headlam
group plc

Europe's leading floorcoverings distributor

Headlam Group plc
Annual Report and Accounts 2019

We've got it covered

Headlam Group plc is Europe's leading floorcoverings distributor, providing the distribution channel between suppliers and trade customers of floorcoverings.

Headlam provides suppliers with an unparalleled route to market for their products across the UK and certain Continental European territories. Customers receive a market-leading service through access to the broadest range of floorcoverings, unrivalled product knowledge and expertise, and next day delivery.

Operating for 28 years, Headlam has long-established supplier partnerships and customer relationships, and an extensive distribution network following years of considerable investment.

To find out more
visit us online at
www.headlam.com

Overview

Strategic Report

Governance

Financial Statements

Chief Executive's Welcome

I am pleased to welcome you to our 2019 Annual Report and Accounts. Considerable activity was undertaken during the year, and reflective of this, within this Report you will find refined strategic objectives following their review during 2019, articulated Company Values, detail of increased engagement with our workforce, enhanced reporting and disclosures on our Environmental activities, and detail of our full compliance with the requirements of the 2018 UK Corporate Governance Code. I hope you find this Report informative, and please do get in touch with any questions or feedback you may have.

Steve Wilson
Chief Executive

See Chief Executive's Review on page 14

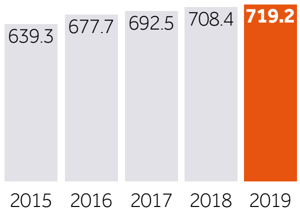
2019 Highlights*

Revenue

£719.2m

+1.5%

(2018: £708.4m)



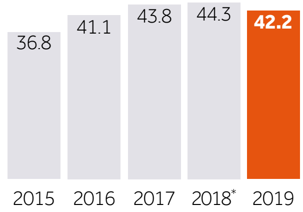
Underlying** operating profit

£42.2m

-4.8%

(2018: £44.3m, not restated*)

Statutory operating profit £38.3 million (2018: £41.3 million, not restated*)

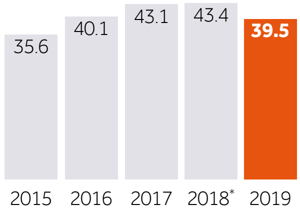


Underlying** profit before tax

£39.5m

-9.1%

(2018: £43.4m, not restated*)

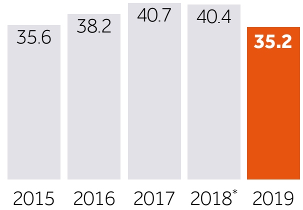


Statutory profit before tax

£35.2m

-13.0%

(2018: £40.4m, not restated*)

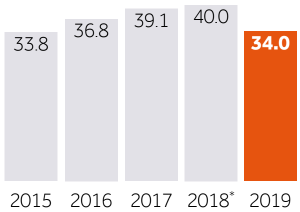


Statutory basic earnings per share

34.0p

-15.0%

(2018: 40.0p, not restated*)



Total ordinary dividend

25.0p

Maintained

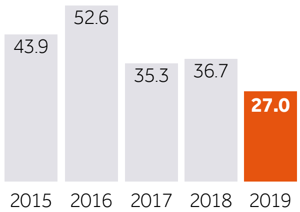
(2018: 25.0p)

Net cash position

£27.0m

-26.4%

(2018: £36.7m)



* The 2019 results have been prepared in accordance with the new IFRS 16 'Leases' accounting standard ('IFRS 16') effective for financial periods beginning on or after 1 January 2019. As the Company has adopted the modified retrospective approach, there has been no restatement of the comparatives for the 2018 reporting period. The impact on the Company's financial statements is detailed in the Notes to the Financial Statements (Note 11), with adjustments recognised in the Income Statement, Cash Flow Statement and Statement of Financial Position (Balance Sheet). There is no overall impact on the Company's cash and cash equivalents.

** Underlying is before non-underlying items which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees and associated restructuring costs, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, non-recurring pension costs in relation to guaranteed minimum pension ('GMP') equalisation, and non-recurring costs relating to senior personnel changes.

Operational Highlights

- Strategic focus on improving, growing and broadening position within the floorcoverings industry
- Scope of ongoing operational improvement programme enlarged, with the constituent projects designed to grow revenue and improve the customer service proposition, operating performance and margin
  - Roll-out of inventory management and automated stock re-ordering system completed as planned in 2019, with benefits including improved product availability and warehouse capacity becoming increasingly evident
  - Trial successfully completed in 2019 under the transport consolidation project, with phased roll-out stage now commenced ultimately leading to a decrease in the cost to serve
  - New regional distribution centre in Ipswich remains on track, with the facility due to become operational next month at a total cost of approximately £26.0 million
- ISO 45001:2018 accreditation, the world's first international standard for occupational health and safety management, achieved across all 18 UK national distribution hubs and regional distribution centres


038
499
002
427
408
379
883
070
721
617
770

Partnerships & scale covered

Over the 28 years we have been operating, we have focused on building long-term partnerships with our suppliers and customers. This focus, coupled with the longevity of our operations and substantial investment in the business and network, has resulted in us becoming Europe's leading floorcoverings distributor.

See more on page 10

Service & expertise covered

Our service proposition is focused on supporting our customers by providing a market-leading service with unparalleled product knowledge, expertise and solutions across the broadest range of floorcoverings, with a continual focus on enhancing the customer service proposition.

See more on page 10

Processing & delivery covered

Our considerable processing and delivery capabilities are enabled by our material handling expertise, specialised equipment and comprehensive distribution network, with 5.3 million customer orders being processed and fulfilled in 2019 on a next-day or collection basis.

See more on page 10

About Us

We are Europe's leading floorcoverings distributor

Operating for 28 years and employing 2,575 people, Headlam is Europe's leading floorcoverings distributor providing the distribution channel between suppliers and trade customers of floorcoverings.

Working in partnership with suppliers across the globe manufacturing a diverse range of floorcovering and ancillary products, Headlam provides an unparalleled route to market for their products across the UK and certain Continental European territories. Utilisation of an outsourced distribution channel enables suppliers to focus on their core manufacturing activities, incur reduced costs associated with distribution, and benefit from localised sales, marketing and distribution expertise.

To maximise customer and market penetration, and reflecting the regionalised nature of the marketplace, Headlam comprises 66 individual businesses in the UK and Continental Europe (France, the Netherlands and Switzerland). Each business operates under their own unique trade brand and utilise individual sales teams while being supported by the Company's centralised and financial resources and distribution network.

Headlam's extensive customer base spans both the residential and commercial sectors, with residential the predominate sector at 63.7% of revenue in 2019 and independent retailers and flooring contractors being the Company's two principal customer groups.

Headlam's customer service proposition is centred on supporting and assisting its customers' growth, and customers are provided with a market-leading service through:

- the broadest product offering;
- unrivalled product knowledge;
- marketing support and frequent interaction with sales teams;
- e-commerce support;
- provision of credit; and
- next day delivery, or collection utilising the Company's trade counter network.

The Company's 'just-in-time' delivery or collection negates the need for customers to invest in and hold meaningful levels of stock, additionally allowing for smaller premises and any associated rental commitments.

The Company's business is largely characterised by a high volume of smaller value orders and in 2019 Headlam processed and fulfilled 5.3 million customer orders. This capability is enabled by the Company's material handling expertise, specialised processing equipment including cutting tables and sortation units, and comprehensive distribution network.

Following years of considerable investment, Headlam's distribution network currently comprises four national distribution hubs, 19 regional distribution centres and a supporting network of smaller warehouse premises, trade counters, showrooms and specification centres. A new regional distribution centre is due to be operational for Easter 2020 following a £26 million investment.

Leading position for

28 years

Employees

2,575

Businesses

66

All data stated for the financial year ended 31 December 2019 or as at 31 December 2019

2019 Revenue

Residential sector	63.7%
Commercial sector	36.3%

UK	84.8%
Continental Europe	15.2%

1 UK
2 France
3 Switzerland
4 Netherlands

Countries of operations

4

Supplier countries

19

Distribution hubs and centres

23

Active customer accounts

70,458*

Customer orders processed

5.3m

* Across all the Company's businesses, and includes duplication

What we do

Suppliers

We work with suppliers across the globe manufacturing a diverse range of floorcovering products, and provide them with an unparalleled route to market.

Sales

Our extensive customer base spans both the residential and commercial sectors, with each of our businesses having an unique identity and sales team with unparalleled product knowledge.

Customer Service

Our service proposition is centred on supporting and assisting our customers growth, including through providing the broadest product offering and next day delivery.

Processing

Our ability to process a high volume of smaller value orders is enabled by our long-established operations and processes and material handling expertise.

Delivery

Following years of considerable investment, we have an extensive distribution network across the UK and certain Continental Europe territories which enables next day delivery or collection.

Chairman's Statement

Against a backdrop of general softness in the market, it was encouraging to have recorded revenue growth

Philip Lawrence Non-Executive Chairman

Against a backdrop of general softness in the market, it was encouraging to have recorded revenue growth on both an absolute and like-for-like* basis during the year and, despite the previously guided reduced profit performance compared with 2018, propose a final ordinary dividend in-line with the Board's previously stated intention to maintain the full year dividend with that of 2018.

Notwithstanding this performance, the market conditions that have been evident over the past two years combined with ongoing cost inflation have underscored the need for the business to become more effective and efficient in order to deliver higher levels of growth and improved performance.

Despite being a market-leader with unparalleled expertise and scale, there is still much we can do to improve, grow and broaden our position within the floorcoverings industry. In-line with this intent, we have introduced considerable additional expertise into the business and, over the past twelve months, have focused on reviewing and refining our strategy and the associated strategic objectives.

The strategic objectives support the delivery of revenue growth, a broadened position in the market, and an improvement to both customer service and margin. These objectives build upon our industry-leading position, and are intended to provide the basis for long-term sustainable growth.

The ongoing operational improvement programme is a key enabler of our strategy and strategic objectives, and the programme continues to be developed, enhanced in scope, implemented and rolled-out through a number of constituent and holistic projects. As well as leading to an increasingly positive impact on the Company's financial performance through revenue growth and margin improvement, it is designed to benefit all stakeholders, including our people through more efficient working processes, suppliers through increased and more productive collaboration, and customers through an enhanced service proposition including improved product availability and delivery.

We believe that a sustainable business is one which employs strong and well-defined Environmental, Social and Governance ('ESG') practices, and our strategic objectives and the supporting operational improvement programme will allow a more concerted focus and measurement of our ESG practices, particularly in the area of the safety and wellbeing of our people and the mitigation of our impact on the environment. 2019 saw the establishment of our Employee Forum strengthening engagement with our workforce and providing another mechanism from which to directly seek and act on employee feedback. The transport consolidation project, part of the operational improvement programme, provides a clear roadmap for a reduction in the commercial vehicles needed to service local areas and the attendant positive impact on the environment and communities due to lower carbon emissions and vehicle movements.

We are committed to continuing to invest in the business to support its sustainability and future success. Following on from 2019, and as previously announced, we have a substantial level of investment planned in 2020 to support our growth and improvement objectives. A highlight of 2020 will be the opening of our new regional distribution centre in Ipswich after a total capital investment of £26 million, with the centre supporting and improving customer service throughout the South East of England while enabling greater network and operational efficiency.

With a backdrop of clearly defined strategic objectives and the ever-increasing momentum and scope of our activities to support their delivery, we are increasingly optimistic in our ability to build upon and grow our leading position and deliver an associated improvement in financial performance.

I wish to thank all our colleagues for their ongoing hard work and commitment.

Philip Lawrence
Non-Executive Chairman

5 March 2020

* Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2019 and 2018 periods and is adjusted for any variances in working days

Investment Case**

Significant scale and longevity of operations underpinned by capital efficiency, progressive dividend policy, and operational improvement programme to improve performance.

Exposure to future UK economic growth.

Market Leader	• 28 years of operations, with market-leading position, people and expertise.	• Significant scale and market penetration, with centralised resources and multiple businesses.	• Increasing sustainability through broadening presence in the industry and growing in underweight product categories, customer groups and market segments.
Financial Strength & Dividend	• Strong balance sheet and cash generation, with cash generated from operations representing 146% of statutory operating profit in 2019.	• Net cash of £27.0 million as at period-end, and following capital expenditure of £18.3 million on new Ipswich regional distribution centre and existing network in 2019.	• Total ordinary dividend of 25.0 pence in 2019, and ongoing commitment to a progressive dividend policy.
Long-established Relationships	• Long-established supplier partnerships, working with 190 suppliers in 19 countries during 2019.	• Exceptionally broad and diverse customer base, with 5.3 million orders processed in 2019.	• Modest average order value of £136 reflecting RMI spend towards the lower-end of the range, with little reliance on larger projects and new construction activity.
Operational Improvement Programme	• Comprehensive programme underway to grow revenue and improve operating performance, the customer service proposition and margin.	• Early-stage financial contributions able to offset general non-employee related year-on-year inflationary pressures in 2019, with increasing future contributions able to enhance margin.	• Improvements to customer service already evident through increased product availability and more efficient delivery operations, which additionally reduces carbon footprint.
Extensive Network	• Extensive network and inventory supporting the customer service proposition, with inventory position of £132.5 million at period-end and improved management creating growth capacity.	• Largely freehold property portfolio underpinning value, with property, plant and equipment assets totalling £114.6 million.	• Substantial time and resources required to replicate network and service levels, creating a significant barrier to entry.

Commitment to the highest levels of corporate responsibility and governance further reinforces the Investment Case, see Corporate Responsibility on page 38 and Corporate Governance on page 58.

** All numbers given are for the financial year ended 31 December 2019 or as at 31 December 2019

Chief Executive's Review

Steve Wilson Chief Executive

We have in place a strategy that will support the delivery of revenue growth and an improvement to both customer service and profitability, and are pleased with the enlarged scope and increasing momentum of the supporting activities.

2019 Financial Performance
As per the guidance we gave in January 2019, we have reported a profit performance below that of 2018, with this reduction attributable to a number of factors including market conditions, ongoing cost inflation and regulatory requirements associated with accounting standards, all of which are detailed below.

It was reassuring that we were able to deliver results in-line with our January 2019 guidance, including a maintained dividend, given the backdrop of economic and political uncertainty and associated weak market that prevailed in the UK throughout the year, with the business demonstrating a degree of underlying resilience. In a soft market, which could have impacted us more greatly, we were able to maintain our trading performance throughout the year and additionally achieve some revenue growth on both an absolute and like-for-like* basis.

Total revenue grew 1.5% to £719.2 million (2018: £708.4 million) with growth in Continental Europe outperforming that of the UK, at 4.5% and 1.0% respectively, and leading to the UK accounting for a slightly reduced 84.8% of total revenue (2018: 85.3%). Following a like-for-like* increase of 3.2% in Continental Europe and 0.3% in the UK, total like-for-like* revenue growth was 0.7%.

Reflective of the weak UK residential sector and overall soft market conditions that have persisted since 2018, there was a continuation of the gradual shift in overall business mix towards the commercial sector which has proven to be the more resilient UK revenue stream. Conversely, in Continental Europe, the residential sector performed better than the commercial sector so, when combined with the marginal decline in UK residential performance, this resulted in total residential sector revenue being flat. In 2019, the residential sector accounted for a reduced 63.7% of total revenue (2018: 64.6%; 2017: 67.9%).

Despite the shift in business mix towards the lower-margin commercial sector, the gross margin was fairly resilient year-on-year at 31.9% (2018: 32.3%) and supported by ongoing pricing discipline across the group.

As described in detail within the Financial Review, the new IFRS 16 'Leases' accounting standard ('IFRS 16') became effective in the financial year, positively impacting reported operating profit while reducing reported profit before tax and, therefore, having a marginally adverse impact on earnings per share. The Company adopted the modified retrospective approach and, therefore, there is no restatement of the 2018 comparatives. Underlying operating profit and underlying profit before tax was £42.2 million (2018: £44.3 million) and £39.5 million (2018: £43.4 million) respectively. This performance was in-line with the Company's guidance at the beginning of 2019 that, due to the anticipated and aforementioned movement in revenue mix and associated margin, and early-stage contributions from the operational improvement programme not yet able to fully offset year-on-year inflationary cost pressures, underlying profit performance would be lower year-on-year.

However, we stated at the same time that despite the lower profit guidance, the Board intended to maintain the 2019 dividend in-line with that of 2018, being reflective of the Board's confidence in the Company's ability to improve future profitability.

* Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2019 and 2018 periods and is adjusted for any variances in working days

The following paragraphs provide detail on the strategy and associated activities which will support the delivery of this improvement, as well as detail on the declared and proposed maintained dividend for 2019.

Strategy and Operational Improvement Programme
As referred to in the Chairman's Statement, while we hold a leading position in our industry, there is much we can do to improve, grow and broaden our business. We remain underweight in certain product categories, customer groups and market segments which present both revenue and margin growth opportunities. Additionally, further revenue opportunity lies in improving our service proposition to customers, particularly in the areas of product availability and differentiation and tailored propositions for different customer groups.

Improvement is achieved by making the business more effective and efficient, which in tandem with revenue growth drives margin enhancement with a greater percentage of revenue drop-through to profit on our fairly fixed cost base. Our improvement activity encompasses greater collaboration with suppliers to improve buying and production scheduling, which in turn supports the increased product availability initiative, transport and delivery consolidation projects which reduce distribution costs, greater network optimisation, and the introduction of more efficient operating processes which additionally benefits our people and the environment.

The above aims form the basis of our strategy and strategic objectives which are supported by ongoing investment in people and capability, processes and the distribution network.

During 2019, considerable resource was focused on evaluating, developing and implementing the ongoing operational improvement programme which is a key enabler of our strategic objectives and designed to improve the customer service proposition, operating performance and margin. Much has been achieved in establishing the various constituent projects, which have additionally grown in scope, with their ongoing implementation and roll-out leading to an increasingly positive impact on financial performance.

