.1	0.2	1.1	65.0
Disposal	(4.2)	—	—	—	—	—	—	(4.2)
Additions	—	—	—	—	—	—	1.0	1.0
Balance at 31 December 2021	37.9	6.5	7.4	7.6	0.1	0.2	2.1	61.8
Balance at 1 January 2022	37.9	6.5	7.4	7.6	0.1	0.2	2.1	61.8
Additions	—	—	—	—	—	—	1.2	1.2
Balance at 31 December 2022	37.9	6.5	7.4	7.6	0.1	0.2	3.3	63.0
Impairment and amortisation								
Balance at 1 January 2021	33.3	6.5	2.4	1.7	—	—	—	43.9
Impairment charge for the year	1.2	—	0.4	0.5	—	—	—	2.1
Amortisation charge for the year	—	—	0.8	0.6	0.1	0.1	0.3	1.9
Disposal	(4.2)	—	—	—	—	—	—	(4.2)
Balance at 31 December 2021	30.3	6.5	3.6	2.8	0.1	0.1	0.3	43.7
Balance at 1 January 2022	30.3	6.5	3.6	2.8	0.1	0.1	0.3	43.7
Amortisation charge for the year	—	—	0.8	0.7	—	—	—	1.5
Balance at 31 December 2022	30.3	6.5	4.4	3.5	0.1	0.1	0.3	45.2
Net book value								
At 31 December 2021 and 1 January 2022	7.6	—	3.8	4.8	—	0.1	1.8	18.1
At 31 December 2022	7.6	—	3.0	4.1	—	0.1	3.0	17.8

Software development is internally generated and includes an amount of £3.0 million (2021: £1.8 million) not currently being amortised as they are still in the course of development.

The remaining useful economic lives of intangible assets is as follows: customer relationships is 4 years; brand names is 10 years; and supply agreement is 2 years.

Amortisation charged during the year of £1.5 million (2021: £1.9 million) is presented within Administration expenses in the Consolidated Income Statement.

Cumulative impairment losses recognised in relation to goodwill is £30.3 million (2021: £30.3 million).

In the prior year £1.2 million goodwill impairment was recognised in relation to CECO (Flooring) Limited.

Company	Software Development £M
Cost	
Balance at 1 January 2021	1.1
Additions	0.8
Balance at 31 December 2021	1.9
Balance at 1 January 2022	**1.9**
Additions	**1.1**
Balance at 31 December 2022	**3.0**
Net book value at 31 December 2021 and 1 January 2022	1.9
Net book value at 31 December 2022	**3.0**

Impairment tests for cash-generating units containing goodwill ('CGU')

Goodwill is attributed to the distribution centre operations identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent operating segments and cash generating units. In the prior year each individual trading operation at each site was classified as a CGU. With the development of the business strategy, performance is now monitored and assessed at a higher level, with each distribution centre (including satellite trade counters) reviewed, considering these to be the smallest groups of assets generating independent cash flows. Prior year figures below have been updated to align with the newly defined cash generating units as outlined above.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported segment	**2022 £M**	2021 £M
Tamworth	UK	6.2	6.2
Coleshill	UK	0.8	0.8
Ipswich	UK	0.2	0.2
Stockport	UK	0.2	0.2
Other	UK	0.2	0.2
		7.6	7.6

Impairment

Each year, or whenever events or a change in the economic environment or performance indicates a risk of impairment, the Group reviews the value of goodwill and other assets allocated to its cash-generating units.

An impairment test is a comparison of the carrying value of the assets of an operation or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. Where the recoverable amount is less than the carrying value, an impairment results.

No impairment has been recognised as a result of impairment testing in the current year.

Key assumptions

Cash flows were projected based on actual operating results, the approved 2023 business plan and management's assessment of planned performance in the period to 2027. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.0% beyond 2027.

The main assumptions within the operating cash flows used for 2023 include the achievement of future sales volumes and prices for all key product lines, control of purchase prices, achievement of budgeted operating costs and no significant adverse foreign exchange rate movements. These assumptions have been reviewed in light of the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 Intangible assets continued

The Directors have estimated the discount rate by reference to an industry average weighted average cost of capital. This has been adjusted to include an appropriate risk factor to reflect current economic circumstances and the risk profile of the CGUs. As the CGUs in the UK have similar characteristics and risk profiles, a single discount rate has been applied: a pre-tax weighted average cost of capital of 11.9% (2021: 11.2%). The CGUs in Continental Europe operate under a different regulatory environment which is reflected in the risk factor used to determine the discount rates. In the Netherlands, the pre-tax weighted average cost of capital is 12.2% (2021: 12.2%).

Climate-related risks have been considered in relation to the impairment testing, including possible end-of-life disposal tax (extended producer responsibility), the transition to a more sustainable business with the use of electric or hydrogen HGVs and significant changes in consumer preferences towards more sustainable products. A high degree of uncertainty remains around the likelihood, timing and quantum of any possible end-of-life disposal tax. This risk is not included in the base case models due to the high levels of uncertainty. Sensitivity analysis has been performed assuming an end-of-life disposal tax equating to 0.6% of revenue, taking effect after year 5 in the model. The Directors have assessed that end-of-life disposal tax based on this assumption, would not cause further material impairment.

Uncertainty also exists around the technological advancements required for a cost effective, electric or hydrogen long distance HGV solution to be widely available. This risk is not included in the base case models due to the levels of uncertainty. Sensitivity analysis has been performed assuming that commercial vehicle costs increase by 20% after year 5 in the model, corresponding with the most likely time horizon when transition to a sustainable fleet becomes possible. The Directors have assessed that such a scenario would not cause further material impairment.

Consumer preferences are expected to shift more towards sustainable products in both the residential and commercial sectors, initially at a low rate in the short term (next five years) but increasingly so over the medium term. The Group works closely with suppliers on examining and promoting sustainable product offerings. Due to its leading position, the Group is well placed to promote new products into the market and quickly alter its product offering to reflect changes in preferences. Opportunities may therefore exist to take market share by responding to the shift in the market better than competitors. It is assumed likely that the majority of any increased cost of sustainable products is passed on to consumers who become willing to pay a premium, as their attitudes change. This risk is therefore assumed not to have a significant financial impact and is not included in the base models.

Sensitivity analysis

The Group has applied sensitivities to assess whether any reasonable possible changes in these key assumptions could cause a further impairment to goodwill and subsequently intangible assets, property, plant and equipment and right-of-use assets that would be material to these Consolidated Financial Statements.

The Directors performed sensitivity analysis on the estimated recoverable amounts focusing on a reasonably possible change in key assumptions:

(i) sales growth decrease of 2% in first five years;

(ii) gross margin decrease of 1%; and

(iii) pre-tax discount rate, used to convert the cash flow forecasts to present values, increase of 1%.

Headroom remains on all CGUs tested after any of the sentitivities are applied, individually or combined.

12 Investments in subsidiary undertakings

Summary information on investments in subsidiary undertakings is as follows:

	£M
Cost	
Balance at 1 January 2021	122.4
Share options granted to employees of subsidiary undertakings	0.8
Disposal of subsidiary	(6.2)
Balance at 31 December 2021	117.0
Balance at 1 January 2022	117.0
Share options granted to employees of subsidiary undertakings	0.7
Balance at 31 December 2022	**117.7**
Impairment	
Balance at 1 January 2021 and 31 December 2021	(16.6)
Balance at 1 January 2022 and 31 December 2022	**(16.6)**
Carrying value	
At 1 January 2021	105.8
At 31 December 2021	100.4
At 31 December 2022	**101.1**

A full list of the Group's subsidiaries is listed on page 247. During the year ended 31 December 2021, the Company sold its investment in Belcolor AG, its Swiss subsidiary, further details can be found on page 243.

