headlam

Sustainability Report

March 2023

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 growth and efficiency strategy, mitigation of risks and approach to corporate governance. 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 11 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 (www.headlam.com), 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 (see IBC), and we are committed to improving in all areas.

Chris Payne

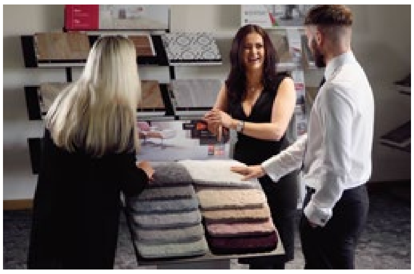
Chief Executive and
Chair of the ESG Committee

March 2023

[1] Stakeholders include regulators / legislators, customers, suppliers, shareholders, and sustainability rating agencies.

ESG STRATEGY

The key aims under the E, S and G pillars are given below, and capture and encapsulate the most material issues identified by the Materiality Assessment Mapping (below). Delivery on these aims is highly important to various of our key stakeholders, 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

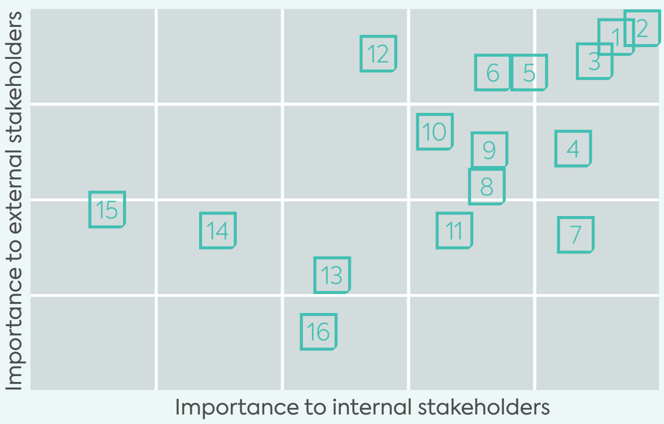
Governance

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 growth 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 suppliers

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 04 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 (www.headlam.com), 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.

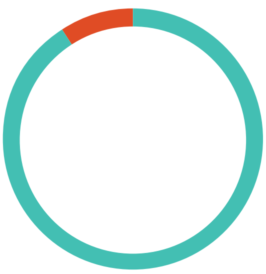
[2] Voluntary FORS Scheme demonstrating which fleet operators are achieving exemplary levels of best practice, including in efficiency and environmental protection.

[3] Not yet SBTi validated.

As disclosed within the Streamlined Energy and Carbon Reporting ('SECR') Disclosure on page 16, 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 Headlam, 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 c 18,722 cubic metres (2021: c 18,327 cubic metres) (UK only).

Scope 3 Emissions

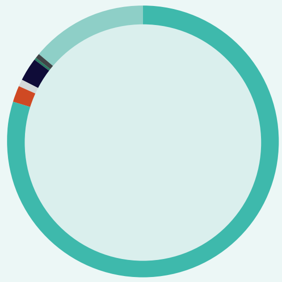
Following its first assessment in 2021, the Company has undergone its second exercise in measuring its Value Chain (Scope 3) emissions, and following the GHG Protocol Corporate Value Chain (Scope 3) Accounting Standard methodology.

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 on page 09, during 2022 the Company engaged with its suppliers on a Sustainability Charter which outlined minimum expected standards.

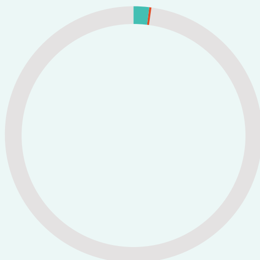
As detailed here, the Company's Scope 3 emissions far exceed and dwarf Scope 1 and 2 emissions. While the Company has a responsibility towards reducing these emissions, it is much harder to influence them. However, the Company anticipates increased engagement with suppliers on emissions and the Scope 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$_2$e)
- Capital goods 1.02% (10.41 ktCO$_2$e)
- Fuel and energy-related activities 0.41% (4.18 ktCO$_2$e)
- Upstream transportation and distribution 2.29% (23.32 ktCO$_2$e)
- Waste generated in operations 0.00% (0.03 ktCO$_2$e)
- Business travel 0.03% (0.35 ktCO$_2$e)
- Employee commuting 0.26% (2.67 ktCO$_2$e)
- End-of-life treatment of sold products 13.97% (142.17 ktCO$_2$e)

Total Scope 1, 2 and 3 Emissions: 1,034.29 ktCO$_2$e



- Scope 1 (Transportation operations and natural gas): 1.5% (15.10 ktCO$_2$e)
- Scope 2 (Purchased electricity and transportation): 0.1% (1.45 ktCO$_2$e)
- Scope 3 (Value Chain): 98.4% (1,017.73 ktCO$_2$e) activities

For more information see SECR Disclosure on page 16

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[1] 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] Headlam'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
- RIDDORs 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 (see IBC), 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.

[1] The Company to date has not compiled data for its Continental European operations which represent 12.9% of total revenue.

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.

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 will 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 Mapping 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. Several additional mitigating actions have been put in place to ensure both resilience and support delivery of the strategy. These include 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 11 to 15 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 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. The Company's most material ESG issues per the Materiality Assessment Map on page 02 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 02 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 03.

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 11.

This TCFD disclosure forms part of the Company's overall Sustainability Report, 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 the 2022 Annual Report and Accounts. Additionally, the Company publishes an annually updated Materiality Assessment Map. 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 the 2022 Annual Report and Accounts.

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 03 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.
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.
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 the geographies in which it operates (UK, France, and the Netherlands). 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. 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 on page 16) • 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 16. An ESG metric has been introduced into Executive Director and Executive Team performance related variable remuneration in 2023.
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 06.
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, 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, 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 03. 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

CONTACT DETAILS

For any questions or feedback in relation to this Sustainability Report, please email:
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Visit us online at www.headlam.com

HEADLAM: 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

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