The contribution from the operational improvement programme's earlier stage projects, largely in the area of a group procurement approach to goods not for resale and the extension of commercial and motor vehicle leasing contracts, amounted to over £1.0 million in 2019. This enabled us to offset general non-employee related year-on-year inflationary pressures during the year. This benefit is now embedded in the business and it is anticipated that the continued introduction, implementation and roll-out of various other projects during 2020 will provide an additional year-on-year benefit to the Company of approximately £1.0 million in 2020. This cost benefit will cover the additional investment required in the year to deliver on the constituent projects. 2021 and beyond is then anticipated to deliver progressive net contributions from the projects and overall programme to benefit operating margin. It is our overarching aim to enable the Company to consistently outperform the cyclical nature of the market in which we operate, establishing a higher level of growth and sustainably improving operating margin.

Of the constituent projects within the operational improvement programme, the roll-out of the inventory management and automated stock-reordering system to all UK sites was completed as planned at the end of 2019 with the benefits of improved product availability, stock-turn, warehouse capacity and improved supplier production scheduling becoming increasingly evident across the group. The transport consolidation project, focused around more effective delivery fleet utilisation, continues to be progressed following the successfully completed trial in South Wales during 2019 which validated the project. We have now moved to the phased roll-out stage, with this enabling a fuller quantification and realisation of a decrease in the cost to serve through an increased number of order drops per commercial vehicle combined with a reduction in the number of vehicles needing to service a local area. This project is not just of significance operationally and financially, but will additionally reduce our impact on the environment and local communities in which we operate through reduced transport emissions, air pollution and vehicle movements. Other projects centred upon enhancing customer service, including better tailored support and fulfilment propositions for different customer groups, is being supported by work undertaken in the area of customer insight and the resource added in the areas of operational support and customer engagement.

Our new regional distribution centre in Ipswich, described in detail below and due to be operational next month, is another key component in improving our performance through enabling greater network optimisation, operational efficiency, and improved customer service throughout the South East of England. Following the build-up of operations after its opening in Easter 2020, it is expected to become earnings enhancing during 2021.

We are pleased with the enlarged scope and increasing momentum of the operational improvement programme and its constituent projects following the considerable focus and attention deployed on fully defining and developing them throughout 2019 and into 2020. The programme provides a broad foundation for the delivery of an improving operating margin.

Investments and Capital Expenditure
2019 incorporated a planned substantial level of investment to support future growth and improved operational and financial performance, and as previously announced this will be continued in 2020.

Capital investment of £15.5 million was incurred during 2019 in relation to our new 190,000 square feet regional distribution centre in Ipswich, which remains on-track in terms of both cost and timing. The state-of-the-art facility with 10.6 million cubic feet of capacity is expected to become operational next month at a total cost of approximately £26.0 million, with the final tranche of £10.0 million being incurred during 2020 and forming the majority of the capital investment planned for the year.

The opening of the Ipswich distribution centre is an important milestone for us, and it would be an understatement to say it has been some years in the planning. I would like to thank everyone who has helped deliver this significant project for the group.

Chief Executive's Review continued

Acquisitions
We made one acquisition during the year, completing the purchase of the trade and assets of Edel Telenzo Carpets Ltd. ('Telenzo') in October 2019. Telenzo is the nationwide UK distribution company for Edel Carpets, a modern carpet producer located in the Netherlands owned by Condor Group, and is renowned for its wool tufted carpets and high-quality man-made fibre carpets for residential and commercial use. The business's operations were consolidated into our Tamworth distribution hub during 2019 creating operational efficiencies and continues to be operated day-to-day by its existing sales management team under its own trade brand.

Post the period-end, in March 2020, we completed the acquisition of Supertex Furnishing Limited ('Supertex') for a total consideration of £1.3 million, subject to finalising the net assets position. This acquisition enlarges our residential sector activities in the North West of England, a competitive region of the UK, and Supertex's main operations will eventually move to our existing premises in Stockport creating operating efficiencies.

We continue to monitor a targeted pipeline of acquisitions in-line with our strategic objectives of achieving meaningful growth and a broadened presence in the wider industry, including through product categories and market segments, and remain receptive to further opportunities.

People
As referred to in the Chairman's Statement, a wealth of additional experience and new expertise has been introduced into the business to help delivery of our strategic objectives. In addition to a fully assembled Board and Executive Team, we have made several key project manager and customer focused appointments to support the constituent projects of the operational improvement programme, and I am delighted to welcome them all to Headlam.

An ongoing priority is the continued development of a positive workplace culture, and we introduced a number of new forms of workforce engagement in 2019 as well as formulating a clear set of values and behaviours that will be utilised and embedded across the business. One of our core values is 'we keep people safe' and as part of this we undertook both internal and external assessments of our health and safety practices throughout 2019. Following a series of external audits, we were delighted that in October 2019, all the Company's UK national distribution hubs and regional distribution centres were certified as meeting the requirements of ISO 45001:2018, the world's first international standard for occupational health and safety management.

Dividend
In-line with the Board's previously stated intention to maintain the 2019 full year dividend with that of 2018, the Board has proposed a final ordinary dividend of 17.45 pence per share (2018: 17.45 pence per share) bringing the total ordinary dividend declared and proposed in respect of 2019 to a maintained 25.0 pence per share (2018: 25.0 pence per share). If approved by shareholders at the forthcoming AGM in May 2020, the final ordinary dividend will be payable on 1 July 2020 to shareholders on the register as at 5 June 2020.

Current Trading and Outlook
The spread of Coronavirus (COVID-19) has currently had no direct impact on our people, inventory position or customers. We have extensive inventories, breadth of product and a large geographical spread of suppliers. We continue to monitor the situation, put in place mitigation plans, and are communicating with our stakeholders as necessary.

Trading to date in 2020 has been marginally below the Board's expectations. Nevertheless, subject to no deterioration in market conditions or disruption, we continue to anticipate that this year's financial performance will show a modest improvement compared with 2019 as advised in the January 2020 Pre-Close Trading Update announcement. In-line with the Company's commitment to a progressive dividend policy, it is the Board's intention to reflect any increase in statutory basic EPS for 2020 in the 2020 full year dividend.

Steve Wilson
Chief Executive

5 March 2020

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 414CB of the UK Companies Act 2006, and this, taken together, comprises the Company's Non-Financial Information Statement.

Reporting Requirement	Section and page number
Matters	
Environmental matters	Our Strategy and Values (page 20) Introduction to Corporate Responsibility and ESG (page 38) Environment (page 50) Communities and Charitable Donations (page 53) Corporate Governance (page 58)
Employees	Shareholder Interaction and Engagement (page 40) Our People (page 46) Corporate Governance (page 58)
Social matters	Introduction to Corporate Responsibility and ESG (page 38) Shareholder Interaction and Engagement (page 40) Communities and Charitable Donations (page 53) Corporate Governance (page 58)
Respect for Human Rights	Shareholder Interaction and Engagement (page 40) Corporate Governance (page 58)
Anti-corruption and Anti-bribery matters	Corporate Governance (page 58)
Information disclosed in support of the Matters	
Business model	Our Business Model (page 22)
Policies pursued, due diligence processes implemented, and outcomes	Our People (page 46) Environment (page 50) Corporate Governance (page 58)
Principal risks, impact and mitigation	Risk Management and Principal Risks and Uncertainties (page 34)
Non-financial key performance indicators	Key Performance Indicators (page 32)

Our Marketplace

Overview

The UK floorcoverings market is both large and mature, with an estimated value of £2.1 billion* in 2019 expressed by reference to manufacturers' selling price, and is forecasted to grow at rates ranging from 2.2% to 3.1% per annum over the next five years**.

In macro terms, the market is divided between the residential and commercial sectors, with the key drivers of demand being Repair, Maintenance and Improvement ('RMI') spend, new construction activity, and housing transactions.

The residential sector, which accounts for approximately two-thirds of the value of the market, is largely comprised of end-consumers undertaking home improvement and refurbishment activity. This is characterised by a very high volume of small value orders which are mostly discretionary in nature and towards the lower-end of the RMI spending range.

Activity within the commercial sector is far broader, encompassing both private and public spending across a wide variety of environments including private and public housing developments, healthcare and educational establishments, retail premises, offices and the hospitality sector. Order values span a wide spectrum, encompassing very large through to modest.

While demand in both the residential and commercial sectors has a cyclical profile and is influenced by consumer and business confidence and economic and political backdrops, the commercial sector has a lesser discretionary aspect to it and hence a higher degree of resilience in the face of weaker market backdrops. This is attributable to increased H&S regulations and the requirement for clean, comfortable, fit-for-purpose environments meaning that, for example, while deferral can occur due to limited budgets, replacement of floorcoverings has to be undertaken periodically.

Manufacturers of floorcoverings are instrumental in creating demand through continuous product innovation and development, with certain product categories increasing in popularity and market share in recent years due to manufacturers' technical advancements and changes in consumer tastes, for example an increased preference for hard-surface flooring in downstairs areas. The value of the market is affected by both volume and price, with manufacturers' selling price subject to change due to external factors such as fluctuations in exchange rates and raw material prices. However, demand for floorcovering products tends to be inelastic to price increases due to the huge proliferation of products available in the marketplace at all price points, and the relative infrequency of purchase by the end-consumer.

Headlam within the Marketplace

The marketplace has a highly fragmented customer base which gives rise to a significant proportion of manufacturers choosing to utilise a specialised national distributor such as Headlam rather than selling direct, thereby reducing their distribution costs and benefiting from the distributor's localised sales, marketing and distribution expertise.

Headlam's customer base is principally comprised of independent floorcovering retailers and smaller flooring contractors which gives rise to the Company fulfilling a high volume of smaller value orders, with 5.3 million orders processed in 2019 at an average order size of £136. These two customer groups have been considered the more resilient during the last two years which have seen generally restrained markets. This is attributed to the fact that they typically aren't encumbered with large overheads or commitments, including large premises and high property rent, and are able to quickly adjust their business models and sustain their businesses during weaker market backdrops.

Headlam's predominate customer profile means that the Company has little forward visibility on orders and a very limited order book. However, this customer profile greatly lessens the Company's exposure to new construction work and associated large-scale projects which are generally more affected by weaker market backdrops due to more meaningful degrees of deferral or cancellation.

The Company's revenue growth in recent years despite muted levels of housing transactions indicates that the Company's performance is not predicated on housing transactions, rather that they augment the Company's growth rates when property markets are more buoyant. Therefore, of the three key drivers of demand detailed above, RMI spend, towards the lower end of the scale, is the predominate driver and under pinner of the Company's performance.

Sustainability of the Industry

The floorcoverings industry as a whole is responding to the impact of Climate Change by undertaking actions and initiatives aimed at reducing its environmental impact, including through the development of increasingly sustainable and recyclable products. Working as part of this response, Headlam is committed to mitigating its own direct impact which arises predominately from transport emissions while additionally partnering with manufacturers to support the development, production and marketing of sustainable and recyclable products into the marketplace.

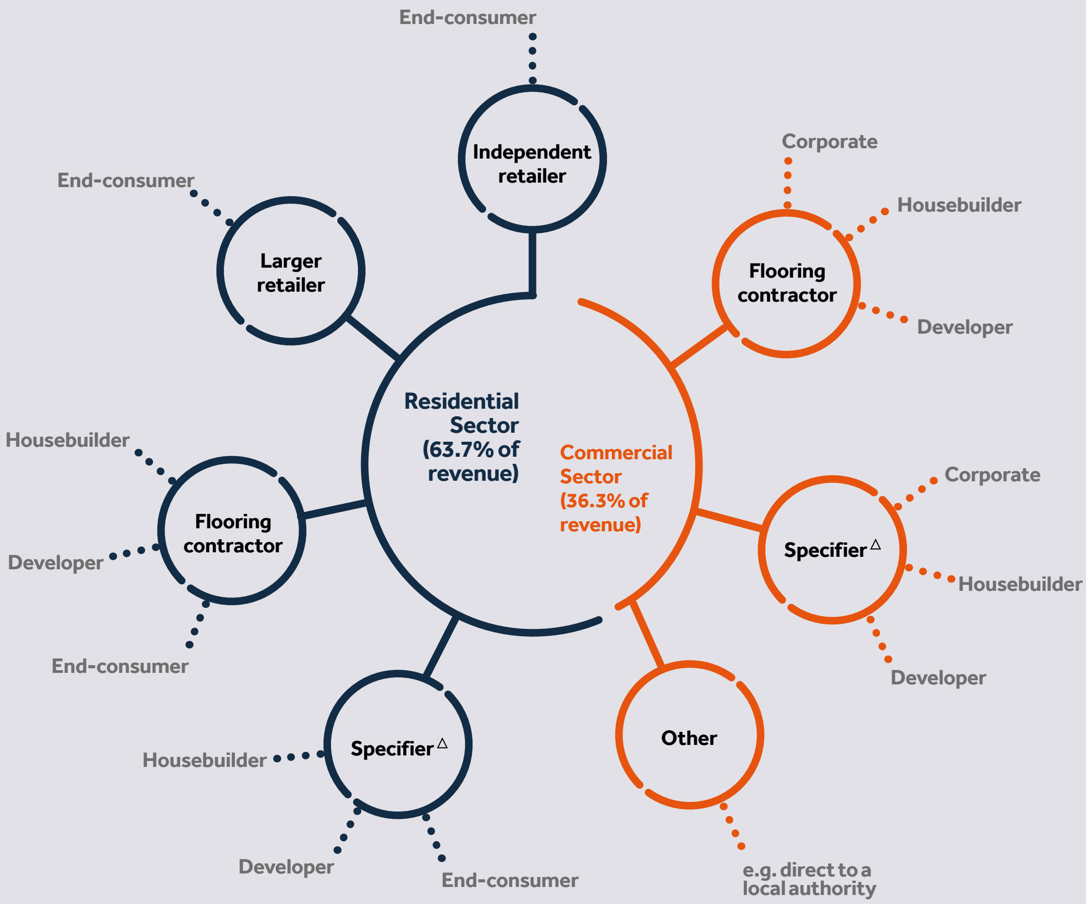
See Introduction to Corporate Responsibility and ESG, and Environment on pages 38 and 50 respectively

* Source: AMA Research
** Source: AMA Research, MTW Research, Mintel

UK Market Value

£2.1 billion*

Headlam's Marketplace and Customer Base



△Including architects and interior designers who determine the products to be used on a project

Our Strategy

Our strategy is to build a successful company, positively impacting all stakeholders, and delivering sustainable long-term value.

Mission

Provide our customers with a market leading service with unparalleled product knowledge and solutions across the broadest range of floorcoverings by working in partnership with our suppliers.

Vision

To build on our market leading position by offering excellent customer service and solutions across all areas of the floorcoverings industry, and work with suppliers to support the manufacture and marketing of innovative and sustainable products.

Strategic area	Strategic objectives		
Industry position	• Grow leading position through improved performance and increased sales across all customer groups.	• Broaden presence in the industry through growing in underweight product categories, customer groups and market segments.	• Ongoing investment in the network and people to support future growth and the sustainability of the Company.
Operational Performance	• Roll-out of the operational improvement programme to improve both the operational and financial performance of the Company.	• Improve inventory management and product availability, while creating capacity for growth.	• Continued collaboration between the Company's businesses and greater network optimisation.
Customers and Service	• Continue to improve the customer service proposition through greater insight into the differing customer groups' preferences and requirements.	• Continue developing tailored propositions specific to each customer group in both the residential and commercial sectors.	• Enhance e-commence support for customers, including an improved transactional B2B website.
Product and Expertise	• Remain leaders in product knowledge and expertise, with improvements in sales force development and CRM systems.	• Enhance the product offering through increased product differentiation and exclusivity.	• Grow sustainable product offerings and support recyclable products.
Suppliers	• Build upon existing partnerships with suppliers through increased engagement and a shared value proposition.	• Work with suppliers to improve production scheduling and buying.	• Support suppliers in new product development and the marketing of innovative and sustainable products.
People and Communities	• Continue to develop a positive workplace culture through colleague engagement, and embed a clear set of values and behaviours in the business.	• Focus on the provision of a safe and inclusive working environment where everyone can fulfil their potential.	• Reduce the Company's direct environmental footprint including through transport efficiency initiatives and energy efficient technologies.

Our Values


Teamwork
We work together and support each other
Service
We go the extra mile to deliver excellent customer service
Safety
We keep people safe
Headlam Values
Partnerships
We build long-term partnerships with our customers and suppliers
Innovation
We provide customers with a choice of innovative products and solutions
Support
We offer unparalleled product knowledge and expertise

Our Business Model

Creating long-term sustainable value

Headlam provides the distribution channel between suppliers and trade customers of floorcoverings

Global manufacturing supplier base

SUPPLIERS
Receive an unparalleled route to market for their products and a partnership approach

headlam

Leading expertise and market position

28 years
2,575 employees

Broadest product offering and knowledge

19 supplier countries

+36,000 SKUs

Financial track-record and strength

£27.0m net cash

£44.3m net cash flow*

Greatest market and customer peneration

66 businesses

70,458 customer accounts**

Extensive network and processing capabilities

23 distribution hubs and centres

5.3m orders

CUSTOMERS
Receive the broadest product offering supported by a market leading service

Trade customers of floorcoverings

See Our Marketplace on page 18

* Net cash flow from operating activies.
** Across all the Company's businesses, includes duplication.

All data stated for the financial year ended 31 December 2019 or as at 31 December 2019.

Creating long-term sustainable value for all stakeholders

Suppliers

Utilisation of an outsourced distribution channel enables suppliers to focus on manufacturing, benefit from sales expertise, and reduces the costs associated with distribution.

Work as a partnership to support the manufacture and marketing of innovative and sustainable products, and improve production scheduling.

Customers

Help customers grow their businesses through frequent interaction with sales teams, marketing and technical support, and the provision of credit.

Cater to the customers' specific service requirements, and provide next day delivery and trade counter collection which mitigates the need to hold stock.

Workforce and Communities

Enhanced engagement activities and workforce participation in the strategy and sustainability of the Company, and sharing in the financial success.

Embedding values and behaviours into the culture of the Company to increase sense of teamwork, wellbeing and community.

Shareholders

Commitment to maintaining a strong balance sheet and progressive dividend policy, with focus on improving performance and broadening presence in the industry.