13 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 £M	2021 £M	**2022 £M**	2021 £M	**2022 £M**	2021 £M
Property, plant and equipment	—	—	(11.3)	(9.7)	(11.3)	(9.7)
Intangible assets	—	—	(2.1)	(2.5)	(2.1)	(2.5)
Leases	—	—	(0.4)	(0.3)	(0.4)	(0.3)
Employee benefits	1.5	1.7	—	—	1.5	1.7
Other items	0.2	0.5	—	—	0.2	0.5
Tax assets/(liabilities)	1.7	2.2	(13.8)	(12.5)	(12.1)	(10.3)
Set-off of tax	(1.7)	(2.2)	1.7	2.2	—	—
	—	—	(12.1)	(10.3)	(12.1)	(10.3)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 Deferred tax assets and liabilities continued

Movement in deferred tax during the year

	1 January 2022 £M	Removed on disposal £M	Recognised in income £M	Recognised in equity £M	31 December 2022 £M
Property, plant and equipment	(9.7)	—	(1.6)	—	(11.3)
Intangible assets	(2.5)	—	0.4	—	(2.1)
Leases	(0.3)	—	(0.1)	—	(0.4)
Employee benefits	1.7	—	—	(0.2)	1.5
Other items	0.5	—	(0.3)	—	0.2
	(10.3)	—	(1.6)	(0.2)	(12.1)

Movement in deferred tax during the prior year

	1 January 2021 £M	Removed on disposal £M	Recognised in income £M	Recognised in equity £M	31 December 2021 £M
Property, plant and equipment	(7.2)	—	(2.5)	—	(9.7)
Intangible assets	(2.5)	—	—	—	(2.5)
Leases	(0.1)	—	(0.2)	—	(0.3)
Employee benefits	1.2	(0.5)	—	1.0	1.7
Other items	(0.1)	0.8	(0.2)	—	0.5
	(8.7)	0.3	(2.9)	1.0	(10.3)

Deferred tax of £nil (2021: £nil) is expected to be recovered or settled within 12 months from the reporting date.

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 £M	2021 £M	2022 £M	2021 £M	2022 £M	2021 £M
Property, plant and equipment	—	—	(9.2)	(9.2)	(9.2)	(9.2)
Employee benefits	1.2	1.4	—	—	1.2	1.4
Tax assets/(liabilities)	1.2	1.4	(9.2)	(9.2)	(8.0)	(7.8)
Set-off of tax	(1.2)	(1.4)	1.2	1.4	—	—
	—	—	(8.0)	(7.8)	(8.0)	(7.8)

Movement in deferred tax during the year

	1 January 2022 £M	Recognised in income £M	Recognised in equity £M	31 December 2022 £M
Property, plant and equipment	(9.2)	—	—	(9.2)
Employee benefits	1.4	(0.1)	(0.1)	1.2
	(7.8)	(0.1)	(0.1)	(8.0)

Movement in deferred tax during the prior year

	1 January 2021 £M	Recognised in income £M	Recognised in equity £M	31 December 2021 £M
Property, plant and equipment	(7.2)	(2.0)	—	(9.2)
Employee benefits	0.6	—	0.8	1.4
	(6.6)	(2.0)	0.8	(7.8)

Unrecognised deferred tax assets and liabilities – Group and Company

At 31 December 2022, the Group and Company has unused capital losses of £8.8 million (2021: £9.4 million) available for offset against future chargeable gains. In addition, the Group has an unrecognised deferred tax asset in respect of tax losses in France of £1.5 million (2021 £1.7 million). The Directors have considered the probability that the deferred tax asset will be recoverable within the foreseeable future and concluded that no deferred tax asset should be recognised at this time.

14 Inventories

	Group		Company	
Goods for resale	2022 £M	2021 £M	2022 £M	2021 £M
Balance as at 31 December	139.8	130.9	—	—

During the period, inventories of £444.1 million (2021: £446.7 million) were recognised as an expense and included in cost of sales in the Consolidated income statement. Included within this expense is a £0.3 million release (2021: £0.8 million release) in the provision for obsolete inventory and a £8.5 million charge (2021: £6.9 million charge) for write-downs of inventory to net realisable value.

15 Trade and other receivables

	Group		Company	
Current	2022 £M	2021 £M	2022 £M	2021 £M
Trade receivables	83.2	72.9	—	—
Prepayments and accrued income	9.7	5.6	0.7	0.1
Other receivables	26.1	35.5	0.1	0.3
Amounts due from subsidiary undertakings	—	—	15.9	5.8
Derivative assets (note 24)	0.1	—	—	—
	119.1	114.0	16.7	6.2

	Group		Company	
Non Current	2022 £M	2021 £M	2022 £M	2021 £M
Amounts due from subsidiary undertakings	—	—	12.6	14.4
	—	—	12.6	14.4

Amounts due from subsidiary undertakings are unsecured, interest bearing and are repayable on demand.

£1.7 million (2021: £0.4 million reduction) was recognised as a reduction in the impairment loss allowance in the Consolidated Income Statement in respect of trade receivables.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 Trade and other receivables continued

The receivables written off during the year as uncollectible are attributable to the reportable segments as follows:

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
UK	0.6	0.4	—	—
Continental Europe	0.2	0.2	—	—
	0.8	0.6	—	—

Further details on the impairment of trade receivables is provided in note 24.

16 Cash and cash equivalents

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Cash	2.1	61.2	20.7	63.4
Cash and cash equivalents per Statement of Financial Position	2.1	61.2	20.7	63.4

Cash and cash equivalents of £2.1 million (2021: £61.2 million) is shown net of overdrawn bank accounts of £90.5 million (2021: £117.7 million) that have a right of set-off under the UK overdraft facilities. Gross cash without the set-off agreement is £92.6 million (2021: £178.9 million).

17 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and Company's interest-bearing loans and borrowings.

On 17 January 2022, the Group completed a refinancing of its existing UK banking facilities which will expire in October 2027, following the one-year extension option being requested and agreed by the banks in February 2023.

At 31 December 2022, the Group had a committed sterling revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million. The Group had short term uncommitted facilities of £15.0 million in the UK and €4.2 million facility in Continental Europe. These are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2022 were £100.3 million (2021: £104.8 million).

	Facilities	
	31 December 2022 £M	31 December 2021 £M
Sterling RCF	81.5	68.5
Euro RCF	—	8.1
Sterling uncommitted facilities UK	15.0	25.0
Euro uncommitted facilities Continental Europe	3.8	3.2
	100.3	104.8

For more information about the Group's and Company's exposure to interest rate and foreign currency risk, see note 24.

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Current liabilities				
Interest-bearing loan	0.3	0.6	—	—
	0.3	0.6	—	—
Non-current liabilities				
Interest-bearing loans	—	6.9	—	—
	—	6.9	—	—

The Group has undrawn borrowing facilities at 31 December 2022, which amounted to £100.0 million (2021: £97.3 million). The facility conditions for drawdown had been met during the period. The facility is unsecured and there is a cross guarantee in place between the Company and its UK, French and Dutch subsidiaries. Covenant calculations have been prepared for the year ending 31 December 2022 and there were no breaches.

The undrawn borrowing facilities are as follows:

	Interest rate %	2022 £M	Interest rate %	2021 £M
UK	4.9	96.5	1.44	93.5
Netherlands	4.7	1.7	1.76	2.9
France	3.1	1.8	1.31	0.9
		100.0		97.3

The undrawn borrowing facilities consisted of £81.5 million committed and £18.5 million uncommitted facilities (2021: £69.8 million committed and £27.5 million uncommitted).

All the borrowing facilities above bear interest at floating rates.

Changes in net funds / (debt)

	At 1 January 2022 £M	Non-cash items £M	Cash flows £M	Foreign exchange movements £M	At 31 December 2022 £M
Cash at bank and in hand	61.2	—	(59.4)	0.3	2.1
Debt due within one year	(0.6)	—	0.3	—	(0.3)
Debt due after one year	(6.9)	—	7.0	(0.1)	—
Lease liabilities	(36.0)	(15.5)	14.0	(0.2)	(37.7)
Liabilities from financing activities	(43.5)	(15.5)	21.3	(0.3)	(38.0)
Net funds excluding lease liabilities	53.7	—	(52.1)	0.2	1.8
Net funds/(debt)	17.7	(15.5)	(38.1)	—	(35.9)

Non-cash items relate to lease additions, modifications and interest.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 Leases

The group leases various properties, commercial vehicles and cars. Rental contracts are typically made for fixed periods of 5 to 10 years and 3 to 7 years respectively, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

	Group			Company
	Properties £M	Non-property £M	Total £M	Properties £M
Net book value at 1 January 2021	11.3	30.8	42.1	0.7
Additions	2.3	4.6	6.9	—
Contract modifications	1.1	(0.2)	0.9	—
Depreciation	(3.9)	(9.6)	(13.5)	—
Disposals relating to discontinued operation	(1.2)	—	(1.2)	—
Effect of movements in foreign exchange	(0.2)	—	(0.2)	—
Net book value at 31 December 2021	9.4	25.6	35.0	0.7
Net book value at 1 January 2022	**9.4**	**25.6**	**35.0**	**0.7**
Additions	3.2	7.9	11.1	—
Contract modifications	2.9	—	2.9	—
Depreciation	(3.7)	(8.8)	(12.5)	—
Effect of movements in foreign exchange	0.1	0.1	0.2	—
Net book value at 31 December 2022	**11.9**	**24.8**	**36.7**	**0.7**

The right-of-use assets are shown as non-current assets in the balance sheet. The non-property right-of-use assets relate mainly to commercial and motor vehicles.

Lease liabilities

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Current	11.4	10.5	0.1	0.1
Non-current	26.3	25.5	0.7	0.7
	37.7	36.0	0.8	0.8

The lease liabilities are split on the balance sheet between current and non-current.

Amounts recognised in the Consolidated Income Statement

	Group	
	2022 £M	2021 £M
Interest on lease liabilities	1.4	1.3
Expenses relating to short-term leases	—	0.1
Expenses relating to leases of low-value assets	0.1	0.1
Gain on sale and leaseback*	—	(5.8)

* During the prior year the Group benefited from a gain on a sale of leaseback of its property in Switzerland, see note 25.

The total cash outflow for leases during the year ended 31 December 2022 was £14.1 million (2021: £15.2 million) for the Group and £0.1 million (2021: £0.1 million) for the Company.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held, are exercisable only by the group and not by the respective lessor.

19 Trade and other payables

	Group		Company	
Current	2022 £M	2021 £M	2022 £M	2021 £M
Trade payables	110.7	126.8	0.5	0.1
Taxation and social security	15.2	14.5	2.1	1.8
Non-trade payables and accrued expenses	27.3	36.6	8.9	4.8
Amounts due to subsidiary undertakings	—	—	31.0	30.0
Derivative liabilities used for economic hedging:				
Other derivatives at fair value	—	0.1	—	—
	153.2	178.0	42.5	36.7

Amounts due to subsidiary undertakings are unsecured, interest bearing and are repayable on demand.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

20 Provisions

	Property	
	2022 £M	2021 £M
Balance at 1 January	2.7	2.1
(Credited)/charged to the income statement:		
Additional provisions	—	0.8
Release of provisions	(0.9)	(0.2)
Utilisation of provisions	(0.1)	—
Balance at 31 December	1.7	2.7

The property provisions relate to property dilapidations. Dilapidation provisions are expected to be utilised between 1 and 111 years as the individual lease term comes to an end.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Employee benefits

During the year, the Group operated a UK defined benefit plan and defined contribution plans in the UK, France and the Netherlands. During the prior year the Group also operated a Swiss defined benefit plan which was disposed of on 17 May 2021 as part of the disposal of Belcolor AG, a subsidiary of Headlam Group PLC.

UK defined benefit plan

The Headlam Group PLC Staff Retirement Benefits Scheme (the 'plan') is the defined benefit plan operated by the company which provides pensions in retirement and death benefits to members. The majority of members are entitled to receive pensions from age 65, equal to either 1/50 or 1/60 of final salary for each year of service that the employee provided, depending on which section of the plan the member is part of. The plan is closed to new members and from 31 March 2020 was closed to future accrual of benefits.

The plan is a registered scheme under UK legislation and is contracted out of the State Second Pension. The plan is legally separated from the Company and assets are held independently of the company's finances. The plan is subject to the scheme funding requirements outlined in UK legislation.

The company has a right to a refund of any surplus in the plan if the plan winds up, after payment of expenses, members benefits and any enhancements to the members' benefits as the Trustee sees fit. In addition, if the assets of the plan exceed the estimate by the actuary of the cost of buying out the benefits of all beneficiaries with an insurance company, including the associated expenses, and the plan is not being wound up, then the company may request a payment of the excess funds though does not have an unconditional right to a refund. There have been no payments made to the company out of the plan's assets over the year.

The plan was established from 11 February 1983 under trust and is governed by the plan's Trust Deed and Rules dated 26 March 2015. The Trustee of the plan comprises one sole corporate trustee. The Trustee of the plan is required by law to act in the best interests of the plan participants. The Trustee is responsible for the operation and the governance of the plan, including making decisions regarding the plan's funding and investment strategy in conjunction with the company.

There have been no other curtailments or settlements made to the plan over 2022. On 31 March 2020, the plan closed to future accrual which would typically be treated as a curtailment event. Historically the future salary increase assumption used to calculate the Scheme's IAS 19 liabilities has been set equal to the assumption for expected future RPI inflation (the rate of increase applied to pensions in deferment) and therefore there was no impact on the reported liabilities in respect of this event.

The plan's long term investment strategy is a target asset allocation of 67.5% Growth Assets, 25% Liability Hedging Assets and 7.5% Cashflow Matching Credit Assets. Where the macroeconomic environment causes the actual allocation to be materially different from the target, the plan would look to rebalance the allocation over the medium term.

The plan holds a number of annuity policies which match a portion of the pensions in payment.

The last scheme funding valuation of the plan was as at 31 March 2020 and revealed a funding shortfall of £11.1 million.

The main annual rate assumptions used by the actuary were, increase of pensions in payment 2.45%, discount rate before retirement 2.75%, discount rate after retirement 1.0% and inflation 2.45%. Assets were taken at their audited market value at the valuation date.

The deficit recovery plan was agreed between the Company and Trustee in February 2021. Contributions will be c.£1.0 million per annum between April 2021 and March 2026. A mechanism has also been agreed whereby 1.5% of any amount distributed to shareholders in excess of £21.0 million per annum is paid to the Scheme.

In addition, the Company is expected to meet the cost of administrative expenses and insurance premiums for the plan.

The liabilities of the plan are based on the current value of expected benefit payment cash flows to members of the plan over the next 60 years or more. The average duration of the liabilities is approximately 13 years.

Swiss defined benefit plan

On 17 May 2021, Headlam Group PLC disposed of Belcolor AG, its subsidiary operating in Switzerland. The Swiss defined benefit plan was included in the disposal and therefore, from that date, the results of the plan are no longer consolidated in these Financial Statements.

Defined benefit obligation

In the UK there is no contractual agreement or stated Group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the Company, which is the sponsoring employer.

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Present value of funded defined benefit obligations	(72.0)	(107.0)	(72.0)	(107.0)
Fair value of plan assets	74.1	119.1	74.1	119.1
Surplus in funded scheme	2.1	12.1	2.1	12.1
Adjustment in respect of asset ceiling and minimum funding requirement	(5.3)	(16.4)	(5.3)	(16.4)
	(3.2)	(4.3)	(3.2)	(4.3)
Other long-term employee benefits	(0.5)	(0.6)	—	—
Total employee benefits	(3.7)	(4.9)	(3.2)	(4.3)
Analysed as:				
Current liabilities	(1.0)	(1.0)	(1.0)	(1.0)
Non-current liabilities	(2.7)	(3.9)	(2.2)	(3.3)
Total employee benefits	(3.7)	(4.9)	(3.2)	(4.3)

Movements in present value of defined benefit obligation

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
At 1 January	107.0	134.9	107.0	119.7
Interest cost	2.0	1.7	2.0	1.7
Net remeasurement gains – financial	(35.8)	(3.8)	(35.8)	(3.8)
Net remeasurement gains – demographic	(0.5)	(0.2)	(0.5)	(0.2)
Net remeasurement losses/(gains) – experience	5.4	(0.5)	5.4	(0.5)
Benefits paid	(6.1)	(9.9)	(6.1)	(9.9)
Disposal of Swiss plan	—	(14.5)	—	—
Effect of movements in foreign exchange	—	(0.7)	—	—
At 31 December	72.0	107.0	72.0	107.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Employee benefits continued

Movements in fair value of plan assets

	Group 2022 £M	Group 2021 £M	Company 2022 £M	Company 2021 £M
At 1 January	119.1	129.7	119.1	117.4
Interest income on plan assets	2.2	1.6	2.2	1.6
Return on assets, excluding interest income	(42.2)	9.3	(42.2)	9.3
Contributions by employer:				
Past service deficit contributions	1.1	0.7	1.1	0.7
Contributions by members	—	—	—	—
Benefits paid	(6.1)	(9.9)	(6.1)	(9.9)
Disposal of Swiss plan	—	(11.8)	—	—
Effect of movements in foreign exchange	—	(0.5)	—	—
At 31 December	74.1	119.1	74.1	119.1

The fair value of the plan assets were as follows:

	Group 2022 £M	Group 2021 £M	Company 2022 £M	Company 2021 £M
Equities*	17.1	46.7	17.1	46.7
Government debt*	44.4	39.7	44.4	39.7
Corporate bonds*	13.5	15.7	13.5	15.7
Annuities	0.9	1.4	0.9	1.4
Liability and currency hedging	(11.1)	(2.5)	(11.1)	(2.5)
Cash and other	9.3	18.1	9.3	18.1
	74.1	119.1	74.1	119.1

* These assets are held within pooled investment vehicles that are unquoted. The fair value of the underlying assets within these funds have a quoted market price in an active market.