Uphold the highest levels of corporate governance and focus on ESG practices to ensure the long-term sustainability of the Company.

Supported by ongoing investment in the business

See Stakeholder Interaction and Engagement on page 40

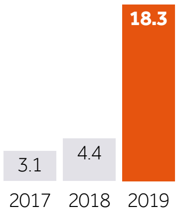
Financial Review

Chris Payne Chief Financial Officer

Cash generation remained strong, with cash generated from operations representing 146% of statutory operating profit, equating to 107% (2018: 121%, not restated[1]) after adjusting for the IFRS 16 lease principal repayments.

Key metrics

Capital expenditure

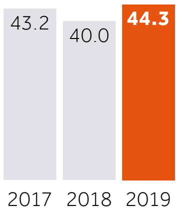


£18.3m

+315.9%

(2018: £4.4m)

Net cash flow from operating activities

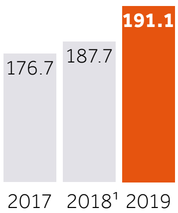


£44.3m

+10.5%

(2018: £40.0m)

Total expenses

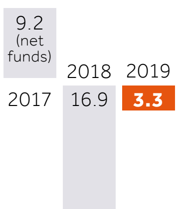


£191.1m

+1.8%

(2018: £187.7m, not restated[1])

Average net debt



£3.3m

-80.5%

(2018: £16.9m)

See KPIs on page 32

[1] The 2019 results have been prepared in accordance with the new IFRS 16 'Leases' accounting standard ('IFRS 16') effective for financial periods beginning on or after 1 January 2019. As the Company has adopted the modified retrospective approach, there has been no restatement of the comparatives for the 2018 reporting period. The impact on the Company's financial statements is detailed in the Notes to the Financial Statements (Note 11), with adjustments recognised in the Income Statement, Cash Flow Statement and Statement of Financial Position (Balance Sheet). There is no overall impact on the Company's cash and cash equivalents.

Like-for-like[2] revenue growth

0.7%

Gross margin

31.9%

Underlying[3] operating margin

5.9%

IFRS 16 'Leases' Accounting Standard
These results have been prepared in accordance with International Financial Reporting Standards and, therefore, include the new IFRS 16 'Leases' accounting standard ('IFRS 16') effective for financial periods beginning on or after 1 January 2019. As the Company has adopted the modified retrospective approach, there has been no restatement of the comparatives for the 2018 reporting period. The impact on the Company's Income Statement and Statement of Financial Position is summarised below and further detailed in Note 11 to the Financial Statements. There is no overall impact on the Company's cash and cash equivalents.

Summary tables of impact of IFRS 16 adoption

Impact on the Income Statement	Financial year ended 31 December 2019	
	Under new IFRS 16 standard £000	Under previous standard £000
Costs charged to operating profit	15,260	16,375
Interest expense	1,688	–
Total costs charged to the income statement	16,948	16,375
Net impact and effect on statutory basic earnings per share	573	0.6 pence

Impact on the Statement of Financial Position	As at 1 January 2019
	£000
Operating lease commitments as disclosed at 31 December 2018	50,436
Additional liabilities on adopting IFRS 16*	4,065
Discount effect	(4,673)
Lease liability recognised at 1 January 2019	49,828
Of which current liabilities	13,930

* See Note 11 to the Financial Statements

Revenue
During the year and against the backdrop of a soft market, total revenue improved marginally by 1.5% from £708.4 million to £719.2 million, an increase of £10.8 million. Like-for-like² revenue increased in both the UK and Continental Europe, by 0.3% and 3.2% respectively, producing a total like-for-like² revenue increase of 0.7% (2018: total like-for-like² revenue decline of 3.8%).

UK
The Company's UK revenue performance, which accounted for 84.8% of total revenue, was £6.0 million up on 2018 at £610.2 million (2018: £604.2 million), reflecting a continued weak market backdrop particularly in the residential sector that has been evident over the last two years. The five UK acquisitions made during 2018 and 2019 added £6.6 million of revenue in 2019 and, therefore, excluding the impact of the acquisitions, revenue was almost flat.

The residential sector represented 65.1% of UK revenue in 2019 (2018: 66.3%), representing a reduction of 0.8% and 1.4% on an absolute and like-for-like² basis respectively. As a consequence, there was a continued shift in the business mix towards the commercial sector which has been the more resilient business stream, representing 34.9% of UK revenue in 2019 (2018: 33.7%; 2017: 29.6%). The year-on-year commercial revenue increase on an absolute and like-for-like² basis was 4.6% and 3.8% respectively.

Continental Europe
The Continental European businesses growth outperformed the UK, delivering a 4.5% increase in revenue to £109.0 million, with a 3.2% increase on a like-for-like² basis. Continental Europe accounted for 15.2% of total revenue in 2019, up from 14.7% in 2018. In contrast to the UK, the weighting between the residential and commercial sector revenue showed a movement towards residential which performed more strongly with 5.9% like-for-like² growth and now accounting for 56.0% of revenue (2018: 54.7%; 2017: 52.6%). The commercial sector was essentially flat during the period on a like-for-like² basis.

2 Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2019 and 2018 periods and is adjusted for any variances in working days.
3 Underlying is before non-underlying items which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees and associated restructuring costs, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, non-recurring pension costs in relation to guaranteed minimum pension ('GMP') equalisation, and non-recurring costs relating to senior personnel changes.

	£000	%	£000	%
Revenue for the year ended 31 December 2018				
UK	604,150	85.3		
Continental Europe	104,273	14.7		
			708,423	100.0
Incremental items during the 12-month period to 31 December 2019				
UK:				
Like-for-like[2]	1,897	0.3		
One less working day	(2,396)	(0.4)		
Acquisitions	6,591	1.1		
			6,092	1.0
Continental Europe:				
Like-for-like[2]	3,157	3.2		
Changes in working days	(642)	(0.6)		
Acquisitions	2,562	2.5		
Translation effect	(355)	(0.4)		
			4,722	4.5
Total movement			10,814	1.5
Revenue for the year ended 31 December 2019				
UK	610,242	84.8		
Continental Europe	108,995	15.2		
			719,237	**100.0**

2 Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2019 and 2018 periods, and is adjusted for any variances in working days.

Gross Margin
Gross margin reduced by 40 basis points in the year from 32.3% to 31.9%. This was due, in part, to the shift in product mix towards the lower margin commercial sector as a result of the weakness in the UK residential sector, with the balance arising from general pricing movement and the one-off prior year benefit resulting from the trade creditor early settlement discount disclosed in the 2018 financial results.

Expenses
Combined distribution costs and administrative expenses were marginally up on both an underlying and statutory basis year-on-year, at £187.3 million and £191.1 million respectively, although this included a £1.1 million reduction benefit due to the reclassification of costs under IFRS 16 adoption (2018: £184.8 million and £187.7 million respectively, not restated). The increase was driven by one acquisition in the year, detailed below, and the full year impact of acquisitions made in 2018 offset by reductions in vehicle expenses. People costs were largely flat year-on-year (excluding the effects of acquisitions), however, this includes a reduction in pension costs largely related to the defined benefit schemes, a reduction in share-based payments, and a reduction in the number of employees of 40, offset by a 2% cost of living award and the restoration of performance target bonuses.

The primary contributors to the early phases of the operational improvement plan were the group procurement initiatives on goods not for resale and the extension of commercial and motor vehicle leasing contracts delivering an accumulated cost saving of over £1.0 million in 2019 which compensated for inflationary pressures elsewhere.

Underlying distribution costs and administrative expenses expressed as a proportion of total revenue was essentially flat compared with 2018 at 26.0% (2018: 26.1%), and relative proportions of distribution costs and administrative expenses as a percentage of total underlying expenses for 2019 remained largely consistent at 72.5% and 27.5% respectively (2018: 72.7% and 27.3%, not restated).

Items totalling £4.3 million (net) have been treated as non-underlying in 2019 (2018: £2.9 million). These non-underlying items related to the amortisation of acquired intangible assets and impairment of goodwill (£3.5 million), acquisition related fees and associated restructuring costs (£0.7 million), the movements in deferred and contingent consideration (reducing by £0.3 million), and finance costs on deferred and contingent consideration (£0.4 million). These are discussed in detail in Notes 1 and 3 to the Financial Statements and referred to below.

	Total expenses		Distribution		Administration	
	£000	%	£000	%	£000	%
Expenses for 2018 (not restated)	187,743		134,316	71.5	53,427	28.5
Significant movements in 2019:						
People cost	136	3.9	1,185	78.4	(1,049)	(52.2)
Vehicle expenses	(1,564)	(44.4)	(1,651)	(109.2)	87	4.3
Legal and professional	1,191	33.8	–	–	1,191	59.2
Occupancy costs	626	17.8	–	–	626	31.1
Effect of acquisitions	1,888	53.6	1,247	82.4	641	31.9
Impact of IFRS 16	(1,116)	(31.7)	–	–	(1,116)	(55.5)
Other	1,420	40.3	731	48.4	689	34.2
Underlying sub total	2,581	73.2	1,512	100.0	1,069	53.1
Non-underlying	943	26.8	–	–	943	46.9
Total before currency translation	3,524	100.0	1,512	100.0	2,012	100.0
Currency translation	(124)		(90)		(34)	
Expenses for 2019	**191,143**		**135,738**	71.0	**55,405**	29.0

Operating Profit
As a consequence of the weak market backdrop contributing to relatively flat like-for-like² revenue growth and a slight reduction in gross margin, absolute gross profit was flat year-on-year at £229.4 million (2018: £229.1 million) despite a year-on-year £2.7 million gross profit benefit from acquisitions. Therefore, after factoring in the £2.5 million increase in underlying expenses largely arising from the acquisitions, underlying operating profit was down £2.1 million on 2018 at £42.2 million (2018: £44.3 million, not restated) with an underlying operating margin of 5.9% (2018: 6.2%, not restated). Statutory operating profit was £38.3 million (2018: £41.3 million, not restated).

	Underlying £000	Non-underlying £000	Total £000
Operating profit 2018 (not restated)	44,273	(2,942)	41,331
Gross margin improvement in 2019:			
Volume benefit	532	–	532
Mix change	(660)	–	(660)
Pricing movement	(1,174)	–	(1,174)
Anticipated trade creditor settlement discount	(1,049)	–	(1,049)
Effect of acquisitions	2,689	–	2,689
	338	–	338
Expense changes			
Distribution	(175)	–	(175)
Administration	(394)	(943)	(1,337)
Effect of acquisitions	(1,888)	–	(1,888)
Total increase	(2,457)	(943)	(3,400)
Operating profit 2019	**42,154**	**(3,885)**	**38,269**

Profit and EPS
The adoption of IFRS 16 impacted underlying profit before tax and statutory basic earnings per share through a reduction of £0.6 million and 0.6 pence respectively. Underlying profit before tax was £39.5 million (2018: £43.4 million, not restated), statutory profit before tax was £35.2 million (2018: £40.4 million, not restated) and statutory basic earnings per share 34.0 pence (2018: 40.0 pence, not restated). Statutory profit before tax and statutory basic earnings per share were further impacted by a goodwill impairment described below.

Tax
The underlying effective tax rate for 2019 was 17.4% (2017: 17.9%) which is lower than the headline rate of corporation tax in the UK of 19.0%. This difference is largely due to an adjustment in recognising deferred tax assets relating to the Headlam BV business in the Netherlands and a reassessment of the need to provide for uncertain tax positions following the ongoing review of tax risks in the Company. The full effective rate of tax in 2019 was 18.8% (2018: 17.2%), up on 2018 due to the effect of the non-underlying items.

Financial Review continued

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 with a level of tax compliance risk that is rated as 'low'. HM Revenue & Customs advised in September 2019 that the Company's low risk rating had been renewed for another three years.

Ordinary Dividends
When declaring the interim and recommending the final ordinary dividend, the Board considers the Company's cash resource, adequacy of distributable reserves and future expectations of performance.

The total ordinary dividend payable in respect of 2019 equates to an earnings per share cover ratio of 1.4 (2018: 1.6, not restated), cash outflow of £20.9 million, and reflects a free cash flow (cash from operating activities less capital equipment spend) cover ratio of 1.2 (2018: 1.7) reflecting the expenditure on the Ipswich facility during the year, detailed below.

Dividend announcements, approvals and payments are typically expected to be as follows:

Dividend	Status and date announced	Approval	Approximate payment date
Ordinary interim	Declared August	The Board August	January in the year following announcement
Ordinary final	Recommended March	AGM by shareholders May	July

Acquisitions, Related Goodwill and Other Intangible Assets
The Company completed one acquisition during the year, purchasing the trade and assets of Edel Telenzo Carpets Ltd. ('Telenzo') for a total consideration of £2.1 million, with the business contributing revenue of £1.7 million and an operating profit of £0.3 million in the year. The acquired assets included intangible assets of £0.9m which were attributed to brand name, customer relationships and supply agreements with residual goodwill of £0.3m. During the year, £25,000 of intangibles were amortised in the Income Statement.

The Company acquired five businesses in 2018, and the fair values of the assets and liabilities acquired were reconsidered for 2019 as part of the hindsight period, with no adjustment considered necessary. One of the businesses, CECO (Flooring) Ltd ('CECO'), a leading specification business based in Carryduff, south of Belfast, outperformed management expectations and as a result the outstanding contingent consideration under the terms of the acquisition was paid in full during the year. This led to a reversal of part of the discounting applied on the original acquisition and a total consideration payment above that provided on acquisition due to the strength of the business performance. These amendments are included as non-underlying items in the Income Statement.

Domus Group of Companies Limited ('Domus') was acquired in December 2017, and during 2019 deferred consideration of £1.6 million became payable which was partly satisfied by the issue of 88,350 new ordinary shares of 5 pence each in the capital of the Company. The original contingent consideration relating to the acquisition has now been fully released to the income statement as a non-underlying credit since the likelihood of achieving the EBITDA criteria required to trigger any contingent consideration payments is considered to be very low. Additionally, based on the Board's assessment of the carrying value of the investment in the Domus business, a goodwill impairment of £2.1 million has been recognised within non-underlying items in the year. Due to its predominant focus on larger scale projects within the London area, the Domus business in particular has been adversely affected by the weak market backdrop and political and economic uncertainty that has prevailed over the last two years, and which has particularly impacted investment in the London market. Although the market is anticipated to recover, the Board felt it prudent to take a more cautious view on the revenue recovery in Domus and hence to take a write-down reflecting an impairment in the carrying value as at the 31 December 2019. This assessment is sensitive to assumptions used by the Board in reviewing the carrying value and they are disclosed in more detail in the Financial Statements.

Retirement Benefits
The Company operates two defined benefit pension schemes, in the UK and in Switzerland, the assets and liabilities of which are dominated by the UK scheme which is closed to new members.

The year-on-year decrease in the net liability amounts to £1.6 million. This was mainly caused by the changes in the UK scheme's financial assumptions, where 70% of retiring members are now assumed to commute their pensions by taking the maximum tax-free cash element allowed (2018: nil), salary and pension increases are assumed to rise in-line with RPI (3.1%, 2018: 3.4%), a 0.7% decrease in the discount rate to 2.0%, together with positive changes in the scheme's asset performance.

The Company reviewed its pension arrangements in 2019, and in particular the future build-up of final salary benefits in its UK Defined Benefit Pension Scheme ('UK DB Scheme'). As stated above, the Company closed the UK DB Scheme to new entrants many years ago. Since then, new employees have been eligible to join the Defined Contribution Pension Plan. The Company wishes to provide sustainable and competitive pension benefits for all its employees, and during 2019 consultation began on the closure of the UK DB Scheme to future accruals, with its closure from the end of

March 2020 reducing an area of risk and volatility for the Company and providing fairer pension provision across the workforce. Various adjustments were made in response to feedback from affected members following the consultation, including adjustments to ongoing benefits and the date of closure of the scheme. Affected members will automatically be enrolled into the Company's Defined Contribution Pension Plan.

Capital Allocation, Investment Decisions and Return on Capital
The Board is committed to ensuring the efficient allocation of capital, with a clear strategy for sustainable growth, with controls in place to govern capital expenditure and working capital.

The Board routinely reviews organic growth opportunities and associated investment, value enhancing acquisitions, and shareholder returns to ensure the Company deploys an optimal capital structure. Such investment opportunities are subject to both internal rate of return and cash flow payback criteria, regularly reviewed by the Company to ensure consistency of assessment.

Return on Capital Employed, measured as earnings before interest and taxes ('EBIT') as % of capital employed, in 2019 was 20.3% (2018: 23.2%, not restated).

Capital Expenditure
The Company incurred a replacement level of capital expenditure on its land and buildings of £0.2 million during the year (2018: £0.4 million), and capital expenditure on plant and machinery of £2.6 million (2018: £3.5 million).

Total capital expenditure on the new Ipswich regional distribution centre continues to be estimated to be in the region of £26.0 million, with £0.5 million spend incurred in 2018, £15.5 million incurred in 2019 (including land acquisition cost of £4.0 million), and the balance of £10.0 million in 2020.

Cash Flows
Net Cash Flow from Operating Activities
During the year, net cash flow from operating activities was £44.3 million (2018: £40.0 million) with the key drivers behind this positive cash flow generation shown below.

	2019 £000	2018 £000
Cash flows from operating activities		
Profit before tax for the year	**36,169**	40,447
Net finance cost	**3,100**	884
Depreciation of property, plant and equipment, amortisation and impairment	**8,898**	7,038
Depreciation of right of use asset	**15,260**	–
Profit on sale of property, plant and equipment	**(60)**	(50)
EBITDA	**62,367**	48,319
Share-based payments	**807**	1,478
Working capital changes	**(7,213)**	209
Cash generated from the operations	**55,961**	50,006
Interest paid	**(3,407)**	(1,426)
Tax paid	**(8,289)**	(7,789)
Additional pension contributions	**–**	(747)
Net cash from operating activities	**44,265**	40,044

Cash generated from operations remained strong in the year despite the weaker trading backdrop, being 146% of statutory operating profit and 107% (2018: 121% not restated) after adjusting for the principal elements of lease payments resulting from IFRS16 adoption.