Movements in the effect of the asset ceiling

	Group 2022 £M	Group 2021 £M	Company 2022 £M	Company 2021 £M
At 1 January	16.4	—	16.4	—
Interest income on the asset ceiling	0.3	—	0.3	—
Changes in the effect of the asset ceiling excluding interest income	(11.4)	16.4	(11.4)	16.4
At 31 December	5.3	16.4	5.3	16.4

Expense recognised in the Consolidated Income Statement relating to defined benefit obligation

	Group	
	2022 £M	2021 £M
Net interest expense on the net defined benefit liability (note 6)	0.1	0.1
Total	0.1	0.1

Net interest is charged to Net finance costs.

Remeasurement of the net defined benefit liability/(asset) in the Statement of Comprehensive Income

	Group	
	2022 £M	2021 £M
Return on assets, excluding interest income	42.2	(9.3)
Net remeasurement – financial	(35.8)	(3.8)
Net remeasurement – demographic	(0.5)	(0.2)
Net remeasurement – experience	5.4	(0.5)
Adjustment in respect of asset ceiling and minimum funding requirement	(11.4)	16.4
	(0.1)	2.6

Principal actuarial assumptions

	UK	
	2022 %	2021 %
Discount rate (net of management fees)	4.8	1.9
Revaluation of deferred benefits in excess of GMPs	3.5	3.4
Inflation-linked pension increases	3.5	3.4
Price inflation (RPI)	3.5	3.4
Commutation of pension at retirement	85% of members assumed to take maximum tax-free cash using the Scheme's current commutation terms	85% of members assumed to take maximum tax-free cash using the Scheme's current commutation terms
Mortality table assumptions:		
UK pre-retirement	AC00 (Ultimate) table	AC00 (Ultimate) table
UK post-retirement – future pensioners	98%(M)/107%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2021 projections model with the initial addition to mortality improvements parameter of 0.5% and a long-term rate of improvement of 1.5% per annum and a 2021 weighting parameter of 0%.	97%(M)/103%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2020 projections model with the initial addition to mortality improvements parameter of 0.5% and a long-term rate of improvement of 1.5% per annum and a 2020 weighting parameter of 0%.
UK post-retirement – current pensioners	98%(M)/107%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2021 projections model with the initial addition to mortality improvements parameter of 0.5% and a long-term rate of improvement of 1.5% per annum and a 2021 weighting parameter of 0%.	97%(M)/103%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2020 projections model with the initial addition to mortality improvements parameter of 0.5% and a long-term rate of improvement of 1.5% per annum and a 2020 weighting parameter of 0%.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Employee benefits continued

The mortality assumption implies the expected future lifetime from age 65 is as follows:

	Group	
	2022 Years	2021 Years
Non-pensioner male	24.3	24.3
Pensioner male	22.7	22.7
Non-pensioner female	26.1	26.3
Pensioner female	24.4	24.6

Company

The principal actuarial assumptions for the Company are the same as those disclosed for the UK above.

Sensitivity analysis

The table below show the impact on the defined benefit obligation of changing each of the most significant assumptions in isolation.

		Impact on scheme liabilities 2022		Impact on scheme liabilities 2021	
Effect in £M	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	1.0% movement	(8.1)	10.0	(15.6)	20.2
Rate of inflation (RPI)*	0.25% movement	1.7	(1.6)	3.5	(3.3)
Assumed life expectancy	One-year movement	2.3	(2.4)	4.9	(4.8)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2022 have been calculated using the same valuation method that was used to calculate the defined benefit obligation at the same date. The figures in the table as at 31 December 2021 have been calculated by applying the same percentage increase or decrease as at 31 December 2022.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

The plan exposes the Group to a number of risks, principally short-term asset volatility from holding equities and life expectancy changes which can affect the value of the liabilities.

The Group operated an employment indemnity scheme in connection with a foreign subsidiary undertaking to provide for lump sum cash payments due to employees retiring on their normal retirement date. The present value of the retirement indemnity obligation at 31 December 2022 is £0.5 million (2021: £0.6 million). This is reported as other long-term employee benefits within the employee benefits disclosure.

Total Group pension costs

Included within the total staff costs as disclosed in note 4 are costs relating to the Group's defined contribution plans. The pension cost for the year represents contributions payable by the Group to the plans and amounted to £3.8 million (2021: £4.4 million). Contributions amounting to £0.5 million (2021: £0.3 million) in respect of the December 2022 payroll were paid in January 2023.

The total Group cost of operating the plans during the year was £3.8 million (2021: £4.5 million) and, at 31 December 2022, there was an amount of £0.5 million (2021: £0.3 million) owed to the plans, being employer and employee contributions due for December 2022, which was paid in January 2023.

22 Share-based payments

Group and Company

Executive Directors and executive management currently participate in executive share option schemes. The Group operates a 2017 HMRC approved scheme and a 2008 unapproved scheme, the Headlam Group Performance Share Plan 2017 and the Headlam Group Co-Investment Plan 2008. Further details of these schemes and plans are given in the Remuneration Report on pages 134 to 165.

Additionally, the Group operates a savings-related share option scheme ('Sharesave scheme') which is open to employees subject to eligibility criteria determined by the Directors prior to each option grant. The most recent grant was on 16 September 2022 when employees with over one month's service were invited to participate.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 Share-based payments continued

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments			
Grant date/employees entitled	2022	2021	Vesting conditions	Contractual life of options
Headlam Group Co-Investment Plan 2008 granted to key management 6 May 2016*	—	21,860	If the real earnings per share growth is over 3% p.a. – 50% vesting, over 6% – 100% vesting. TSR – if Company is ranked at median or above – 50%, upper quartile – 100%	07/05/19 – 07/05/26
Five-year Sharesave scheme granted to other employees 4 May 2016	—	149	Continuous service	01/07/21 – 01/01/22
Headlam Group Performance Share Plan 2017 granted to key management 5 July 2017*	767	12,705	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	06/07/20 – 06/07/27
Five-year Sharesave scheme granted to other employees 3 May 2017	7,751	8,953	Continuous service	01/07/22 – 01/01/23
Three-year Sharesave scheme granted to other employees 1 May 2018	—	4,064	Continuous service	01/07/21 – 01/01/22
Five-year Sharesave scheme granted to other employees 1 May 2018	16,344	18,546	Continuous service	01/07/23 – 01/01/24
Headlam Group Performance Share Plan 2017 granted to key management 10 April 2019*	—	297,475	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	11/04/22 – 09/04/29
Three-year Sharesave scheme granted to other employees 3 May 2019	151,077	185,356	Continuous service	01/07/22 – 01/01/23
Headlam Group Performance Share Plan 2017 granted to key management 11 September 2020*	389,418	494,422	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	12/09/23 – 11/09/30
Three-year Sharesave scheme granted to other employees 5 October 2020	931,297	1,069,722	Continuous service	01/11/23 – 30/04/24
Headlam Group Performance Share Plan 2017 granted to key management 9 April 2021*	200,474	200,474	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	10/04/24 – 09/04/31
Three-year Sharesave scheme granted to other employees 6 October 2021	131,625	212,319	Continuous service	01/11/24 – 30/04/25
Headlam Group Performance Share Plan 2017 granted to key management 8 April 2022*	198,476	—	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	09/04/25 – 08/04/32
Three-year Sharesave scheme granted to other employees 16 September 2022	533,326	—	Continuous service	01/11/25 – 30/04/26
Headlam Group Performance Share Plan 2017 granted to key management 7 October 2022	36,976	—	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	08/10/25 – 07/10/32
Total share options	2,597,531	2,526,045		

* Further details are provided on pages 134 to 165 of the Remuneration Report.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (pence) 2022	Number of options 2022	Weighted average exercise price (pence) 2021	Number of options 2021
Outstanding at the beginning of the year	161.1	2,526,045	165.9	3,132,480
Exercised during the year	122.7	(57,054)	350.3	(197,082)
Granted during the year	158.4	778,924	180.5	483,529
Lapsed during the year	2.0	(379,461)	127.3	(505,049)
Forfeited during the year	221.1	(107,009)	113.5	(235,729)
Cancelled during the year	303.6	(163,914)	263.2	(152,104)
Outstanding at the end of the year	172.9	2,597,531	161.1	2,526,045
Exercisable at the end of the year	364.1	159,595	38.6	38,778

The weighted average share price for options exercised during the year was 379.0p (2021: 471.9p).

The options outstanding at the year-end have an exercise price in the range of 0.0p to 499.0p and a weighted average contractual life of 3.9 years (2021: 1.7 years).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. In order to estimate the fair value of the services received the Company uses an appropriate option pricing model, either the Black–Scholes or the Monte Carlo option pricing model.

It is expected that the options will be exercised as soon as they reach maturity.

The expected volatility is based on historic volatility calculated over the weighted average remaining life of the share options.

Details of share options granted during 2022 are shown below:

2022		Three-year performance Share Plan 2017	Three-year performance Share Plan 2017	Three-year Sharesave scheme
Number of options granted		198,476	36,976	543,472
Fair value at measurement date:				
No performance conditions		—	—	87.16
Performance conditions	EPS 80% & TSR 20%	333.40	208.20	–
Share price at 31 December		302.00	302.00	302.00
Exercise price		—	—	227.00
Expected volatility		44.0%	45.0%	45.0%
Option life		three years	three years	three years
Dividend yield		5.1%	5.2%	5.2%
Risk-free rate of interest		1.6%	4.2%	3.0%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 Share-based payments continued

Details of share options granted during 2021 are shown below:

2021		Three-year performance Share Plan 2017	Three-year Sharesave scheme
Number of options granted		265,360	218,169
Fair value at measurement date:			
No performance conditions		—	127.70
Performance conditions	EPS 80% & TSR 20%	415.39	—
Share price at 31 December		428.00	428.00
Exercise price		—	400.00
Expected volatility		43.0%	40.0%
Option life		three years	three years
Dividend yield		3.9%	3.9%
Risk-free rate of interest		0.1%	0.5%

The total expenses recognised for the year arising from share-based payments are as follows:

	Group		Company		Subsidiaries	
	2022 £M	2021 £M	2022 £M	2021 £M	2022 £M	2021 £M
Total expense recognised	0.9	1.2	0.2	0.4	0.7	0.8

23 Capital and reserves

Share capital

	Ordinary shares	
	2022	2021
Number of shares		
Authorised		
In issue at 1 January and 31 December	107,840,000	107,840,000
Fully paid		
In issue at 1 January and 31 December	85,639,209	85,639,209

	2022 £M	2021 £M
Allotted, called up and fully paid		
Ordinary shares of 5p each	4.3	4.3
Shares classified in Shareholders' funds	4.3	4.3

At 31 December 2022, the Company held 4,046,617 shares (2021: 1,013,991) in relation to treasury stock and shares held in trust for satisfying options and awards under employee share schemes. These shares have been disclosed in the treasury reserve. Dividends are not payable on these shares and they are excluded from the calculation of earnings per share. The shares held in treasury and trust represented 4.7% (2021: 1.2%) of the issued share capital as at 31 December 2022 with a nominal value of £0.2 million (2021: £0.1 million).

During the year 3,122,721 shares were purchased by the Company in accordance with the terms of its share buyback programme, as announced on 9 March 2022 and subsequently on 28 November 2022, and which has a total commitment of up to £15.0 million. The shares were acquired at an average price of 314p per share, with prices ranging from 236p to 394p.

In the period from 1 January 2023 to 2 March 2023 1,566,622 shares were purchased by the Company.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

	2022 £M	2021 £M
Dividend of a nominal amount of 2.00p paid 28 May 2021	—	1.7
Interim dividend for 2021 of 5.80p paid 29 November 2021	—	4.9
Final dividend for 2021 of 8.60p paid 27 May 2022	7.2	—
Special dividend of 17.70p paid 27 May 2022	14.9	—
Interim dividend for 2022 of 6.20p paid 28 November 2022	5.2	—
	27.3	6.6

The Board of Directors have declared a final dividend of 11.2p per share which if approved by shareholders at the forthcoming AGM, will be payable on 2 June 2023.

The total value of dividends proposed or declared but not recognised at 31 December 2022 is £9.0 million (2021: £22.1 million).

Reserves

Other reserves

Other reserves as disclosed on the Statement of Financial Position comprise the capital redemption reserve, translation reserve, treasury reserve and special reserve.

Capital redemption reserve

The capital redemption reserve represents the nominal value of shares repurchased and cancelled during 2007.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Treasury reserve

The treasury reserve comprises the cost of the Company's shares held by the Group.

Special reserve

The special reserve (merger reserve) arose on the issuance of shares in connection with acquisitions made by the Company. At 31 December 2022, this reserve was £1.5 million and there were no changes to this special reserve during the current or previous year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Financial instruments

The main financial risks arising in the normal course of the Group's business are credit risk, liquidity risk, and market risks arising from interest rate risk and foreign currency risk. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Credit risk and credit quality

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

For Headlam Group PLC credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset and, as at the Statement of Financial Position date, in the Directors' opinion, there were no significant concentrations of credit risk likely to cause financial loss to the Group.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all new customers requiring credit and these are frequently reviewed by management to limit exposure. Businesses must obtain central approval from Executive Directors or senior executive management for credit limits in excess of £10,000. The Group does not require collateral in respect of financial assets.

The credit control procedures described above, coupled with the diversified nature of the Group's trade receivables, lead the Directors to believe that there is limited credit risk exposure and that the credit quality of these assets is robust.

Other receivables comprise amounts due to the Group which historically have been received within three months of the year-end. The Directors have considered the inherent risk profile of other receivables at the year-end and are of the view that this historical experience will prevail for the foreseeable future and accordingly consider the credit quality of these assets to be robust.

Cash and cash equivalents represent deposits with reputable financial institutions in the UK and Continental Europe and hence, the Directors consider the credit quality of cash and cash equivalents to be robust.

Impairment of financial assets

The Group has trade receivables for sales of inventory as financial assets that are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The carrying amount of financial assets at the Statement of Financial Position date was:

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Trade and other receivables (note 15)	109.3	108.4	28.6	20.5
Cash and cash equivalents (note 16)	2.1	61.2	20.7	63.4
Derivative assets (note 15)	0.1	–	–	–
	111.5	169.6	49.3	83.9

The fair values of the above financial assets at both 31 December 2022 and 2021, are deemed to approximate to carrying value due to the short-term maturity of the instruments.

The ageing of trade receivables at the Statement of Financial Position date was:

	2022		2021	
Group	Gross £M	Impairment £M	Gross £M	Impairment £M
Not past due	50.4	(0.1)	44.0	(0.2)
Past due 0 – 30 days	24.3	(0.1)	24.0	(0.3)
Past due 31 – 120 days	12.7	(4.0)	11.6	(6.2)
	87.4	(4.2)	79.6	(6.7)

All other receivables and derivative financial assets are not past due (2021: not past due).

The Company had trade receivables of £nil (2021: £nil).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2022 or 31 December 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors, including gross domestic product growth, affecting the ability of the customers to settle the receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and ageing based on invoice date. The loss allowance provision as at 31 December 2022 is determined as follows;

Ageing based on invoice date	Current < 30 days	30–60 days	60–90 days	Over 90 days	Total
31 December 2022					
Expected loss rate	0.2%	0.5%	24.0%	47.1%	
Gross carrying amount – trade receivables (millions)	50.4	24.3	8.9	3.8	87.4
Loss allowance (millions)	0.1	0.1	2.2	1.8	4.2

Ageing based on invoice date	Current < 30 days	30–60 days	60–90 days	Over 90 days	Total
31 December 2021					
Expected loss rate	0.3%	1.0%	40.9%	100.0%	
Gross carrying amount – trade receivables (millions)	44.0	24.0	8.9	2.7	79.6
Loss allowance (millions)	0.1	0.2	3.7	2.7	6.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Financial instruments continued

The maximum exposure to credit risk for trade receivables at the Statement of Financial Position date by geographic region was:

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
UK	71.4	63.4	—	—
Continental Europe	11.8	9.5	—	—
	83.2	72.9	—	—

During the year the Group's impairment reversal as a percentage of revenue amounted to 0.3% (2021: 0.1%).