Financial Review continued

Cash Flows from Investing and Financing Activities

The table below summarises the cash flow movements arising from investing and financing activities during the year. The overall net cash outflow from the two activities was £54.5 million, with the main factors being the dividends paid (£20.9 million), investment in capital equipment (£15.8 million), and the inclusion of lease payments for the right of use assets introduced following the adoption of IFRS 16.

	2019 £000	2018 £000
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash and debt acquired and repaid	**(4,448)**	(9,576)
Acquisition of property, plant and equipment	**(15,777)**	(4,384)
Proceeds from sale of property, plant and equipment	**130**	403
Interest received	**857**	601
Net cash from investing activities	**(19,238)**	(12,956)
Cash flows from financing activities		
Shares acquired and issued	**825**	(4,764)
Net movement on borrowings	**(229)**	211
Principal elements of lease payments	**(14,880)**	–
Dividends paid	**(20,941)**	(20,969)
Net cash from financing activities	**(35,225)**	(25,522)

Net Funds

Net funds at the year-end decreased to £27.0 million from £36.7 million in 2018 as a result of the net cash outflows arising from operating, investing and financing activities outlined above. During the year, this included net cash outflows totalling £15.3 million on the Ipswich distribution centre and Telenzo acquisition.

In both 2018 and 2019, the Company drew-down on its banking facilities during the year in-line with the normal swings in working capital. Average net debt in 2019 was £3.3 million (2018: £16.9 million net debt).

	At 1 January 2019 £'000	Cash flows including acquisitions £'000	Foreign exch/other movement £'000	At 31 December 2019 £'000
Cash at bank and in hand	44,005	**(10,403)**	**(217)**	**33,385**
Bank overdraft	(221)	**205**	**6**	**(10)**
Debt due within one year	(236)	**229**	**(215)**	**(222)**
Debt due after one year	(6,805)	**–**	**604**	**(6,201)**
	36,743	**9,969**	**178**	**26,952**

Funding and Going Concern

On 5 August 2019, the Company completed a refinancing of its existing banking facilities to extend their term from 14 December 2021 to 30 April 2023. The Company has maintained its two agreements with Barclays Bank PLC and HSBC Bank Plc, but decreased the level of Sterling committed facilities from £72.5 million to £68.5 million and increased its Euro committed facilities from €8.6 million to €9.6 million. The Company also has short-term uncommitted facilities which continue at £25.0 million, and are renewable on an annual basis. The total banking facilities available at 31 December 2019 were £109.7 million (2018: £112.8 million).

The Company maintains sufficient banking facilities to fund its operations and investments, and as at 31 December 2019, 94.1% of the total facilities were undrawn as shown below.

	Drawn £'000	Undrawn £'000	Total facility £'000
Less than one year	**232**	**32,817**	**33,049**
Over one year and less than five years	**6,201**	**70,421**	**76,622**
	6,433	**103,238**	**109,671**

Having reviewed the Company's resources and a range of likely outcomes, 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 12 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.

Chris Payne
Chief Financial Officer

5 March 2020

Key Performance Indicators

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.

See Our Strategy on page 20

Financial

	Measurement	Why it's important	Performance (3 years)	Initiatives and actions for improvement
Like-for-like* revenue growth	Year-on-year revenue growth as a % adjusted to normalise currency, businesses making a full year's contribution, and consistent working days	Allows a consistent measure of year-on-year performance	2017: 1.1 2018: (3.8) 2019: **0.7**	Organic growth focus for regional businesses and universal product coverage.
Gross profit margin	Measured as a % of revenue	Shows the effectiveness of gross profit generation from revenue	2017: 31.5 2018: 32.3 2019: **31.9**	Pricing discipline and product expansion.
Underlying selling, general and administrative ('SG&A') costs**	Measured as a % of revenue	Shows how effective the Company is at converting gross profit into operating profit	2017: 25.2 2018: 26.1 2019***: **26.0**	Maintain cost control to ensure increases remain below revenue growth.
Underlying operating profit margin**	Measured as a % of revenue	Shows the effectiveness of sustainable operating profit generation from revenue	2017: 6.3 2018: 6.2 2019***: **5.9**	Ongoing operational improvement programme to improve operating performance, the customer service proposition and margin.
Statutory basic earnings per share ('EPS')	Profit after tax divided by average weighted number of shares	Demonstrates the level of profit per share attributable to the shareholders	2017: 39.1 2018: 40.0 2019***: **34.0**	In-line with statutory profit performance.
Return on capital employed ('ROCE')	Measured as EBIT as a % of capital employed	Demonstrates the relative level of profit generated by the capital employed	2017: 26.2 2018: 23.2 2019***: **20.3**	May be offset in the short-term by infrastructure investment, for example investment on the new Ipswich regional distribution centre.
Cash generated from operations	Measured as a % of statutory operating profit	Cash conversion measures the success of the Company in converting operating profit (measured as EBITDA) to cash, which underpins the quality of the Company's earnings and reflects the effectiveness of working capital management	2017: 132 2018: 121 2019***: **146**	Should be held above 90% to ensure profit growth is cash generative. It is anticipated that improvements in inventory turn (see KPI) will also lead to improvements in cash conversion %.

* Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in each of the financial year periods and is adjusted for any variances in working days.

** Underlying is before non-underlying items which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees and associated restructuring costs, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, non-recurring pension costs in relation to guaranteed minimum pension ('GMP') equalisation, and non-recurring costs relating to senior personnel changes.

*** Impacted by the adoption of IFRS 16 in 2019. As the Company adopted the modified retrospective approach, there has been no restatement of the comparatives for the 2018 reporting period.

**** Performance measurement relates only to the geographic areas that have been subject to the project to date.

Non-financial

	Measurement	Why it's important	Performance (3 years)	Initiatives and actions for improvement
Inventory turn	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)	A higher inventory turn is an indicator of efficient revenue generation, reduced risk of inventory obsolescence and more effective utilisation of distribution centre capacity	2017: 3.8x 2018: 3.6x 2019: **3.6x**	Moving from a manual reordering system to an automated stock re-ordering system across all sites. Roll-out initially leads to a rise in absolute inventory levels as availability of customers' most requested products is improved. With maturing use of the re-ordering algorithm, and as the product life cycle progresses, the benefits of an improvement to product availability, inventory turn, warehouse capacity and improved supplier production scheduling become increasingly evident.
Employee retention	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	Retention demonstrates the Company's ability to retain employees. The Company's medium-term objective is to further develop a cultural ethos which attracts and retains the best talent in order to ensure valuable workforce knowledge is retained to support delivery of the strategic objectives and reduce the substantial costs involved in hiring and training employees	2017: 74 2018: 76 2019: **72**	Continue building on the activities in the areas of workforce engagement and development of a positive workplace culture. Identify future skills gaps and implement learning strategies.
Reportable incidents ('RIDDOR Reports')	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. These regulations require employers, the self-employed and those in control of premises to report specified workplace incidents	By measuring reportable injuries, it is possible to benchmark and identify any deficiencies in the Company's processes, allowing continuous improvement in health and safety standards	2017: 25 2018: 18 2019: **23**	Increase frequency of in-house compliance assessments to identify and limit failures in compliance. Additionally undertake independent audits to further identify areas for improvement in the health and safety function.
Recycled packaging	Use of recycled polythene for protective plastic packaging needs across the Company's UK locations. Measured as % of the Company's total UK volume per annum	Protective plastic packaging is one of the main areas of waste arising from the Company's operations. By utilising recycled polythene, the Company mitigates its impact on the environment	2018: 69 2019: **86** New KPI for 2018	Group procurement initiative in place for all UK locations to be using regranulated polythene packaging manufactured from 100% recycled polythene (machinery permitting).
Customer orders per commercial vehicle****	Measured as a % increase in average number of orders delivered per commercial vehicle per day	More orders delivered per vehicle reduces the Company's impact on the environment through a reduction in the number of vehicles needed to service the local area. It additionally indicates that the Company is operating more efficiently with a resulting improvement in operating performance, the customer service proposition, and margin	2019: **22** New KPI for 2019	Phased roll-out of the transport consolidation project under the ongoing operational improvement programme.

Principal Risks and Uncertainties

Risk Governance
The Board is responsible for the adequacy and effectiveness of the Company's internal control system and risk management framework.

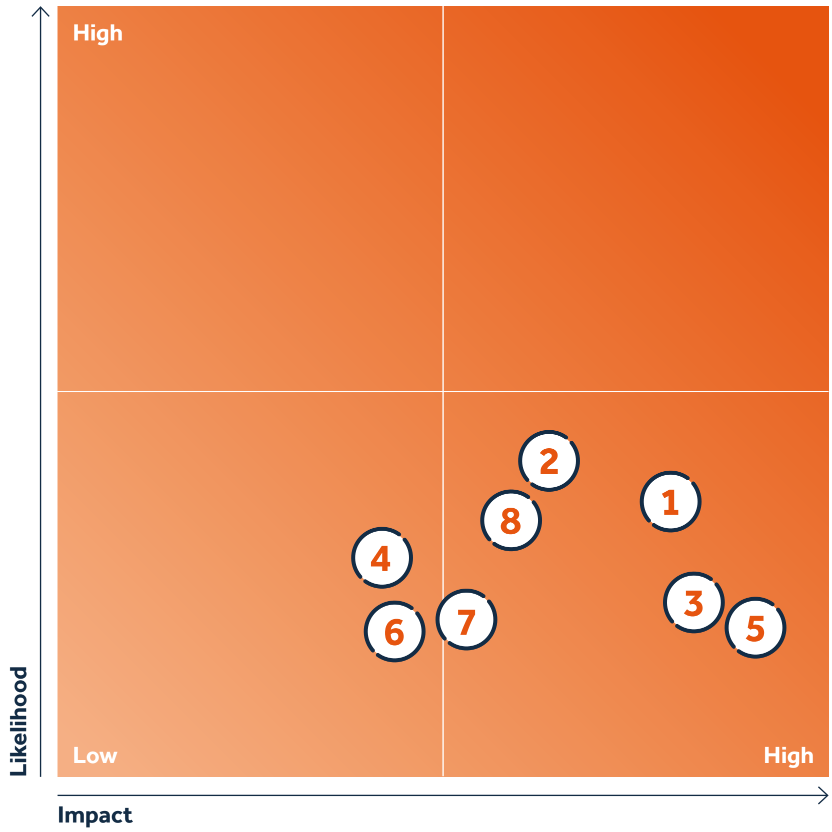
The Executive Directors and Executive Team have been delegated ownership and responsibility from the Board for day-to-day risk management and control. The Company's Chief Financial Officer chairs a Risk Committee whose purpose it is to discharge this delegated authority with a more granular review of business risks from a cross function of business leaders which are then reported back to the Board on a quarterly basis.

External risk management consultants provide ongoing support to the Risk Committee, including in the identification of any additional risks and appropriate processes to follow.

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

Summarised here are 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. These include, but are not limited to, risks that are directly managed by the Board and therefore may be informed by more detailed risk management processes in place via the Risk Committee or the Audit Committee.

Risk Heat Map



1 Market demand
2 Competitor risk
3 IT resilience and cyber security
4 People
5 Health and safety
6 Brexit
7 Legislation and regulation
8 Environmental

Increasing Decreasing Unchanged New

	Area of risk	Potential impact	Mitigating actions	Risk change from prior year
1	**Market demand** A significant proportion of the Company's revenue arises from trade with independent retailers and flooring contractors. The activity levels within this customer base are determined by consumer demand created through residential property refurbishment or moves, new residential housing developments and a wide range of commercial refurbishment and building projects.	Periods of economic recession that create reduced consumer and business confidence, contraction in the construction industry, and changes in trends and preferences all have the potential to affect market activity and demand for products supplied by the Company.	Market activity is monitored daily in each individual business and collectively at Company level. This visibility allows prompt response to factors adversely affecting trading. Additionally, since the Company's principal activities are supply and distribution, the Company has the ability to react quickly to market changes. The development of a range of regional, national and specialist businesses selling a wide range of products provides the Company with broad market penetration and the capability to manage the downside risk arising from a market contraction or changes in customers preferences. **See Our Strategy on page 20**	Unchanged

	Area of risk	Potential impact	Mitigating actions	Risk change from prior year
2	**Competitor risk** The Company operates across four geographical markets, each of which has a number of similar trading characteristics. Within each market, the Company competes directly with a variety of regional and national distributors and manufacturers selling directly to its customer base and indirectly with multiple retail chains.	The emergence of a competitor or market disruptor with a strong business model could undermine the Company's growth and financial performance.	The Company seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base. Substantial and continued investment in management and facilities, an extensive product offering, a knowledgeable selling resource, customer insight, product availability, IT, efficient material handling and logistics enables the Company to continue to improve its market leading position.	→
3	**IT resilience and cyber security** The IT system is a vital component of the Company's operating strategy, underpinning the delivery of operational objectives and providing the framework for the maintenance of financial control.	Given its importance, any prolonged system failure has the potential to adversely affect business performance. The theft, destruction or loss of sensitive and or confidential information could adversely affect business performance and reputation.	Each business has its own dedicated IT infrastructure and failure in one will not interrupt another. Furthermore, the Company operates well defined backup procedures and has contingency plans in place to enable swift recovery from a failure of this nature. Third-party IT provision enables network software to be kept up to date, and independent audits are conducted in the area of security and resilience.	→
4	**People** The Company's ability to deliver ongoing success is dependent upon its ability to attract, retain and develop its people.	An inadequate pool of suitably qualified and motivated people can disrupt business development, customer service and undermine the Company's ability to deliver on its strategy.	The Company continues to build on its activities in the areas of workforce engagement and development of a positive workplace culture. Recruitment, training and development are aimed at ensuring the Company has suitably skilled and qualified people to meet the current and future operational needs of its businesses. The Company additionally has retention and succession plans in place. **See Our People on page 46**	→
5	**Health and safety** The Company's operations and business model carry inherent health and safety risks to its people, customers and the wider public.	If the Company were to breach health and safety law and/or regulations it could have a material adverse effect on reputation, overall business performance and the welfare of its people.	Health and safety is a standing agenda item at the Company's Board Meetings, with an associated report submitted including details on incidents, updates on procedures and actions to improve performance, and any changes in legalisation and regulation that could affect the Company. The Company employs a dedicated health and safety team, has comprehensive policies and procedures in place, and additionally undertakes independent audits of its health and safety function to identify areas for improvement. **See Health and Safety on page 52**	→

Risk Management continued

	Area of risk	Potential impact	Mitigating actions	Risk change from prior year
6	**Brexit** The Company operates an international supply chain, with purchases made across EU borders. A hard Brexit is likely to result in cost increases and extended supply chain timelines.	Any tariffs or other increases in costs will affect the whole market and result in higher prices. Delays in supply chain deliveries may affect the Company's ability to service customers in a timely manner, particularly during a period of adjustment to post-Brexit conditions.	The Company maintains strong relationships with its suppliers enabling an open dialogue to secure supply. The Company issued a letter to suppliers during 2019 with the purpose of confirming how the Company and the supplier would support each other around the potential impact of Brexit and preserve business continuity. The Company's business model creates a significant level of UK stock holding which buffers supply disruption, and would help preserve levels of customer service in the event of a hard Brexit.	Unchanged
7	**Legislation and regulation** The Company's operations are regulated by a variety of laws and regulations, the principal ones relating to the environment, employment, commerce, corporate, financial reporting and taxation.	Failure to comply could cause reputational harm and lead to serious civil or criminal proceedings, causing disruption to the Company's operations and leading to financial loss.	The Company manages its obligations through a framework of policies and procedures and, where appropriate, engages the services of competent third-party advisers. **See Corporate Governance on page 58**	Unchanged
8	**Environmental** The floorcoverings industry, and the Company's operations within it, have a direct negative impact on the environment. The Company's direct impact on the environment arises predominately from its transport emissions.	Ineffective response and management of the Company's and overall industry's impact on the environment could lead to: accelerating Climate Change; reputational damage; loss of stakeholder support; reduced demand for products and financial performance; and financial penalties.	The Company is undertaking a number of actions to reduce its transport-related emissions and other areas of environmental impact, and is working as part of the overall floorcoverings industry to reduce the industry's environmental footprint. The Company fully complies with all relevant environmental legislation and regulation, and has additionally engaged with an external energy data collation and verification company on a three-year basis to assist in measuring its impact, and identifying and implementing additional energy saving actions. **See Environment on page 50**	New

Increasing Decreasing Unchanged New

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 2022, was chosen for the purpose of the viability assessment as this represents Headlam's three-year rolling strategy plan normally used to evaluate liquidity. This period also allows for modelling of capital investments planned during the timeframe.

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 Group-wide principal risks as given in the Risk Management and Principal Risks and Uncertainties on page 34.

In light of the Group's competitive position in its geographical markets and corporate governance controls, it is the Board's opinion that it is unlikely that any of the individual risks other than market demand would compromise the Group's viability.

In respect of market demand 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. As a result, two alternative plausible downside scenarios have been modelled which have a potential to threaten the viability of the Group.

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 decline in 2020, 2021 and 2022 whilst there are ongoing inflationary fixed cost pressures.

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

Scenario B – Economic Crisis
Scenario B is modelled on the basis that there is a similar economic crisis to that observed in 2008, where revenues decreased sharply in 2009 with modest growth thereafter through to 2014.

In this scenario, the Group continues to operate within its current banking facilities and the covenant restrictions set out therein, although the covenant headroom is significantly reduced and this position requires swift and pro-active management of the cost base.

Based on the consolidated financial impact of the scenarios analysed and associated mitigating actions that are either in place or 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. In coming to this conclusion, it has been assumed that the Company's existing UK bank facilities, running to 30 April 2023, continue in existence.

Confirmation of Longer-Term Viability
Based on the results from these two 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.

This Strategic Report was approved by the Board on 5 March 2020 and signed on its behalf by:

Steve Wilson
Chief Executive

Chris Payne
Chief Financial Officer

Introduction to Corporate Responsibility and ESG

Our commitment

We are committed to operating in an ethical and responsible manner at all times and upholding the highest levels of corporate responsibility including in the key areas of Environmental, Social and Governance ('ESG').