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	Group Trade receivables		Company Trade receivables	
	2022 £M	2021 £M	2022 £M	2021 £M
Opening loss allowance at 1 January	6.7	8.1	—	—
Decrease in loan loss allowance recognised in profit or loss during the year	(1.7)	(0.4)	—	—
Receivables written off during the year as uncollectible	(0.8)	(0.6)	—	—
Discontinued operation	—	(0.3)	—	—
Effect of movement in foreign exchange	—	(0.1)	—	—
Closing loss allowance at 31 December	4.2	6.7	—	—

Trade receivables are written off where there is no reasonable expectation of recovery. It is the Group's policy wherever possible to engage the debtor in a repayment plan to reduce the exposure to credit losses.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Company assesses the expected credit loss associated with amounts due from subsidiary undertakings on a forward-looking basis, relying upon cash flow forecasts of the subsidiary to determine expected recoverability. The company has loss allowances against amounts due from subsidiary undertakings of £3.0 million (2021: £0.8 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, with sufficient headroom to cope with abnormal market conditions. As at 31 December 2022, cash and cash equivalents covered the amounts of borrowings maturing in the next 12 months with a net positive liquidity of £1.8 million (2021: £53.7 million). Details of the total facilities that the Group has access to are given in note 17.

The following are the contractual maturities of financial liabilities:

31 December 2022 Group	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Unsecured bank loans	0.3	(0.3)	(0.3)	—	—	—
Trade and other payables	138.0	(138.0)	(138.0)	—	—	—
Lease liabilities	37.7	(42.2)	(12.4)	(9.8)	(15.9)	(4.1)
	176.0	(180.5)	(150.7)	(9.8)	(15.9)	(4.1)

31 December 2021 Group	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Unsecured bank loans	7.5	(7.6)	(1.0)	(6.6)	—	—
Trade and other payables	163.4	(163.4)	(163.4)	—	—	—
Lease liabilities	36.0	(37.5)	(11.0)	(8.6)	(14.2)	(3.7)
Derivative financial liabilities						
Other derivatives	0.1	(0.1)	(0.1)	—	—	—
	207.0	(208.6)	(175.5)	(15.2)	(14.2)	(3.7)

31 December 2022 Company	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Trade and other payables	40.4	(40.4)	(40.4)	—	—	—
Lease liabilities	0.8	(1.9)	(0.1)	(0.1)	(0.1)	(1.6)
	41.2	(42.3)	(40.5)	(0.1)	(0.1)	(1.6)

31 December 2021 Company	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Trade and other payables	34.9	(34.9)	(34.9)	—	—	—
Lease liabilities	0.8	(0.8)	(0.1)	(0.1)	(0.1)	(0.5)
	35.7	(35.7)	(35.0)	(0.1)	(0.1)	(0.5)

The value of the Group's and Company's financial liabilities as detailed above at 31 December 2022 and 2021 were not materially different to the carrying value. Fair values were calculated using market rates, where available. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Financial instruments continued

The table below sets out the Group's accounting classification of each class of financial assets and liabilities at 31 December 2022 and 2021.

31 December 2022	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total Carrying Value £M
Cash and cash equivalents	—	2.1	2.1
Borrowings due within one year	—	(0.3)	(0.3)
Trade payables	—	(110.7)	(110.7)
Non-trade payables	—	(27.3)	(27.3)
Leasing liabilities	—	(37.7)	(37.7)
Trade receivables	—	83.2	83.2
Other receivables	—	26.1	26.1
Provisions	—	(1.7)	(1.7)
Derivative assets	0.1	—	0.1
	0.1	(66.3)	(66.2)

31 December 2021	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total Carrying Value £M
Cash and cash equivalents	—	61.2	61.2
Borrowings due within one year	—	(7.2)	(7.2)
Borrowings due after one year	—	(0.3)	(0.3)
Trade payables	—	(126.8)	(126.8)
Non-trade payables	—	(36.6)	(36.6)
Leasing liabilities	—	(36.0)	(36.0)
Trade receivables	—	72.9	72.9
Other receivables	—	35.5	35.5
Provisions	—	(2.7)	(2.7)
Derivative liability	(0.1)	—	(0.1)
	(0.1)	(40.0)	(40.1)

All derivative financial instruments not in a hedge relationship are measured at fair value through the profit or loss. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

Interest rate risk

The Company and Group are exposed to interest rate fluctuations on their borrowings and cash deposits. Borrowings are principally held in sterling at floating rates. Deposits are in sterling, euros and at floating rates.

Floating rate borrowings are linked to the Sterling Overnight Index Average. The Group adopts a policy of reviewing its floating rate exposure to ensure that if interest rates rise the effect on the Group's income statement is manageable.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group carrying amount		Company carrying amount	
	2022 £M	2021 £M	2022 £M	2021 £M
Variable rate instruments				
Financial assets	2.1	61.2	20.7	63.4
Financial liabilities	(0.3)	(7.5)	—	—
	1.8	53.7	20.7	63.4

Sensitivity analysis

A change of 100 basis points in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2021.

	Group				Company			
	Profit or loss		Equity		Profit or loss		Equity	
	100bp increase £M	100bp decrease £M	100bp increase £M	100bp decrease £M	100bp increase £M	100bp decrease £M	100bp increase £M	100bp decrease £M
31 December 2022								
Variable rate instruments	—	—	—	—	0.2	(0.2)	—	—
31 December 2021								
Variable rate instruments	0.6	(0.6)	—	—	0.6	(0.6)	—	—

Foreign currency risk

The Group and Company are exposed to movements in currency exchange rates arising from transaction currency cash flows and the translation of the results and net assets of overseas subsidiaries. The currencies giving rise to this risk are primarily the euro, and US dollar.

The Group and Company use forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in the functional currency of the acquiring company. These forward exchange contracts would have a maturity of less than one year after the Statement of Financial Position date. The Group also enters into foreign currency contracts at spot rate where the amounts are not frequent or material. Gains and losses on currency contracts recognised as an asset at 31 December 2022 amounted to £0.1 million (2021: liability of £0.1 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Financial instruments continued

Derivatives

The Group has the following derivative financial instruments in the following line items in the balance sheet:

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Current assets				
Foreign currency forwards – cash flow hedges	0.1	—	—	—
Current liabilities				
Foreign currency forwards – cash flow hedges	—	(0.1)	—	—
Total current derivative financial instrument liabilities	0.1	(0.1)	—	—

Derivatives are only used for economic hedging purposes and not as speculative investments.

The movements in respect of derivative financial instruments were as follows:

	Foreign currency forwards £M
Opening balance 1 January 2022	(0.1)
Credit to profit or loss	0.2
Closing balance 31 December 2022	0.1

The exposure to foreign currency risk was as follows:

	Group			Company		
2022	Euro amount £M	Other amount £M	Total £M	Euro amount £M	Other amount £M	Total £M
Trade and other receivables	0.1	—	0.1	—	—	—
Cash and cash equivalents	0.3	0.2	0.5	—	—	—
Trade and other payables	(1.6)	(0.5)	(2.1)	—	—	—
	(1.2)	(0.3)	(1.5)	—	—	—

	Group			Company		
2021	Euro amount £M	Other amount £M	Total £M	Euro amount £M	Other amount £M	Total £M
Trade and other receivables	0.1	0.1	0.2	—	—	—
Cash and cash equivalents	0.3	0.1	0.4	0.1	—	0.1
Trade and other payables	(2.3)	(1.0)	(3.3)	—	—	—
	(1.9)	(0.8)	(2.7)	0.1	—	0.1

Sensitivity analysis

A 10% weakening of sterling against the following currencies at 31 December would have (decreased)/increased profit or loss by the amounts shown below; there is no equity effect. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2021.

	Group		Company	
	2022 £M	2021 £M	2022 £M	2021 £M
Euro	(0.1)	(0.2)	—	—
Other	—	(0.1)	—	—

A 10% strengthening of sterling against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Fair values hierarchy

The financial instruments carried at fair value are categorised according to their valuation method. The different levels have been defined below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, as prices or indirectly, derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The group entered into some forward currency contracts, which were fair valued in accordance with level 2 for the year.

Fair values

The carrying amounts shown in the Statement of Financial Position for financial instruments are a reasonable approximation of fair value.

Trade receivables, trade payables and cash and cash equivalents

Fair values are assumed to approximate to cost due to the short-term maturity of the instrument.

Borrowings, other financial assets and other financial liabilities

Where available, market values have been used to determine fair values. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

Capital management

The Group views its finance capital resources as primarily comprising share capital, bank loans and operating cash flow.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board closely monitors its Shareholder base, dividend yield and earnings per share. In the medium-term the Group aims to maintain a dividend cover of 2.0 times.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Financial instruments continued

The Board encourages employees of the Group to hold the Company's ordinary shares. The Group operates a number of employee share option schemes.

Certain subsidiaries of the Company are required to maintain issued share capital at levels to support capital adequacy requirements prevailing in the legislative environment in which they operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends made payable to Shareholders, return capital to Shareholders, issue new shares or sell assets to reduce debt.

On 17 January 2022, the Group completed a refinancing of its existing banking facilities which will expire in October 2027 following the one-year extensions option being requested and agreed by the banks in February 2023.

At 31 December 2022, the Group had a committed sterling revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million. The Group had short term uncommitted facilities of £15.0 million in the UK and €4.2 million facility in Continental Europe. These are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2022 were £100.3 million (2021: £104.8 million).

The uncommitted facility, coupled with cash generated from operations, is used to fund the Group's ongoing working capital requirements. The committed facility is in place to support the Group's strategic investment plans.

No changes were made to the objectives, policies or processes during the years ended 31 December 2022 and 31 December 2021.

Covenants

The Group is subject to financial covenants in relation to its £81.5 million revolving credit facility agreement which are tested and reported every half year and year end. These comprise an Interest Cover ratio of not less than 3:1 and a Leverage ratio not exceeding 2.5:1. Interest Cover is the ratio of the consolidated underlying operating profit of the Group before interest, taxation and non-underlying items, adjusted to exclude the impact of IFRS 16, ('EBIT') to Finance Charges. Leverage is the ratio of borrowings and cash and cash equivalents, excluding IFRS 16 leases to EBIT after adding back amortisation and depreciation.

The Group met both these covenants during the year and there is headroom in both of these covenants at 31 December 2022 and forecast to be so in the going concern period as detailed on pages 87 to 88 under Viability and Going Concern.

25 Discontinued operations

On 28 April 2021, the Group entered into a sale agreement to dispose of Belcolor AG ('Belcolor'). Belcolor is a floorcoverings distribution business based in St. Gallen, Switzerland, and represents the entirety of Headlam's Swiss operations.

On 29 April 2021, as a condition of the sale agreement, Belcolor undertook a sale and leaseback of its property for gross proceeds of £12.4 million and paid a dividend of £11.1 million to its parent company, Headlam Group plc. Gross assets disposed of were £18.8 million. Cash consideration before costs of £0.9 million was received on sale of the subsidiary.

The subsidiary was sold on 28 April 2021 with effect from 17 May 2021 and was reported in the financial statements for the year ending 31 December 2021 as a discontinued operation.

The information reported within this note for Belcolor relates to the prior year only as the business was discontinued on 17 May 2021. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance of discontinued operation

	Period ended 17 May 2021		
	Underlying £M	Non-underlying £M	Total £M
Revenue	9.1	—	9.1
Expenses	(9.0)	—	(9.0)
Other gains (profit on sale of building)	—	5.8	5.8
Profit before tax	0.1	5.8	5.9
Attributable tax expense	—	(1.3)	(1.3)
Profit after tax of discontinued operation	0.1	4.5	4.6
Loss on sale of subsidiary after tax	—	(0.1)	(0.1)
Profit from discontinued operation	0.1	4.4	4.5
Reclassification of foreign currency translation reserve on disposal of subsidiary			4.8
Other comprehensive income from discontinued operation			4.8

	Period ended 17 May 2021 £M
Consideration received:	
Cash	0.9
Costs of disposal	(0.1)
Net disposal consideration	0.8
Carrying amount of net assets sold	(5.7)
Loss on sale before tax and reclassification of foreign currency translation reserve	(4.9)
Reclassification of foreign currency translation reserve on disposal of subsidiary	4.8
Loss on sale after tax	(0.1)
Cash flows from discontinued operation	
Net cash outflow from ordinary activities	(1.8)
Net cash inflow from investing activities	12.4
Net increase in cash generated by the subsidiary	10.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 Discontinued operations continued

Effect of disposal on the financial position of the Group

	Period ended 17 May 2021 £M
Property, plant and equipment	(1.4)
Right-of-use-assets	(1.2)
Inventories	(8.7)
Trade and other receivables	(3.2)
Cash and cash equivalents	(4.3)
Employee benefits	2.8
Current tax liability	1.5
Trade and other payables	3.0
Deferred tax liabilities	0.3
Lease liabilities	5.5
Net assets and liabilities	(5.7)
Net disposal consideration	0.8
Cash and cash equivalents disposed of	(4.3)
Net cash outflow	(3.5)

The net cash consideration of £0.8 million represents the residual consideration following the £11.1 million dividend previously paid up to the parent company. Cash balances of £4.3 million were held by Belcolor on disposal.

26 Capital commitments

Group

As at 31 December 2022, the Group entered into commitments to purchase property, plant and equipment for £1.1 million and intangibles of £1.1 million (2021: £0.4 million and £1.9 million respectively).

Company

At 31 December 2022, the Company had commitments to purchase intangibles of £1.1 million (2021: £1.9 million).

27 Related parties

Group and Company

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its Directors and executive officers.

Transactions with key management personnel

The Group annually re-evaluates its interpretation of key management personnel and considers that this relates to the Executive and Non-Executive Directors of the Group as identified on pages 92 and 93.

As at 31 December 2022, Directors of the Company and their immediate relatives controlled 0.1% of the total voting rights of the Company (2021: 0.1%).

Non-Executive Directors receive a fee for their services to the Board.

Other than as disclosed in the Remuneration Report, there were no other transactions with key management personnel in either the current or preceding year. The cost charged to administrative expenses relating to share plans of key personnel amounted to £0.3 million (2021: £0.3 million).

Company only

In addition to the transactions with key personnel, the Company has the following transactions:

Transactions with other Group companies

	Highest during 2022 £M	Balance at 31 December 2022 £M	Highest during 2021 £M	Balance at 31 December 2021 £M
Amounts due from subsidiaries	31.5	28.5	21.6	20.2
Amounts due to subsidiaries	(31.0)	(31.0)	(30.5)	(30.0)

Transactions with Group companies typically comprise management, rent and interest charges during the period.

The disclosure of the year-end balance and the highest balance during the year is considered to provide a meaningful representation of transactions between the Company and its subsidiaries in the year. The highest balance is generally at the start or close of the financial year since this is the time when the Company levies its recharge of its operating expenses.

Related party transactions reported in the income statement

	For year ended 31 December 2022 £M	For year ended 31 December 2021 £M
Rental income	11.0	10.1
Dividends received	—	40.0
Recharge of operating expenses	3.2	2.4
Interest (expense)/income	(0.1)	0.2

28 Contingent asset

At 31 December 2022, the Group and Company identified a contingent asset relating to parts of an insurance claim for losses arising from damage to the Group's property and contents, as a result of the Kidderminster fire in December 2021, whilst the asset relating to the inventory losses has been recognised in the financial statements.

The insurers have accepted liability in respect of the Kidderminster fire claim. However, the refund relating to the property and contents damage could not be reliably measured at 31 December 2022 because the decision to progress with the reinstatement was not final and a change to that decision would cause the insurance refund to be based on a negotiated settlement (dependent on negotiations with insurers) rather than the like-for-like reinstatement costs and the resulting values could be materially different. In addition, the competitive tendering process for the construction had not concluded and so the construction costs were not known.

An amount of £1.7 million was recognised in the Group financial statements at 31 December 2022 (2021: £nil) relating to refunds for property and contents damage, having been received in cash.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28 Contingent asset continued

The £4.5 million insurance claim refund relating to inventory losses as a result of the Kidderminster fire was recognised in the Group financial statements at 31 December 2022 (2021: £nil) and was received in cash during the year.

29 Subsequent events

Management have given due consideration to any events occurring in the period from the reporting date to the date these Financial Statements were authorised for issue and have concluded that there are no material adjusting or non-adjusting events to be disclosed in these Financial Statements with the exception of the following:

In the period from 1 January 2023 to 2 March 2023 1,566,622 shares were purchased by the Company.

The Group requested a one-year extension to existing banking facilities which was granted by the banks in February 2023 and will now expire in October 2027.

On 4 January 2023 the Group acquired 100% of the issued share capital of Birch Close Trading Limited, and its subsidiaries, for a consideration of £4.7 million. The acquired group trades as Melrose Interiors ('Melrose'), which is the largest independent supplier to the UK online rug industry, and has operations in third-party logistics, recycling and an in-house rug, sampling and pattern book department. Melrose brings a number of new larger customers to the Group, including major high street and online retailers, a customer segment where the Group is targeting growth and will work with Melrose to scale up opportunities.

The financial effects of this transaction have not been recognised at 31 December 2022. The operating results and assets and liabilities of the acquired group will be consolidated from 4 January 2023.