Within the following pages, incorporating the newly required Section 172 Statement on page 44, we have detailed how we have addressed and are continuing to address ESG issues and engaged with, considered and sought to positively impact all our stakeholders during the year and on an ongoing basis.

We are committed to building on our activities and practices in all areas of corporate responsibility and continually improving our performance in operating and discharging our duties responsibly, with some examples of activities undertaken in 2019 summarised to the right.

In recognition of our activities and practices to date, we continue to be a constituent of the FTSE4Good Index which identifies companies demonstrating strong ESG practices as measured against globally recognised standards.

It is our fundamental belief that strong ESG practices and acting responsibly is central to ensuring a long-term sustainable business and one which positively impacts all stakeholders whilst creating shareholder value, and we shall focus increasing resources to support our activities and aims in this area.

Philip Lawrence
Non-Executive Chairman

Steve Wilson
Chief Executive

Activities

Independent Health and Safety audit commissioned

An independent Health and Safety audit commissioned, with the resulting recommendations being actioned to strengthen the provision of a safe working environment which positively impacts not only our workforce but also the communities in which we operate.

See Health and Safety page 52

Voluntary early compliance with SECR scheme

Voluntary early compliance with the UK government's new Streamlined Energy and Carbon Reporting ('SECR') scheme introduced to encourage organisations to become more energy efficient, and engagement with an external energy data collation and verification company to assist in identifying additional energy saving opportunities.

See Environment on page 50

Introduction of Environmental as a Principal Risk

Enhanced risk assurance activities and introduction of Environmental as an additional Principal Risk in recognition of the critical issue of Climate Change, and to generate a greater focus on our actions in mitigating our direct environmental impact and working as part of the overall floorcoverings industry in reducing its environmental footprint.

See Risk Management and Principal Risks, and Communities on pages 34 and 53 respectively

Development of a positive workplace culture

Development of a positive workplace culture through new Values and Behaviours workshops, launch and roll-out of apprenticeship schemes to develop skills and aid succession across the business, and establishment of an Employee Forum for employee feedback to be considered directly by the Board.

See Our People on page 46

Greater focus on sustainability

Greater focus on ensuring the long-term sustainability of the business through the acceleration of the operational improvement programme designed to improve operating and financial performance, the customer service proposition, as well as reducing environmental impact through more effective delivery fleet utilisation.

See Chairman's Statement, and Chief Executive's Review on pages 12 and 14 respectively

Stakeholder Interaction and Engagement

Workforce Engagement

The Company has introduced a number of new forms of workforce engagement over the last few years which significantly increase the channels available to the Company to test ideas and actively seek feedback, making changes and improvements in response. Key new engagement activities are listed below, with these supplementing enhanced policies and procedures and regular interaction via various communication channels, all of which are designed to further improve the working environment. Further detail is given within the Our People section on page 46.

- **Senior management team events**, with a range of presentations from the Executive Team covering operational, financial, health and safety, marketplace and strategic matters. The events include Q&A sessions, and a follow-up feedback survey is issued to all participants. Feedback received to date has resulted in enhancements being made to presentational content and event formats, and has proven this form of engagement to be well received.
- **Departmental group meetings**, with members of specific departments such as sales, transport and warehouse from across the Company's businesses coming together to discuss matters specific to their job function and future developments, with the opportunity to share their views and have input into decision-making.
- **Non-Executive Director visits to businesses** as part of a comprehensive induction programme and an ongoing mechanism for Board members to observe operations and listen to views and feedback directly from employees across a wide cross-section of the workforce.
- **Employee Forum** launched in 2019 and acting as the formal workforce advisory panel to the Board, its responsibilities include providing feedback from employees to be considered by the Board across a broad spectrum of matters. The Forum consists of elected employees from across the workforce alongside the Chief Executive and the Non-Executive Director holding the position as Chair of the Remuneration Committee.
- **Values and Behaviours workshops**, held with 135 employees across several business locations during 2019, with the aim of collaboratively developing a bottom-up set of values and behaviours to subsequently be communicated and embedded across the Company.
- **Employee surveys**, which were introduced in 2017 and are held across the whole workforce, with a pulse-check survey taking place in 2020. The surveys are instrumental in helping to monitor and continue to develop a positive workplace culture. Activities and actions as a result of feedback from previous surveys continue throughout the year, and have included improvements to the CRM system and commercial vehicles drivers app, and the introduction of team and social events.
- **Employee Champions**, introduced following the first employee survey in 2017, are now an integral part of the local businesses. Regular meetings taking place where champions and management meet to discuss and implement actions to improve the working environment.

See Our People on page 46

Supplier **Engagement**

The Company engages with suppliers through a variety of means including meetings, presentations, collaborative trade show events, reviews of practices and questionnaires, including in the area of ensuring a supply chain free from slavery and human trafficking. The Company has actively sought to increase its partnership approach with suppliers in 2019, including members of the Executive Team undertaking a more comprehensive schedule of meetings with suppliers with which to obtain feedback and which supplements the suppliers' frequent interaction with the Company's delegated buyers.

The Company shares market feedback and sales performance data to suppliers allowing them to adjust their ranges and production activities as appropriate, and actively supports suppliers in new product development and the marketing of innovative and sustainable products, an example of which is given in the Environment section on page 50.

Two further engagement initiatives instigated in 2019 are given below, both of which have increased the collaborative approach between the Company and its suppliers.

- **Brexit letter**, issued to suppliers during 2019, with the purpose of confirming how the Company and the supplier would support each other around the potential impact of Brexit and preserve business continuity.
- **Inventory management project**, which the Company is undertaking to improve product availability and stock-turn, has resulted in the Company working more closely with suppliers to improve production scheduling and buying, and increase the efficiency of both parties.

Stakeholder Interaction and Engagement continued

Customer Engagement

Customer relationships and their performance are integral to the success of the Company, and many different touch-points are maintained with customers. Customers have regular interaction with sales representatives, delivery drivers and customer service teams, all of which provide a method to gain feedback which is then utilised to improve customer service levels. The Company has increased its engagement with customers via formalised customer surveys and enhanced e-commerce support through the provision of a relaunched e-commerce platform, detailed to the right.

- **Customer surveys**, introduced in 2019 and to be continued in 2020 to a wider audience. The customer surveys have been instigated to gain greater insight into customers' requirements and preferences, with the resulting analysis to be used to enhance the customer service proposition.
- **E-commerce support**, with an improved transactional B2B website relaunched in March 2020. The updated website will support customers in more efficient ordering and account management, and has a new feedback portal direct to the relevant team members servicing the customer.

Shareholder and Investment Community Engagement

Clear and concise regulatory announcements and regular interaction with shareholders and the wider investment community is essential for their understanding of the Company and its performance, and evaluation of the Company as an appropriate investment. The Company proactively offers meetings to its largest shareholders and analyst community, primarily following the publication of its interim and final results, while also encouraging the investment community to visit its main operating locations to review operations first-hand and meet additional members of the workforce. Feedback is actively sought, either directly or via the Company's brokers, and then considered and monitored against performance and strategy, with investor and analyst feedback a Board Meeting agenda item.

The Company is committed to maintaining a comprehensive level of engagement with shareholders and the investment community, including via members of the Executive Team and the Board as detailed within the Corporate Governance section on page 58, with two specific areas on how this is done given below.

- **Investor Relations function**, with additional resource added in 2017 to improve and increase breadth of communications with the investment community. Emphasis is placed on meeting with new potential investors and analysts due to the importance of liquidity on a company's share price and the preservation of an orderly market.
- **Capital Markets Day**, following a previous event held in 2018, it is the Company's intention to hold an event at the Company's new regional distribution centre following it becoming operational during 2020. This will provide greater first-hand insight into the Company's operations and Strategic Objectives as detailed on page 20.

Community Engagement

The Company is committed to positively impacting the communities and local areas in which it operates, and strongly supports all its businesses in their various channels of engagement with the communities in which they operate. As referenced in Our People on page 46, the Company actively recruited in all departments throughout 2019, with the Company's businesses predominately recruiting from within their local areas and utilising a number of methods including local employment agencies, job boards and word-of-mouth.

The Company actively encourages each of its businesses to build strong relationships with their communities and has in place a Charitable Donations Policy which supports locally-focused charitable giving and community involvement by each of the Company's businesses, thereby allowing local communities to benefit directly.

When there are complaints from members of the public or other road-users regarding a member of the Company's workforce or the Company's operations, these are fully investigated by the business concerned with support from the centralised HR function.

Section 172 Statement

Introduction

Following the introduction of the Companies (Miscellaneous Reporting) Regulations 2018 applicable to the Company from 1 January 2019, the Company is required to include a statement in its Annual Report and Accounts which describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (the 'Act') when performing their duties during the year under review. Additionally, Provision 5 of the 2018 UK Corporate Governance Code issued by the FRC states that the Board should understand the views of the Company's key stakeholders and describe how it has taken into account the matters set out in section 172 of the Act in Board decision-making. The Board believes that consideration of these factors is and has always been, an essential part of good decision-making and it is a rolling agenda item at Board Meetings. The Statement to the right provides information on how its stakeholders have been considered by the Board during the year in both its near and longer-term decision-making.

The Company's principal stakeholder groups are: its people; suppliers; customers; local communities in which it operates; and shareholders.

Section 172 Statement

The Company announced in January 2019 that it anticipated the UK floorcoverings market to show continued general weakness during 2019 following on from that evident throughout 2018. The cause of this expected continued weakness was attributed to ongoing political and economic uncertainty, including around the potential impact of Brexit, and the resulting impact on consumer and business confidence. As a consequence, the Board thought it prudent to provide guidance that revenue was expected to be in line with 2018 and underlying profit before tax lower. Despite this anticipated outcome, the Board reaffirmed its commitment to a progressive dividend policy as a reflection of its confidence in the Company's ability to improve future profitability and stated its intention to maintain the 2019 dividend in-line with that of 2018 for the benefit of the Company's shareholders.

Alongside the maintenance of the dividend, the Board remained committed to continuing to invest in the business throughout 2019 irrespective of the anticipated weaker backdrop. This included investment in the workforce, network and operations. At the beginning of the year, the Board approved a 2% cost of living award to all employees to offset inflationary pressures, and additionally the approved 2019 Budget included performance-related employee bonus awards to inspire over-achievement. In February 2019, the Company proceeded to acquire land in Ipswich to build a new regional distribution centre on a brownfield site to rehome businesses in a modernised fit-for-purpose facility, with the centre also expected to create a significant number of additional jobs in the local area when operational in 2020. Additionally, in April 2019, a UK Operations Director was appointed to head up the Company's operational leadership team and ongoing operational improvement programme to improve operating performance, the customer service proposition and margin.

The operational improvement programme is designed to benefit all stakeholders, including through improving the working environment and processes for employees, better collaboration with suppliers on production scheduling and buying, enhanced product availability and delivery services for customers, lessening the impact on local communities from transport operations, and a reduction in costs and improved future financial performance for shareholders. Requests were made by several stakeholder groups for further detail on different constituents of the programme, including how it would affect them as well as detail on the expected financial contributions from improved efficiency. The Company responded to this by actively engaging with the stakeholders, and publishing its Strategic Objectives as detailed on page 20 and quantifying within the Chief Executive's Review and Financial Review on pages 14 and 24 respectively the actual and anticipated contributions from the programme in 2019 and 2020.

As part of the review of improving overall performance and the sustainability of the Company, the Company examined all areas of cost including employee reward. This resulted in the introduction of remodelled bonus structures during 2019 for some parts of the workforce to make them more aligned with annualised Company performance and shareholders' interests. Additionally, following Board approval, consultation began on the closure of the Company's defined benefit pension scheme to future accrual, with the closure of the scheme from March 2020 reducing an area of risk and volatility for the Company and providing fairer pension provision across the workforce. Following consultation, various adjustments were made in response to feedback from affected members, including adjustments to ongoing benefits and the date of closure of the scheme.

Elsewhere, the Company also took further actions to help mitigate the Company's Principal Risks as detailed on page 34 which could affect the stability and sustainability of the Company to the detriment of all stakeholders. For example, during 2019, all of the Company's business servers and applications were migrated into a cloud-based hosted IT environment to improve IT resilience and cyber security. Additionally, Environmental has been included as a Principal Risk within this year's Annual Report, and the Company undertook actions in 2019 to reduce its environmental impact which predominately arises from its transport operations. One such action was a trial, now being rolled-out, targeting more effective delivery fleet utilisation which resulted in a reduction in commercial vehicles needed to service the trial area with an attendant positive impact on local communities being served due to lower carbon emissions and vehicle movements.

Due to the Company's market leading position, its sustainability and future success is vital in supporting the marketplace and the participants within it, including the Company's suppliers and customers, and in providing employment opportunities within local communities. The Board is focused on promoting the future success of the Company against a background of strong corporate governance with the attendant positive impact on all stakeholders, and in this regard approved investment in comprehensive market research during the year. This research incorporated feedback from stakeholder groups and identified areas for improvement and avenues of growth for the Company to build its scale and resilience, and workstreams to better service the addressable market. These included building improved service propositions for different customer groups and focus on product differentiation, which in turn supported the Board's approval of the acquisition of modern carpet distributor Telenzo in October 2019.

Our People on page 46 details how the Company has sought to support and further the interests of its workforce, and the Stakeholder Interaction and Engagement section on page 40 details a number of specific initiatives and engagement activities the Company undertook in 2019 across all its principal stakeholder groups and through which it actively sought feedback. When acting on this feedback, the Company gave equal importance to improving the working environment, supporting suppliers and customers, positively impacting its local communities, and the interests of shareholders.

Conclusion

Following thorough consideration of the above 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 2019.

Our People

As set out in Our Strategy on page 20, at the heart of Headlam's approach to people management is the provision of a safe and inclusive working environment where everyone can fulfil their potential, and the continued development of a positive workplace culture. 2019 saw further progress in these commitments particularly through enhanced workforce engagement, expansion of people practices, and the development of a clear set of values and behaviours to be embedded across the business.

See Our Values on page 21

Workforce Engagement
As summarised in Stakeholder Interaction and Engagement on page 40, the Company has introduced a number of new forms of workforce engagement over the last few years which significantly increase the channels available to the Company to test ideas and actively seek feedback, making changes and improvements to the working environment in response.

During 2019, the Employee Forum was established acting as the formal workforce advisory panel to the Board and facilitating employee feedback being considered directly by the Board. Elected employees from across the workforce met with Company representatives, including the Chief Executive and the Non-Executive Director holding the position of Chair of the Remuneration Committee, on two occasions in 2019 and discussed matters including health and safety, customer engagement, strategy, and values and behaviours.

Three further senior management team events were held in 2019 to engage this group in a wide variety of matters including strategy, and feedback received has resulted in enhancements being made to presentational content and event formats.

Departmental group meetings hosted by the UK Operations Director were newly introduced in early 2020 for members of specific departments such as sales, transport and warehouse to discuss matters specific to their job function, with the opportunity for these groups to share their views and have input into decision-making.

A key focus during 2019 was the development of a clear set of values and behaviours that could be utilised across the business. 135 employees from a wide cross-section of the Company's businesses attended workshops to collaboratively develop a bottom-up set of values and behaviours which will be communicated and embedded across the Company during 2020.

Positive Workplace Culture
To continue the development of a positive working environment and culture, a number of policies and working practices were reviewed, launched or relaunched during 2019 including:

- Paternity Leave – an enhanced Paternity Policy was introduced aimed at providing greater support for families;
- Family Friendly policies – the relaunch of the Parental Leave, Shared Parental Leave, Adoption Leave, Compassionate Leave, and Emergency Dependents Leave, with the latter aimed at providing support for employees and their families dealing with life events; and
- Flexible Working – the relaunch of the Flexible Working Policy aimed at promoting work-life balance, increasing motivation, reducing stress, and improving performance and productivity.

The Company's effectiveness in developing a positive working environment is monitored using a bi-annual employee survey whereby employees are given the opportunity to share their view across a wide range of areas. Additionally, in 2020, a 'culture capture' exercise will be undertaken. The Company will work with a third-party to carry out a research study using focus groups, interviews and a survey which will provide a bespoke report that provides both insight into the Company's culture and detailed recommendations over key interventions required to prompt cultural shift.

Employee Support
Following its introduction in November 2017, the Employee Assistance Programme ('EAP') ran for its second full year in 2019. The EAP, delivered via an independent company called LifeWorks, is a confidential telephone, internet, app-based service available to all employees and their immediate families providing advice, information and support on issues spanning work, health, and family issues. During 2019, 26 people benefited from individual support provided.

An enhanced Occupational Health service was introduced in 2018 to further support employee wellbeing, and in 2019 the service assisted the HR team in supporting 38 employees with complex medical conditions via early intervention and their appropriate return to work.

Recruitment, Tenure and Vacancies
The Company actively recruited in all departments throughout 2019 and the total number of employees was 2,575 as at 31 December 2019 (2018: 2,612). Through the continued focus on supporting and encouraging internal moves, 23 vacancies were filled by internal candidates during the year. The Company's activities in relation to workforce engagement and the development of a positive workforce culture are critical to attracting and retaining talent and experience. As at 31 December 2019, 30% of employees had been with the Company over 10 years, and employee retention which is included as one of the Company's KPIs decreased slightly in the year to 72% (2018: 76%).

Training and Development

The Company actively encourages all its employees to participate in the training opportunities available to them to support their development and the fulfilment of their potential. In addition to the training programmes detailed in Health and Safety on page 52, during 2019:

- 10 newly appointed managers attended a 'Step into Management' course designed to equip first-time managers with the skills needed to lead people;
- 50 sales representatives attended the Sales Induction Programme; and
- 46 buyers attended workshops to further develop their buying skills.

Apprenticeships schemes to develop skills and aid succession were launched and rolled-out across the business in 2019 with 29 employees involved, and further investment will be made in 2020 to expand the schemes.

Cost of Living Pay Award

The cost of living award is designed to benefit employees through helping offset the effect of inflation and the rising cost of living. For 2019, the Company elected to award a cost of living increase of 2% to base salary for all UK employees, and the Company has replicated this for 2020. An additional 0.5% has been incorporated into the 2020 budget to enable senior managers to make additional individual awards. For the Company's employees in Continental Europe, local market practice was followed in 2019 and for 2020.

Employee Benefits

The Company encourages and supports the financial security of all its employees and offers a number of benefits including the opportunity to participate in the Company's Pension Plan and providing death in service benefits through the Headlam Group Life Assurance scheme.

The Company reviewed its pension arrangements in 2019, and in particular the future build-up of final salary benefits in its Defined Benefit Pension Scheme ('DB Scheme'). The Company closed the DB Scheme to new entrants many years ago. Since then, new employees have been eligible to join the Defined Contribution Pension Plan. The Company wishes to provide sustainable and competitive pension benefits for all its employees, and during 2019 consultation began on the closure of the DB Scheme to future accrual, with its closure from March 2020 reducing an area of risk and volatility for the Company and providing fairer pension provision across the workforce. Various adjustments were made in response to feedback from affected members following the consultation, including adjustments to ongoing benefits and the date of closure of the scheme. Affected members have been offered the opportunity to continue saving for their retirement via the Company's Defined Contribution Pension Plan.

The Company operates a HM Revenue & Customs approved Save-As-You-Earn share option scheme ('SAYE'), a monthly savings scheme facilitating the purchase of shares in Headlam at a discount by eligible employees. The SAYE not only provides employees with a tax-efficient savings plan but additionally promotes a sense of ownership of the Company. During 2019, 610 eligible employees participated in the Company's SAYE schemes, equivalent to 29% of the eligible UK workforce.

Table showing gender diversity:

Employees	Executive Directors	Executive Team	Managers	Other	Total
Male	2	2	269	1,759	2,032
Female	0	3	52	488	543
Number of employees as at 31 December 2019	2	5	321	2,247	2,575

Diversity and Equal Opportunities

At the heart of the Company's approach to people is the provision of an environment where everyone can fulfil their potential and where colleagues from all backgrounds can feel confident in their ability to achieve their best.

The Company has a Diversity Policy in place and is fully committed to the elimination of unlawful and unfair discrimination. The Company recognises and values highly the benefits of diversity in the workplace, of which gender is one important aspect, and maintains a policy of employing the best candidates available in every position, regardless of gender, ethnic group or background, and is committed to fair and equal treatment. Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate, and the Company gives full and fair consideration to applications for employment from disabled persons.

As at 31 December 2019, the Company had 2,575 employees of which 21% were female (2018: 20% female).

As of the date of the report, the Board (including the Non-Executive Directors) and Executive Team, who attend all Board Meetings, comprised five females and six males, equivalent to a 45% female representation.

The Company is continuing to work to improve the male:female ratio across the whole Company which stood at 4:1 as at 31 December 2019. Actions and initiatives launched to deliver improvement include:

- Enhance Maternity Policy;
- Paternity and Shared Paternity Leave policies (as detailed on page 47);
- Flexible Working Policy and practices (as detailed on page 47); and
- Reward frameworks and policies (to be launched in 2020).

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 2019 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 10.8% (national average: 17.3%)
- The proportion of men and women receiving bonuses:
  - HFD – men 93%, women 87%
  - MCD – men 91%, women 86%
  - PLC* – men 20%, women 0%

The Company is continuing to work to improve both the male:femail ratio and gender pay gap across the Company, which includes both supporting the women who currently work for the Company moving into more senior positions, and attracting more women to join the Company.

Right to Work and Brexit

The Company is ensuring that it is fully compliant with the legal requirement to carry out checks with existing and prospective employees to ensure that they have the legal right to work in the UK. The Company has 134 identified EU and EEA nationals working in the UK, and throughout 2019 implemented a communication plan providing ongoing support and guidance for employees gaining pre-settled or settled status to secure their status in the UK after Brexit.

* Only one individual received a bonus, an operations leader for Continental Europe

Environment

Introduction
The Company has a substantial understanding of the impact its day-to-day operations, and the industry of which it is a part, has on the environment and is committed to mitigating its direct impact as well as working as part of the overall floorcoverings industry to reduce the industry's environmental footprint.

Headlam's Chief Executive is nominated as the individual who champions environmental performance at Board level, and the Company is committed to pursuing and promoting recycling, energy saving actions and 'good energy behaviour' across its business and routinely monitoring and reviewing its energy usage, carbon emissions and energy saving actions to improve environmental performance.

Actions
Mitigating direct impact
Headlam's direct impact on the environment arises predominately from transport emissions, with its transport activities accounting for approximately 90% of its total annual energy consumption. Actions being undertaken to reduce its transport-related emissions include:

- Fleet Operator Recognition Scheme ('FORS'), a voluntary accreditation scheme which promotes best practice for commercial vehicle operators including in the area of environmental impact, with further of the Company's businesses applying for accreditation in 2020;
- All commercial vehicles being compliant with the latest Euro 6 emission standards;
- Hybrid and lower CO2 emission vehicles available in all company car categories, with a commitment to further reviewing the car emissions policy; and
- Trialling and roll-out of more effective delivery fleet utilisation under the Company's ongoing operational improvement programme, with less miles travelled per delivery and an attendant reduction in fuel consumption and air pollution.

In addition to reducing transport emissions, Headlam is focused on reducing its direct environmental impact through:

- Monitoring and reducing where possible its water consumption which is primarily used in the washing of commercial vehicles;
- Recycling the waste arising from its operations, predominately plastic packaging, cardboard poles and wooden pallets;
- Utilising recycled protective packaging across its UK operations;
- Sending zero floorcovering products or plastic packaging waste to landfill;
- Promoting energy saving activities and actions in its office and warehouse environments;
- Incorporating energy efficient technologies and equipment across its office and warehouse portfolio, with the new regional distribution centre currently being constructed on a brownfield site in Ipswich incorporating photovoltaic panels and LED lighting;
- Conducting its operations as efficiently as possible in order to reduce energy consumption, with the Company's operational improvement programme being a key driver of this;
- Maintaining, and annually reviewing, a group-wide Environmental Policy that is applicable to all employees; and
- Developing KPIs and intensity ratios to better measure performance in reducing energy usage and carbon emissions, with the KPI section on page 32 detailing two environmentally-related KPIs.

See KPIs on page 32

Case Study:

During 2019, Headlam worked closely with Texfelt, a world-leading manufacturer of eco-engineered carpet underlays, to promote their newly launched environmentally-friendly carpet underlay SpringBond to its customer base. SpringBond is manufactured from recycled plastic bottles and other single-use plastics helping to combat the millions of tonnes of plastic entering the world's oceans each year, whilst also being fully recyclable at the end of its useable life. Through the promotion of SpringBond's market-leading green and other high-performance credentials by the Headlam sales teams, Headlam's collective sales of the product reached the 1.25 million plastic bottles saved and recycled milestone in 2019.

Plastic bottles saved and recycled

1.25 million

Working as part of the industry to reduce overall impact

Headlam is committed to working as part of the overall floorcoverings industry to reduce the industry's environmental footprint. Actions and commitments in this area include:

- Working in partnership with manufacturers to support the development, production and marketing of sustainable and recyclable products into the marketplace;
- Growing a sustainable product offering for its customer base; and
- Supporting actions focused on the recycling of industry waste and diversion from landfill, including through being a core funder of Carpet Recycling UK and member of Recofloor.

Disclosure and SECR

As a demonstration of its commitment to the highest levels of disclosure and to the measurement and implementation of actions to reduce energy usage and carbon emissions, Headlam has elected to voluntarily comply a year early with the UK government's new Streamlined Energy & Carbon Reporting ('SECR') scheme which applies to financial years starting on or after 1 April 2019, and therefore would not have applied until the Company's 2020 Annual Report and Accounts.

Additionally, during 2019 the Company engaged with an external energy data collation and verification company on a three-year basis to assist in identifying and implementing additional energy saving actions. This same company assisted Headlam with its mandatory Energy Savings Opportunity Scheme 2 ('ESOS 2') external audit and assessment completed in the year, with the Company already taking action on some of the energy saving recommendations provided, including in the area of 'good energy behaviours'.

Streamlined Energy & Carbon Reporting ('SECR')

Jan – Dec 2019 Summary

Growth

Acquisitions
One in 2019

Revenue change (UK)
+1.0%

Reporting Data Completeness

Invoices Processed
Over 1,500 invoices

Consumption data estimated
Previous Period: **n/a** Current Period: **15%**

Carbon & Consumption

Gas and Fuel	Electricity	Transport
5,055,888 kWh	**8,252,552** kWh	**91,911,413** kWh
930 tCO_2e	**2,109** tCO_2e	**22,423** tCO_2e
YOY change: **+1%**	YOY change: **+14%**	YOY change: **+2%**

Carbon Intensity Metric

1.5 tCO_2e per £m	**3.5** tCO_2e per £m	**36.7** tCO_2e per £m
YOY change: **0%**	YOY change: **+12%**	YOY change: **+1%**

Overall

tCO_2e per £m
41.7

YOY change
+1.7%

YOY = Year-on-year change
£m = £m revenue

The detailed SECR Disclosure is given on page 103, and should be read in conjunction with this Environment section

Health and Safety

ISO 45001 Accreditation achieved across the UK

Introduction
As detailed in Our Values on page 21, one of the Company's core values is 'We keep people safe', and the Company is committed to providing a safe working environment, promoting a positive health and safety ('H&S') culture and the achievement of the highest standards of H&S management throughout the Company.

H&S is a standing agenda item at the Company's Board Meetings, with an associated report submitted including details on incidents, updates on procedures and actions to improve H&S performance, and any changes in legalisation and regulation that could affect the Company and its businesses. Regular presentations are additionally made to the Board by the UK Operations Director who has lead day-to-day oversight of H&S matters, members of the H&S team, and specialist third-parties.

The Company has an established Risk Committee and H&S is included as a principal risk, as detailed within the Principal Risks and Uncertainties on page 34 where a summary of mitigating actions is given.

Activities and Actions
Since the establishment of a dedicated in-house H&S team in 2017, much has been achieved in the improvement of H&S across the group, including:

- Launch of a web-based Management System to enable data and trend analysis and a standardised approach to risk assessments;
- Full review and updating of policies and procedures;
- Improved employee engagement and involvement in H&S systems and processes;
- Significant increase in compliance assessments across the group;
- Increased levels of internal and external training programmes, including all business managers responsible for H&S completing Institution of Occupational Safety & Health ('IOSH') training courses;
- Improvements to working environments, facilities and buildings; and
- Installation of safety devices such as fall arrest on the commercial fleet and creep speed on all fork lift trucks (where applicable).

To gain a comprehensive independent assessment of its H&S practices and identification of areas for improvement, the Company commission an independent external audit during 2019 and additionally was subject to a series of external audits in connection with the objective of achieving ISO 45001 accreditation, a stated aim with the 2018 Annual Report and Accounts.

ISO 45001:2018 is the world's first international standard for occupational health and safety ('OH&S') management, and the Company was delighted that in October 2019 all the Company's UK national distribution hubs and regional distribution centres were certified as meeting the requirements of ISO 45001:2018. The ongoing ISO 45001 audits to be conducted throughout 2020 and 2021 will establish ongoing accreditation.

As a result of recommendations arising from the external audits, the Company has already implemented a number of actions to strengthen the provision of a safe working environment, and has a programme in place to make further improvements throughout 2020 including in the areas of machine guarding, increased vehicle and pedestrian separation, and further embedding H&S culture through increased employee engagement and the 'Opportunity for Improvement' scheme where employees ideas are actively sought to improve the working environment.

The Company continually strives to make improvements above that required by regulation, and beginning in 2020, Autonomous Emergency Braking ('AEB') systems will be fitted as standard to all new commercial vehicles helping to avoid accidents and reduce the severity of potential crashes.

Other actions to be undertaken during 2020 include:

- Continuing racking safety inspections by a specialist independent company;
- Further applications for Fleet Operator Recognition Scheme ('FORS') accreditations which promotes best practice for commercial vehicle operators;
- Enhancements to the Management System, including the roll-out of a training app to improve the level of employee training; and
- Commitment to Roadwatch which is focused on reducing speeding vehicles across the UK.

There were 23 reportable incidents in 2019 (2018: 18; 2017: 25), none of which resulted in a serious or ongoing life-changing injury, and there were no prosecutions for breaches of health and safety or enforcement actions in the year.

Communities and Charitable Donations

The Company is committed to positively impacting the communities and local areas in which it operates. One key area is through providing employment opportunities and, as referenced in Our People on page 46, the Company actively recruited in all departments throughout 2019, with the Company's businesses predominately recruiting from within their local areas. The Company's new regional distribution centre on a brownfield site in Ipswich is scheduled to become operational during 2020, and in addition to rehousing existing businesses in a modernised facility is expected to create a significant number of new jobs in the local area.

The Company actively encourages each of its businesses to build strong relationships with the communities in which they operate. As part of this focus, the Company has in place a Charitable Donations Policy which supports locally-focused charitable giving and community involvement by each of the Company's businesses, thereby allowing local communities to benefit directly from the Company's activities in their area. Charitable giving is undertaken through both monetary donations and donations of floorcovering products to identified local good causes, with recipients during the year including a local community hub and an elderly people welfare association.

Monetary donations made during the year in support of charitable causes in local communities, nationally, and those of interest to employees amounted to £12,011 (2018: £24,172). This included a donation of £9,360 to Pennies from Heaven on behalf of the Company and its employees. Under the Pennies from Heaven payroll giving scheme, of which the Company has been a member since 2011, the Company matches the charitable donation made by its employees.

The Company is a corporate member of The Furniture Makers' Company, the furnishing industry's charity, and in 2019 signed up to support their 'One Step at a Time' campaign aimed at ensuring that all people working within the wider industry, as well as retirees and former workers, are aware of the charity's welfare support in times of financial need.

While the Company positively impacts its local communities through employment, community involvement and charitable giving, it has a substantial understanding of the impact its day-to-day transport operations have on the local communities it serves and is committed to reducing this impact.

As detailed in the Environment section on page 50, the Company has in place a number of actions to reduce its transport-related emissions, which form a key component of its efforts to mitigate its direct impact on the environment. These actions have and will continue to reduce the Company's impact on air pollution in the areas it operates, while the action specifically focused on more effective delivery fleet utilisation will additionally help alleviate traffic congestion in its delivery areas.

As part of its overall commitment to lessening the impact of its transport operations on local communities, operating more efficiently, and to achieving the highest standards of H&S management, the Company is focused on pedestrian safety and reducing the potential for road traffic incidents. Initiatives introduced in this area including making further applications for FORS accreditations, support of 'Roadwatch', and continuing to embed H&S culture across the business.

See Health and Safety on page 52

Board of Directors

The capabilities, experience and areas of expertise of the individuals within the Board and Executive Team are detailed on pages 54 to 57, with these combining to deliver on the Company's Strategy whilst also addressing and helping to mitigate the Company's Principal Risks & Uncertainties.

See Our Strategy on page 20

See Risk Management and Principal Risks & Uncertainties on page 34

Committees
- ● Audit
- ■ Nomination
- ◆ Remuneration
- _ Denotes Chair

Philip Lawrence
Non-Executive Chairman

Philip was appointed a Non-Executive Director in June 2015 and became Non-Executive Chairman on 1 June 2018. Philip is currently Non-Executive Director of private equity backed Airband Community Internet Limited and a member of the advisory board for the Offshore Petroleum Regulator for Environment and Decommissioning, part of the Department for Business, Energy and Industrial Strategy ('BEIS'). Philip was formerly Chief Executive of the Coal Authority, an arm's-length body of BEIS, before stepping down in May 2018 after 11 years, and prior to this he held significant roles with Marconi plc and Deloitte LLP. He is an Associate of the Institute of Chartered Accountants in England and Wales.

Philip's experience and expertise spans the key areas of change management leadership, including overseeing the development of organisations and commercialisation, and expansion of customer bases and addressable markets.

Committees
■ ◆

Steve Wilson
Chief Executive and Executive Director

Steve joined Headlam in 1991 as Group Finance Director and was highly involved in the Company's acquisitive growth strategy throughout the 1990s, with eight floorcoverings distribution businesses acquired during 1992 and a subsequent acquisition in 1996 resulting in the Company becoming the UK market leader. In 2016, he was appointed Chief Executive and has overseen the move to a more unified operating structure and the implementation of an operational improvement programme to improve performance. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

In addition to his 27 years' experience within the floorcoverings industry, Steve has also previously held Non-Executive positions within the distribution and healthcare industries. Following his appointment as Chief Executive, he instigated the establishment of dedicated in-house HR and Health and Safety teams.

Steve is nominated as the individual who champions environmental performance at Board level.

Committees
■

Chris Payne
Chief Financial Officer and Executive Director

Chris joined the Company as Chief Financial Officer in 2017. Previously he was at Biffa plc, the UK integrated waste management company, where he was Group Commercial Finance Director with responsibilities including overseeing all the operational finance teams and divisional Finance Directors. Prior to that, Chris held two divisional Finance Director positions at Mitie Group plc. He is a qualified Chartered Accountant having trained with KPMG and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Chris has broad operationally-based finance experience including in the areas of IT and environmental reporting and outputs. He chairs the Company's Risk Committee, and as part of this remit has lead oversight of the identified risks relating to IT and change management amongst others.

Keith Edelman
Independent Non-Executive Director and Senior Independent Director

Keith was appointed a Non-Executive Director in October 2018 and was appointed Senior Independent Director on 1 January 2019. Keith is currently Chairman of Revolution Bars Group Plc and Pennpetro Energy Plc, and a Non-Executive Director of the London Legacy Development Corporation and Altitude Group plc. His last executive appointment, which ended in 2009, was Managing Director of Arsenal Holdings Plc where he was responsible for the move from Highbury to Emirates Stadium. Since 2009, Keith has held a number of Non-Executive roles including Superdry Plc, Safestore Plc, Goals Soccer Centres plc, JE Beale Plc and Thorntons 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.