Details of the consideration transferred are:

Purchase consideration	£M
Cash paid	4.1
Contingent consideration	0.6
Total purchase consideration	4.7

The fair values of the assets and liabilities of Birch Close Trading Limited group as at the date of acquisition are as follows:

Fair Value	£M
Property, plant and equipment	0.5
Right of use assets	2.7
Intangible assets	1.7
Inventories	1.8
Trade and other receivables	1.5
Cash and cash equivalents	0.4
Lease liabilities	(2.7)
Trade and other payables	(2.8)
Deferred tax liabilities	(0.4)
Net identifiable assets acquired	2.7
Goodwill	2.0
Net assets acquired	4.7

The goodwill is attributable to the access to new larger customers to the Group and the ability to produce sampling and pattern books in house. None of the goodwill is expected to be deductible for tax purposes.

The contingent consideration arrangement requires the Group to pay the former owners of the Birch Close Trading Limited group an amount of £0.8 million plus £2 for every £1 of EBITDA exceeding £1.0 million or minus £1 for every £1 miss of EBITDA of £1.0 million for the years ended 31 December 2023 and 31 December 2024 up to a maximum undiscounted amount of £3.0 million. EBITDA for the calculation of the contingent consideration is earnings before interest, tax, depreciation and amortisation. The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between £nil and £3.0 million. The fair value of the contingent consideration of £0.6m has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 4.6%.

The fair value of acquired trade receivables is £1.4 million. The gross contractual amount for trade receivables due is £1.4 million, with a loss allowance of £nil recognised on acquisition.

30 Group subsidiaries

Company	Holding	Type	Place of incorporation
HFD Limited	Direct	Trading	Great Britain*
MCD Group Limited	Direct	Trading	Great Britain*
CECO (Flooring) Limited	Indirect	Trading	Great Britain*****
Domus Tiles Limited	Indirect	Trading	Great Britain*
Headlam BV	Indirect	Trading	Netherlands**
Dersimo BV	Indirect	Trading	Netherlands****
LMS SA	Indirect	Trading	France***
Headlam (European) Limited	Direct	Holding Company	Great Britain*
Betu Holdings Limited	Indirect	Holding Company	Great Britain*****
Headlam Holdings BV	Direct	Holding Company	Netherlands**
Headlam SAS	Indirect	Holding Company	France***
Domus Group of Companies Limited	Direct	Holding Company	Great Britain*
Tileco (2012) Bidco Limited (in liquidation)	Indirect	Holding Company	Great Britain*
Tileco Group (2007) Limited (in liquidation)	Indirect	Holding Company	Great Britain*
Tileco Group Limited (in liquidation)	Indirect	Holding Company	Great Britain*
Yourfloors Limited	Direct	Dormant	Great Britain*
Crossforge Limited	Indirect	Dormant	Great Britain*
Headlam Group Employee Trust Company Limited	Direct	Dormant	Great Britain*
Headlam Group Pension Trustees Limited	Direct	Dormant	Great Britain*
Headlam Ireland Limited	Indirect	Dormant	Ireland******
Tileco Limited (in liquidation)	Indirect	Dormant	Great Britain*
Surface Tiles Limited (in liquidation)	Indirect	Dormant	Great Britain*
Gorsey Twenty One Limited	Indirect	Dormant	Great Britain*
Gorsey Twenty Two Limited (in liquidation)	Indirect	Dormant	Great Britain*
Gorsey Twenty Three Limited (in liquidation)	Indirect	Dormant	Great Britain*
Gorsey Twenty Four Limited (in liquidation)	Indirect	Dormant	Great Britain*

A subsidiary of the Company, Gorsey Twenty Limited, was dissolved on 19 April 2022.

The ordinary share capital of all of these subsidiaries are wholly owned. The principal activities of the trading companies are wholly aligned to the sales, marketing, supply and distribution of floorcovering and certain other ancillary products.

* Registered address for UK subsidiaries: PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW, UK.

** Registered address for these Dutch subsidiaries: Bettinkhorst 4, 7207 BP Zutphen, the Netherlands.

*** Registered address for French subsidiaries: 9-11 Rue de la litte, 92390, Villeneuve-la-Garenne, France.

**** Registered address for this Dutch subsidiary: Noordzee 12, 3144 DB, Maassluis, the Netherlands.

***** Registered address for these UK subsidiaries: Unit 5 Carryduff Business Park, Comber Road Carryduff, Belfast, County Down, BT8 8AN.

****** Registered address for Irish subsidiary: 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1.

FINANCIAL RECORD

	2022 £M	2021 £M	2020 £M	2019 £M	2018 £M
Trading results (Continuing operations)					
Revenue	663.6	667.2	609.2	719.2	708.4
Gross profit	219.5	220.5	188.9	229.4	229.1
Overheads	(180.3)	(183.2)	(171.0)	(187.2)	(184.8)
Underlying profit before net financing costs	39.2	37.3	17.9	42.2	44.3
Net financing costs	(2.1)	(1.5)	(2.0)	(2.7)	(0.9)
Underlying profit on ordinary activities before tax	37.1	35.8	15.9	39.5	43.4
Taxation	(7.4)	(9.2)	(3.9)	(6.9)	(7.8)
Underlying profit on ordinary activities after taxation – Continued operations	29.7	26.6	12.0	32.6	35.6
Underlying profit on ordinary activities after taxation – Discontinued operations	—	0.1	—	—	—
Profit/(loss) before tax	41.8	27.6	(17.1)	35.2	40.4
Shareholder value					
Earnings/(loss) per share for profit from continuing operations	40.1p	23.5p	(24.2)p	34.0p	40.0p
Underlying earnings per share for profit from continuing operations	35.5p	31.5p	14.3p	38.8p	42.5p
Earnings per share for profit from discontinued operations	—	5.3p	—	—	—
Paid interim and final dividend per share	14.8p	5.8p	7.55p	25.0p	24.8p
Paid special dividend per share	17.7p	—	—	—	—
Proposed special dividend per share	—	17.7p	—	—	—
Proposed dividend per share**	11.2p	8.6p	—	7.55p	25.0p
Declared dividend per share	—	—	2.00p	—	—
Net assets					
Non-current assets					
Property, plant and equipment	119.9	113.3	122.9	114.5	102.1
Right of use assets*	36.7	35.0	42.1	43.9	—
Intangible assets	17.8	18.1	21.1	48.5	50.9
Deferred tax assets	—	—	—	0.7	0.5
	174.4	166.4	186.1	207.6	153.5
Current assets					
Inventories	139.8	130.9	118.5	132.5	132.7
Trade and other receivables	119.1	114.0	101.6	123.7	119.0
Cash and cash equivalents	2.1	61.2	60.8	33.4	44.0
	261.0	306.1	280.9	289.6	295.7
Non-current assets classified as held for sale	—	—	0.4	—	—
	261.0	306.1	281.3	289.6	295.7
Total assets	435.4	472.5	467.4	497.2	449.2

	2022 £M	2021 £M	2020 £M	2019 £M	2018 £M
Current liabilities					
Bank overdraft	—	—	—	—	(0.2)
Other interest-bearing loans and borrowings	(0.3)	(0.6)	(2.0)	(0.2)	(0.2)
Lease liabilities*	(11.4)	(10.5)	(12.5)	(13.9)	—
Trade and other payables	(153.2)	(178.0)	(178.4)	(181.9)	(181.3)
Employee benefits	(1.0)	(1.0)	—	—	—
Income tax payable	(1.9)	(1.0)	(0.2)	(5.0)	(6.8)
	(167.8)	(191.1)	(193.1)	(201.0)	(188.5)
Non-current liabilities					
Other interest-bearing loans and borrowings	—	(6.9)	(7.2)	(6.2)	(6.8)
Lease liabilities*	(26.3)	(25.5)	(30.8)	(30.7)	—
Trade and other payables	—	—	—	—	(2.6)
Provisions	(1.7)	(2.7)	(2.1)	(2.3)	(2.2)
Deferred tax liabilities	(12.1)	(10.3)	(8.7)	(7.6)	(8.1)
Employee benefits	(2.7)	(3.9)	(5.5)	(4.3)	(5.9)
	(42.8)	(49.3)	(54.3)	(51.1)	(25.6)
Total liabilities	(210.6)	(240.4)	(247.4)	(252.1)	(214.1)
Net assets	224.8	232.1	220.0	245.1	235.1

* IFRS 16 adopted from 1 January 2019.

** Following the announcement on 25 March 2020, the 2019 final ordinary dividend was suspended, that had previously been detailed within the 2019 final results announcement.

The results for 2020 – 2018 within the financial record have not been re-presented to reflect the discontinued activity that occurred in 2021, they remain the historical results reported for the Group.

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