Committees

Amanda Aldridge
Independent Non-Executive Director

Amanda was appointed a Non-Executive Director in February 2018 and appointed Chair of the Audit Committee on 1 June 2018. Amanda is currently a Non-Executive Director of Impact Health REIT plc and The Brunner Investment Trust PLC. Amanda was a partner in KPMG LLP from 1996 until 2017, when she retired from the partnership, having joined the firm in 1984 and qualified as a chartered accountant in 1987. During her 32 years with KPMG LLP, Amanda held a number of strategic and line management roles. She is a Fellow of the Institute of Chartered Accountants in England and Wales.

Amanda has significant experience as an external auditor, working predominately with quoted clients in the retail and distribution sectors, and additionally advised quoted companies on corporate transactions and the assessment and remediation of internal controls.

Committees

Alison Littley
Independent Non-Executive Director

Alison was appointed a Non-Executive Director in January 2019 and was appointed Chair of the Remuneration and Nomination Committees on 1 June 2019. She is currently a Non-Executive Director and Chair of the Remuneration Committee at Norcros plc, a supplier of high quality and innovative bathroom and kitchen products, and a Non-Executive Director at Weightmans LLP and Geoffrey Osborne Group. In her executive career, Alison held a variety of senior management positions in Diageo plc and Mars Inc, and was Chief Executive Officer at an agency to HM Treasury.

Alison has substantial experience in multinational manufacturing and supply chain operations, and a strong international leadership background of building effective management teams and third-party relationships. In addition to having recent and relevant remuneration committee and policy experience, she is a representative on the Company's Employee Forum which acts as the formal workforce advisory panel to the Board.

Committees

Executive Team

The capabilities, experience and areas of expertise of the individuals within the Board and Executive Team are detailed on pages 54 to 57, with these combining to deliver on the Company's Strategy whilst also addressing and helping to mitigate the Company's Principal Risks & Uncertainties.

See Our Strategy on page 20

See Risk Management and Principal Risks & Uncertainties on page 34

Adrian Harris
UK Operations Director

Adrian was appointed UK Operations Director in 2019 having previously been Chief Operating Officer at Yodel, one of the UK's largest delivery companies for B2B and B2C orders serving many of the UK's leading retailers. 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.

Adrian has brought important additional skills and areas of expertise to the Executive Team, particularly in the areas of logistics, customer insight and e-commerce, and heads up the Company's operational leadership team and operational improvement programme. As part of his remit, he is the day-to-day overseer of the Company's health and safety activities and a member of the teams dedicated to Brexit preparations and sustainability.

Darryl Price
Commercial Director

Darryl has over 25 years' experience in the floorcoverings industry having joined the Company in 1994. He has extensive knowledge and experience in all areas of the Company's operations including warehouse and distribution, supplier management, sales and customer service. He has been Commercial Director since 2016 and is responsible for the Company's global supplier base and product development activities, including in the area of sustainability, and also holds operational oversight of a number of the Company's UK businesses.

Due to his in-depth supplier base knowledge, Darryl is a member of the operational leadership teams involved in the preparations around the potential impact of Brexit, and the monitoring and prevention of Modern Slavery in the Company's supply chain.

Sue LaVerne
People Director

Sue was appointed People Director in 2017, joining from E.ON where she had worked since 2009 carrying out various commercial and international HR leadership roles, latterly as HR Director of the global customer solutions division. Sue started her career in retail with commercial and HR appointments including at Marks and Spencer and Arcadia Group. She has broad experience in all areas of HR and has contributed to external bodies, including the Department for Work and Pensions employers steering group focused on giving more disabled people access to work.

Sue established the Company's dedicated HR function and has been instrumental in implementing the Company's workforce engagement activities and initiatives, whilst developing the culture and succession planning programmes across the business.

Catherine Miles
Director of Communications

Catherine was appointed Director of Communications 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 predominately in the small and mid-cap space. Prior to this she was Corporate Communications Director and Company Secretary at an AIM listed company, and initially worked in the Financial PR industry.

Catherine is involved in ensuring regulatory compliance and heads up the Company's investor relations function. She is highly involved in all stakeholder engagement activities, including workforce communications, and additionally heads up the team focused on environmental policy setting, data collation and reporting.

Karen Atterbury
Company Secretary

Karen was appointed Company Secretary in 2019. Previously she was Deputy Company Secretary of Barratt Developments PLC, and prior to this held various company secretarial roles including Company Secretary of Dixons Carphone PLC and Deputy Company Secretary of Dixons Retail. Karen is a qualified Chartered Secretary and governance professional within listed companies, and has extensive transactional, compliance and corporate governance experience. She is an Associate of the Chartered Governance Institute.

Karen is focused on governance and compliance in all areas of the Company's activities and operations. She additionally manages the Company's property portfolio, insurance, and pension administration.

Chairman's Introduction to the Corporate Governance Report

Philip Lawrence Non-Executive Chairman

"A commitment to the highest levels of corporate governance underpins the delivery of our strategic objectives and the sustainability of the business for the benefit of all stakeholders and the wider society as a whole."

As Chairman it is with great pleasure that I present the approach your Board has taken on Corporate Governance throughout the year under review. As outlined within last year's Annual Report and Accounts, we welcomed Alison Littley as a Non-Executive Director on 1 January 2019 and the only other change to Board composition during the year was Andrew Eastgate's retirement on 31 May 2019 after nine years' service. I wish to thank Andrew for his contribution to the Group during his tenure.

Following the evolution of the Board over the last two years, this has been a year of strategic progress with continued focus on governance practices across the Group enabling the Board to ensure that the requirements of the 2018 UK Corporate Governance Code (the 'Code') have been fully met.

We strive for continual improvement in our governance practices and I set out below some of the highlights from the year under review:

Strategic Priorities
One of our main priorities was to look longer-term, discuss, challenge and establish the strategic objectives for the business, as given on page 20, and to ensure that the resources, skills, processes and investment was in place to successfully deliver both short-term and long-term goals in order to drive operational and financial performance and the achievement of long-term stakeholder value.

Remuneration Policy
The Remuneration Committee has reviewed the Company's Remuneration Policy which is now due to be re-presented to shareholders for approval for the next three years. The Remuneration Committee has concluded that it will re-present the current policy framework for approval, as it continues to be effective, whilst introducing a number of amendments to align it with current governance standards. The Remuneration Policy was previously approved by shareholders at the 2017 AGM with over 99% votes cast in favour. Further information is outlined in the Remuneration report on page 76.

Succession Planning
The Nomination Committee undertook a review of succession planning for Board and Executive Team appointments and agreed the way in which it would be carried out. This was then undertaken during January 2020. Contingency succession planning and long-term succession planning have both been undertaken as outlined further on page 68.

Stakeholder Engagement
In one of the most notable updates, the Code states that Boards should understand the views of their key stakeholders and that they explain in their annual report how their interests and the matters set out in section 172 of the Companies Act 2006 were considered in Board discussions and in the decision-making processes. The full statement explaining the Board's approach to stakeholder engagement is included on pages 40 to 45.

One of our principal stakeholder groups is, of course, our workforce. During 2019 we launched our Employee Forum to serve as our formal workforce advisory panel in compliance with provision 5 of the Code. The Employee Forum has held two meetings to date, to discuss items of importance to the Company's business and strategic direction.

The Board believes that our people are at the heart of the business and they are delivering our strategy every day. Their views are therefore vitally important in shaping the Company's approach to its day-to-day operations. Members of the Employee Forum have been nominated from across the business, from different levels of the organisation, so as to achieve a genuine cross-section to represent the views of our people. After each meeting of the Forum, the Chief Executive reports on the business of the meeting back to the Board. In addition, Alison Littley attends each Forum in her role as Non-Executive Director and Chair of the Remuneration Committee to further inform the discussions at Board level. Further information on the Employee Forum and engagement with our workforce is contained on page 46. Additionally, the Board is planning to hold two of its meetings at regional businesses over the next year, to hear directly from our business leaders.

Culture, Values and Ethics

The regionalised nature of the marketplace is reflected in the Company's culture, which is firmly rooted in it's heritage of regionally-focused, local businesses where each business takes pride in its unique identity and long-established customer relationships. It is this locally focussed culture which is at the heart of the Company's ability to provide customers with tailored propositions and products specific to their needs. The Board wishes to preserve the local, customer focused attributes of the culture, while additionally encouraging the appropriate levels of collaboration between the Company's businesses to deliver greater operational efficiency and further improve performance at a group-level.

During 2019, a key focus has been the development of a clear set of values and behaviours. Workshops were held across the Company's businesses, which involved 135 employees. The output from these workshops informed the draft values and behaviours that were presented to the Employee Forum, whose ideas and suggestions were subsequently included in the final presentation to the Board.

The Company's strategic objectives and values, which will be embedded in 2020, include a focus on teamwork, partnership and service which support the strategy of developing a positive workplace culture and delivering sustainable long term value.

The Board believes that the values of the Company should not be an overlay but should simply become 'the way we do business'. By listening to and understanding our workforce, we can develop corporate values supported by behaviours that truly resonate with the business and support the achievement of our strategy for the benefit of all stakeholders. With that in mind, the Board has approved a culture capture exercise which will take place in March 2020 to inform its understanding and monitoring of culture throughout the Group. The Board will continue its assessment of workplace culture and monitor the implementation of the Company's values and associated behaviours during 2020.

The principles of good governance are also embedded in the day-to-day running of the Group in a variety of different ways including:

- a key focus on the health, safety and working practices of our people, see page 52;
- the requirement to observe good business practice, including abiding by applicable laws and legislation;
- a fully implemented delegation of authority document which sets out which decisions can be made by whom in the organisation;
- the undertaking of internal control audits by Group Finance with oversight by the Audit Committee;
- the implementation of group-wide policies such as Anti-Corruption and Bribery, Fraud and Money Laundering. Group businesses are required to confirm compliance with these policies as part of the half year and full year reporting process; and
- the encouragement of disclosures in line with the Group's Whistleblowing Policy and the thorough investigation of any such disclosures.

Diversity

Diversity and inclusion has continued to be an item of focus on the governance agenda. The Board and Nomination Committee supports the FRC's proposals to require greater consideration of ethnic and social diversity when planning and reviewing the composition of the Board and structuring talent development initiatives. The Board has considered the Company's diversity strategy during the year. Further details on Diversity can be found in the Nomination Committee Report on page 69 and the Strategic Report on page 49.

Environment and Sustainability

Any socially responsible business is aware of the impact its operations have on its stakeholders and the environment. We have a substantial understanding of the impact our operations, with this principally arising through the movement of our fleet and the waste arising from product and packaging. We are committed to mitigating our direct environmental impact as well as working as part of the overall floorcoverings industry to reduce the industry's environmental footprint. The actions we are pursuing are detailed within 'Environment' on page 50.

During the year we completed the mandatory ESOS Phase 2 Assessment which included energy saving recommendations that the business has assessed and will look to implement as appropriate during 2020. Additionally, as a demonstration of our commitment to the highest levels of disclosure and to the measurement and implementation of actions to reduce energy usage and carbon emissions, we elected to voluntarily comply a year early with the UK government's new Streamlined Energy & Carbon Reporting ('SECR') scheme which applies to financial years starting on or after 1 April 2019, and therefore would not have applied until the Company's 2020 Annual Report and Accounts.

Full information on ESG (Environmental, Social and Governance) issues and the Environment are given on pages 38 and 50.

Board Evaluation

The Board has undertaken an external Board effectiveness evaluation exercise during the year. The evaluation was facilitated by Board Evaluation and further information on the outcomes are set out on page 64.

2020 and beyond

2019 has been an important year for the Group with much having been achieved at an operational and strategic level. We will continue to strive to achieve long-term shareholder value and to positively impact all our stakeholders. I am confident that we have the right mix of skills and experience on the Board to provide strong and effective leadership and successfully drive performance in all areas through 2020 and beyond.

Philip Lawrence
Non-Executive Chairman
5 March 2020

Corporate Governance Report

Our governance framework helps the Company in the delivery of its strategic objectives and ensures that its obligations to its stakeholders are understood and fully met.

Compliance statement
It is the Board's view that, throughout the financial year ended 31 December 2019, 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'). The Code is published by the Financial Reporting Council, and is available on its website at www.frc.org.uk.

This Corporate Governance Report, together with the Nomination Committee report on pages 67 to 69, the Audit Committee report on pages 70 to 75, the Directors' Remuneration Report on pages 76 to 97, and the Other Statutory Information section page 98 provides a description of how the main principles of the Code have been applied by the Company during 2019.

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 98 to 101. 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.

Leadership
The Board is the Company's principal decision-making body. The schedule of matters reserved for the Board, as approved by the Board, is available on the Governance section of the Company's website, www.headlam.com. It includes matters relating to strategy, capital expenditure, 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 have been reviewed during the year and are also available on the Company's website.

Board responsibilities
The Board is responsible for providing strategic and entrepreneurial leadership of the business and promoting its long-term sustainable success. This is achieved within a framework of strong governance and effective controls enabling opportunities and risks to be assessed and managed appropriately. In doing so the Board aims to generate value for shareholders while contributing positively to the wider society. In addition, the Board sets the Company's strategic objectives; ensures that the necessary financial and human resources are in place for the Company to meet its objectives; and reviews management performance.

Board Committees and Delegation
The Board takes decisions on strategy and in relation to items set out in the written schedule of matters reserved for its deliberation. Various operational matters and decisions have been delegated to Board or management committees. The Company has long-established Board, Audit, Nomination and Remuneration Committees which oversee and debate important issues of policy and assist the Board in attending to its responsibilities. Terms of reference for each Committee have been reviewed during the year and are available on the Governance section of the Company's website.

Group Board
Provides effective and entrepreneurial leadership within an environment of strong corporate governance, ethics and values, and effective controls

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.

Page 67

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

Page 70

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.

Page 76

Disclosure Committee
To assist the Board in discharging its responsibilities in relation to the control of inside information and obligations under the Market Abuse Regulation.

Assurance

Executive Risk Management Committee
To identify emerging and principal risks and monitor and assess the operational risks of the business and their mitigation.

Board balance

The Board consists of the Non-Executive Chairman, two Executive Directors and three Non-Executive Directors. The Chairman was independent upon appointment. The Executive Directors are responsible for the implementation of the 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. Following review, the Board considers the balance achieved between Executive and Non-Executive Directors to be appropriate and effective for the control and direction of the business going forward, such that no one individual or small group of individuals dominates the Board's decision-making. The Directors as a whole, bring strong judgement to the Board's deliberations, and the size and balance of skills and experience of the Board is considered appropriate for the requirements of the business and the size of the Company.

The Board recognises the valuable contribution that diversity, including gender, can bring to board discussions and the decision-making process. Although the Board does not set gender targets, preferring instead to appoint on merit, at the date of this report, 33% of the Board is represented by female directors (2 out of 6 Board members). The Board considers this to be appropriately balanced to achieve a gender diverse perspective. Additional disclosures relating to the Company's approach to diversity considerations are set out in the Nomination Committee report.

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 three Non-Executive Directors and consider that all are independent of management and free from any business or other relationship that could materially interfere with the exercise of independent and objective judgement. In making this determination the Board has considered whether each Director is independent in character and judgement and whether there are relationships or circumstances which are likely to, or could, affect the Director's judgement.

Philip Lawrence was considered independent upon appointment to the Board in 2015 and continued to be so upon taking up his role as Non-Executive Chairman. As part of the 2019 effectiveness review of the Chairman, the Non-Executive Directors led by Keith Edelman, considered Philip Lawrence's other interests and confirmed that he continues to dedicate sufficient time to his role and that his other interests did not impact on his availability to fulfil his duties.

The Senior Independent Director is available to shareholders if they have concerns which are not resolved through the normal channels of the Chairman, Chief Executive or Chief Financial Officer, or for which such contact is inappropriate.

The Non-Executive Chairman and Non-Executive Directors do not participate in any bonus, share option or pension scheme of the Company. 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 will stand for re-election by shareholders at the 2020 AGM.

Board Roles

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 below:

Non-Executive Chairman Philip Lawrence	• Manage and provide leadership to the Board and set its agenda; • Ensure high standards of corporate governance and set the cultural tone from the top; • Act as a liaison between the management of the Company and the Board; • Provide independent advice and counsel to the Chief Executive; • Responsible for the effectiveness of the Board and its decision-making process and enable an annual review of its effectiveness; • Facilitate effective contribution of all Directors and constructive relations between Executive and Non-Executive Directors; • Ensure appropriate induction training for each Director; and • Ensure effective communication with shareholders and other stakeholder groups and participates in corporate relations activities, including with shareholders as appropriate.
Chief Executive Steve Wilson	• Lead and manage the Group; • Develop Group strategy for the enhancement of long-term stakeholder value taking into account the needs and views of each stakeholder group; • Lead the Executive Team in the implementation of Group Strategy agreed by the Board; • Run the businesses in accordance with the policies and plans approved by the Board; • Maintain relationships with shareholders and advise the Board accordingly; • Set an example to the workforce and communicate the Board's expectations particularly with regard to culture, diversity and compliance; and • Champion environmental performance and Health and Safety at Board level.

Corporate Governance Report continued

Chief Financial Officer Chris Payne	• Responsibility for managing the Group's financial affairs; • Support the Chief Executive with his corporate relations responsibilities, including with shareholders; • Chairs the Risk Committee; • In conjunction with the Executive Team and Risk Committee, oversee the Company's risk profile and risk management process; • Responsible for managing the Group's I.T. department and infrastructure; and • Responsible for implementing the Group's corporate development strategy.
Senior Independent Director Keith Edelman	In addition to the role as a Non-Executive Director: • Act as a sounding board for the Chairman on Board related matters; • Lead the effectiveness evaluation of the Chairman; • Act as an intermediary for other Directors, when necessary; • Be available to shareholders who wish to discuss matters which cannot be resolved otherwise; and • Work with the Chairman, other Directors and/or shareholders to resolve significant issues and to maintain Board and Company stability in periods of stress.
Independent Non-Executive Directors Amanda Aldridge Alison Littley	• Provide effective and constructive challenge; • Particular responsibility to critically assess the strategy proposed by management and provide strategic guidance; • Offer specialist advice to management using their experience and expertise; and • Scrutinise the performance of management in the implementation of the approved strategy.

The Role of the Company Secretary
The Company Secretary provides support to the members of the Board:

Company Secretary Karen Atterbury	• Provide updates to the Board and advise on corporate governance and compliance matters; • Support the Chairman and Chief Executive in fulfilling their duties particularly in relation to induction, training and Board effectiveness evaluations; • Support the Non-Executive Directors; and • Provide effective support to the Board and its meetings, including attending and maintaining a record of the same.

Attendance at Board meetings

The Board met nine times during the year to discuss the latest operating and financial information, key strategic items and other topics requiring discussion or decision. Board papers are issued where possible, a week prior to each meeting to allow adequate consideration of the matters to be discussed. The Board's meeting agenda is structured to ensure that sufficient time is given to each item under consideration. The Chairman holds meetings of the Non-Executive Directors without the Executive Directors being present on the day of each board meeting and they have additionally met once during the year. The Non-Executive Directors have also met without the Chairman or the Executive Directors present, led by the Senior Independent Director.

A record of Directors' attendance at scheduled Board meetings held during the year is set out below. Committee meeting attendance is given in the relevant Committee reports.

Directors	Role	Meetings attended	Eligible to attend
Philip Lawrence	Non-Executive Chairman	9	9
Steve Wilson	Chief Executive	9	9
Chris Payne	Chief Financial Officer	9	9
Keith Edelman	Senior Independent Director	9	9
Amanda Aldridge	Independent Non-Executive Director	9	9
Alison Littley	Independent Non-Executive Director	9	9
Former Director			
Andrew Eastgate[1]	Non-Executive Director (stepped down as Director 31/5/19)	3	4

[1] Andrew Eastgate was unable to attend one Board meeting due to a prior commitment.

In addition to the meetings above, the Board held an offsite strategy day with the Executive Team to assist with the development of the Company's strategy and strategic objectives.

The Board considers that it may be beneficial for the Executive Directors to hold external directorships to broaden their experience. The Board has approved a policy which would limit such appointments to one Non-Executive Directorship or other significant appointment.

The Board's Activities in 2019

Overview

The following sections outline the key activities of the Board during 2019 and to the date of this report. The Board paid specific attention to assisting management in the development of the Company's strategic objectives and the approach that it takes to governance in general. At each meeting the Board receives updates from the Chief Executive, the Chief Financial Officer and the Company Secretary in addition to reports on health and safety, consideration of the views of stakeholders (including employees, suppliers, customers and shareholders), and corporate governance updates.

Specific activities of the Board included the following:

Strategy and management:

- Considered a report from an external consultant on the Company's marketplace, industry and customer insights;
- Through detailed interaction at Board meetings with the Executive Team in attendance, considered options leading to the review and approval of the Company's strategy and operational, people and IT plans;
- Received presentations from senior managers of the Company's Domus and LMS businesses on strategy and development plans;
- Undertook post implementation reviews of the Company's acquisitions; and
- Considered and challenged margin and efficiency initiatives and projects as part of the Company's overall operational efficiency programme;

Internal controls and risk management:

- Provided oversight of the Risk Committee, and completed a robust assessment of the Company's emerging and principal risks, mitigating actions and residual risk exposure;
- Conducted a deep dive into the Company's Health & Safety management and procedures and resulting recommendations;
- Reviewed updates on the Company's approach to IT resilience and cyber security;
- Assessed capital investment in property and acquisitions and approved the purchase of land and subsequent development of the new Ipswich regional distribution centre;
- Considered the Company's viability statement;
- Reviewed and approved the implementation of an updated Anti-Corruption and Bribery policy, procedures on gifts & hospitality, and Fraud and Anti-money Laundering policy;
- Received and considered reports on compliance with financial, regulatory, corporate responsibility and environmental commitments; and
- Reviewed the Company's insurance programme.

Governance and stakeholder engagement:

- Interacted with shareholders and the wider investment community;
- Reviewed investor feedback provided by the Company's stockbrokers and financial PR agency plus reports from the Chief Executive, Chief Financial Officer and Director of Communications on investor roadshows;
- Considered supplier updates and the results of a customer insight questionnaire;
- Participated in and reviewed the results of an externally facilitated Board and Committee evaluation exercise;
- Reviewed the Statement of the Responsibilities of the Chairman, Chief Executive and Senior Independent Director and terms of reference of each Board Committee;
- Reviewed and updated the Company's Share Dealing Code and procedures;
- Listened to feedback from the Employee Forum via the Chief Executive and the Chair of the Remuneration Committee;
- Approved the Terms of Reference for the Company's Disclosure Committee;
- Reviewed and approved the Board's principal policies, including the Modern Slavery Statement;
- Reviewed the Company's Register of Conflicts;
- Considered the culture of the Company and approved the undertaking of a culture capture exercise to further inform deliberations on culture;
- Reviewed environmental reporting obligations and activities; and
- Approved a further grant under the Company's Sharesave Scheme.

Operations and material transactions:

- Reviewed the planning, trialling and roll-out of the automated stock re-ordering initiative;
- Reviewed the Company's products, suppliers and use of incentives;
- Approved the acquisition of the trade and assets of Edel Telenzo Carpets Limited. (see page 158);
- Conducted assessments of potential acquisitions, whilst being cognisant of the market and general economic background, with the objective of delivering on the Company strategic objectives as defined on page 20; and
- Reviewed management structures in the Company's UK and Continental Europe businesses;

Brexit:

- Considered the impact of Brexit on the Company, its workforce, customers and supply of product, and agreement of plans to mitigate the associated risk.

Financial and performance reporting:

- Approved the Company's annual and half-year results and trading updates;
- Reviewed the Company's ongoing capital management strategy;
- Approval of share allotments under the terms of the deferred consideration related to the acquisition of Domus;
- Reviewed and approved the Company's investment programme;
- Reviewed and approved the Company's dividend policy, and approval of the interim and proposed final dividend;
- Approved the UK Tax Strategy;
- Reviewed the Company's performance against KPIs, 2019 budget, operating and project milestones; and
- Reviewed and approved the Company's 2020 budget.

Effectiveness

Induction

When 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 to aid with deep understanding of the Group's business operations. 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 day-to-day challenges faced at all levels of the organisation.

Additionally, an induction programme will typically include briefings on strategy and other matters, site visits, and one-to-one meetings with all relevant colleagues, including other Directors and the Executive Team, as well as with advisers including the Company's stockbrokers and auditor.

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

- Background information about the Company;
- Briefings on Directors' duties and responsibilities;
- Information on Board meeting procedures;
- Board minutes;
- Company policies;
- Matters reserved for the Board and Committee terms of reference;
- Financial budgets;
- Shareholder and other stakeholder feedback;
- Sell-side analyst research notes;
- Customer insights; and
- Relevant industry reports.

The new Director is also provided with an explanation of the Company's financing structure and relevant statutory and regulatory guidance, including the Code.

Training and Development

Training and development in the year took various forms, including visits to Company businesses and attendance at courses run by professional bodies on various commercial and regulatory matters. Directors receive regular updates appropriate to the business throughout the year aimed at developing and refreshing their knowledge and capabilities. During 2019, training also included presentations by the Executive Team to the Board on items within their remit. Topics included culture, operational effectiveness, diversity, gender pay gap, and customer insights. In addition, at each meeting the Company Secretary provides a governance update.

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 Non-Executive Directors are encouraged to further their knowledge of the Company by spending time with the Executive Directors, the Executive Team and senior managers of the Company's businesses on site visits. Non-Executive Directors are also encouraged to engage with all people across the Company to further enhance their understanding of the business.

Board Evaluation

Progress on 2018 Evaluation

In the 2018 Annual Report and Accounts we reported on the internal effectiveness board evaluation that had been conducted by the Chairman and the Company Secretary. Details of progress made on the actions arising out of the 2018 evaluation are detailed below:

	Board Decisions	Succession Planning	Board Meetings	Risk Management
2018 Outcomes	To continue to ensure that Board decisions are reviewed following their implementation.	Further enhance the succession planning for the Board and Executive Team roles.	Maintain and develop disciplines surrounding Board processes and ensure that an appropriate balance exists between the Board's discussions on short-term and long-term issues.	Further evolve the approach to risk management.
Actions for 2019	Broaden the use of post-implementation reviews.	Enhance succession plans for Executive Directors and the Executive Team.	Make further progress in developing Board and Committee agendas and packs to assist the Board in its analysis of items presented for discussion.	Review approach to risk appetite.
Progress made in 2019	Formal post implementation reviews have been conducted in relation to larger acquisitions. Formal action logs have been implemented to ensure that decisions are analysed at the appropriate time.	The Nomination Committee has reviewed the succession planning process for Board and Executive Team roles and reviewed succession plans.	Board and Committee planning is performed in a more structured way. An electronic Board portal has been implemented. Strategy reviews have provided improved balance of long-term and short-term matters.	Review of the mitigation plans and actions by the Board and Audit Committee.

2019 Board Evaluation

The Code recommends that an evaluation of the effectiveness of the Board and its Committees is conducted annually and that this process is externally facilitated at least every three years. Under the Code, companies outside the FTSE 350 Index are not required to complete externally facilitated Board evaluations, however it is recommended that they be considered. The Company was not a constituent of the FTSE 350 Index during 2019, nor is it at the date of this Report. However, as detailed in last year's annual report the Company announced its intention to conduct an externally facilitated Board and Committee evaluation in 2019, and it was subsequently completed during the year.

In choosing an external evaluator the Company Secretary approached a number of potential evaluators who each provided a written proposal for the conduct of the evaluation. A detailed report was provided to the Chairman and Chair of the Nomination Committee who then agreed to appoint Gary Cowdrill of Board Evaluation Limited, to perform the review. Neither Gary Cowdrill nor Board Evaluation Limited had any connection to the Company or its Directors.

A comprehensive and tailored online questionnaire was completed in private by all members of the Board and Executive Team, who all attend Board meetings. Gary Cowdrill then presented a draft report to the Company Secretary and Chairman. The report was then discussed at the Board meeting in December 2019. In addition, each Committee reviewed its own evaluation at its next meeting and the Nomination Committee reviewed the results and confirmed that there was nothing in the results which would have any impact on the considerations of the size or composition of the Board.

The evaluation concluded that the Board and its committees continued to operate effectively. The recent Non-Executive Director recruitments had strengthened the diversity of Board skills and experience in key areas, and the Board had spent time, and continued to consider the individual thinking styles and personal attributes, to ensure the Board effectively challenges and supports. Areas considered for improvement and actions arising from the external evaluation for the Board, were as follows:

	Succession Planning	Monitor performance	Cultural alignment with strategy	Risk Management
2019 Outcomes	Succession plans to be re-reviewed with the new strategic objectives in mind.	The updated strategy and operational efficiency programme will require new metrics to monitor progress and performance.	To ensure that the Group's culture is recognised throughout the business and aligned with Company strategy.	Further evolve the Company's approach to risk management.
Actions for 2020	Update and refresh succession plans that align with the skills requirements of the Company going forward.	Monitor the revised operational and project metrics that align with the updated strategy.	Oversee the bottom up culture capture exercise and monitor cultural developments to assess its alignment with strategy.	Strengthen the risk management reporting framework by further assessing the Board's risk appetite.

As part of the annual effectiveness review of the Directors, the Chairman provided feedback to each Director, and the Senior Independent Director provided feedback to the Chairman. The effectiveness review found that the Chairman continued to operate the Board in a culture of openness and debate, facilitating an atmosphere of challenge whilst encouraging the effective contribution of all Board members.

Re-election of Directors

The Company's current Articles of Association provide that each Director shall retire from office and shall be eligible for reappointment at the third annual general meeting after the general meeting at which he or she was appointed or last reappointed. As outlined within the 2018 Annual Report and Accounts, the Board has agreed that all Directors will submit themselves to annual re-election at AGMs, in compliance with the Code. The Notice of AGM, separate to this document, sets out the specific reasons why the Board considers the contribution of each Director to be important to the Company's long-term sustainable success and recommends their appointment or re-appointment.

The Board is of the opinion, supported by the Nomination Committee, that each Director continues to make an effective and valuable contribution and demonstrates commitment to their role.

Directors' conflicts of interest
Procedures are maintained by the Board whereby potential conflicts of interests are reviewed regularly and upon appointment to the Board or prior to taking on an external appointment. These procedures have been refreshed during the year. The implementation 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 are identified and, where appropriate, dealt with in accordance with the Companies Act 2006 and the Company's Articles of Association. The Board has not had to deal with any conflicts of interest during the year.

Directors holding significant commitments outside of the Company are required to disclose them prior to appointment and on an ongoing basis where there are any changes. Actual and potential conflicts of interest are regularly reviewed and are included on a register which is maintained by the Company Secretary and which is reviewed annually. 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. All of the Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively. The ability of each Non-Executive Director to dedicate sufficient time to the Company is reviewed annually.

During the year several members of the Board have accepted additional outside commitments. In line with Board policy, for each additional role, approval was requested in advance of accepting the position. In considering each request, the Director's other commitments were taken into consideration, in addition to whether or not a conflict or potential conflict would exist. In each case during the year, it was agreed that the Director would continue to be willing, and able, to dedicate sufficient time to their role with the Company and therefore the new role was approved.

Relations with shareholders
The information on stakeholder interaction and engagement, including with shareholders, is contained within the stakeholder interaction and engagement section of the Strategic Report on pages 40 to 43.

The Board places considerable importance on communication with shareholders. The Board considers that ongoing engagement with shareholders and the wider investment community, including analysts and investors not currently shareholders in the Company, is essential to shareholders' understanding of the Company and their ability to appraise the performance and management of the Company and consider the Company as an investment proposition.

The Company offers its larger shareholders, either directly or via its stockbrokers, face-to-face meetings on a bi-annual basis at a minimum, to present and discuss performance and other matters, and obtain feedback. These meetings are typically hosted by the two Executive Directors and the Company's Director of Communications. The Company also retains a Financial PR and IR adviser to further facilitate interaction and support its communication with the investment community.

Meetings are also periodically offered to and held with shareholders at various Company locations to help illustrate the Company's operations and aid understanding. Non-Executive Directors, including the Chairman, attend certain meetings, events and briefings during the year where shareholders are present in addition to the AGM. The Non-Executive Directors are committed to facilitating a direct channel of communication with the Company's larger shareholders to hear any views and concerns, and attend meetings with shareholders without Executive Directors present as appropriate.

The Company actively seeks shareholder feedback. Feedback is collated by both the Company and its advisers, discussed at Board level, and considered in relation to all aspects of the Company's performance and strategy whilst also helping to inform its future communications.

All shareholders have the opportunity to communicate directly with the Board at the AGM. Shareholders are invited to ask questions during the meeting, followed by an opportunity to meet with the Directors after the formal business of the meeting. The Executive Team also attend the AGM and meet with shareholders before and after the meeting, and offer operational tours to interested parties. All of the Directors attend the AGM, and the Chairman of the Board and the Chairs of each Committee are available to answer shareholder questions during the formal business of the meeting. The voting on all resolutions at the AGM is conducted on a show of hands unless a poll is requested and a separate resolution on each substantially separate issue will be proposed. 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 on the day of the AGM. Details of the 2020 AGM are set out in the Notice of Annual General Meeting circular provided to shareholders as a separate document to this Report, and which is also available on the Company's website.

Nomination Committee Report

Philip Lawrence Chair of the Nomination Committee

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 2019. The Nomination Committee plays a vital role in the stewardship of the Company and this is demonstrated by the fact that myself, the Non-Executive Directors and the Chief Executive are all members of the Committee. The majority of the members are independent Non-Executive Directors as required by the Code.

The primary objective of the Committee is to support the Board in ensuring that the Board and Executive Team have the right skills, experience and diversity to deliver the Company's strategic objectives over the long term. It achieves this through a variety of means, primarily by: annually reviewing the structure, size and composition of the Board; recommending to the Board any changes required for succession planning; and identifying and nominating candidates for Board approval, to fill vacancies as and when they arise. The Nomination Committee is also responsible for overseeing the development of a diverse pipeline for succession.

Following the appointment to the Board on 1 January 2019 of Alison Littley and Andrew Eastgate's retirement from the Board on 31 May 2019, there have been no further director changes during the year under review. The appointments of all three Non-Executive Directors within the last two years were made with the strategy of the Company in mind, and it was agreed that following Andrew's retirement, the size of the Board continued to be appropriate for the Company's size and listing and would contain appropriate experience to achieve its strategy. A review was undertaken in January 2020 and this was reconfirmed.

During 2019, the Nomination Committee focused on the following areas:

Skills and Experience Assessment

The Nomination Committee annually reviews the skills, experience and diversity required on the Board to achieve the Group's long-term strategy. We have refreshed the process of performing this review to ensure it was rigorous and comprehensive. Further detail is included later in the report.

Succession Planning

We have also given full consideration to succession planning for Directors and other members of the Executive Team. We have conducted a detailed succession planning exercise for all Board roles which took into account the skills and experience assessment and the present and future needs of the Group ensuring that succession plans were based on merit, against objective criteria, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Further detail is included later in this report. The succession planning exercise was completed in January 2020.

Board Evaluation

We have assisted the Board in arranging an externally facilitated Board evaluation which has been conducted during the year, further information on this is contained in the Corporate Governance section on page 65.

Key Priorities

Over the coming year, our key priorities will remain to:

- ensure that the Group continues to have the diversity, skills and experience necessary at Board and Executive Team level to effectively deliver group strategy; and
- further develop the succession planning at Board and Executive Team level.

We will continue to focus on ensuring that the composition of the Board and the Executive Team is appropriate for the delivery of the Group's long-term strategy and that all of the requirements of the Code as they relate to the Nomination Committee continue to be met.

The following report sets out in detail the work that we have undertaken during the year under review.

Philip Lawrence
Chair of the Nomination Committee
5 March 2020

Nomination Committee Report continued

Main role and activities undertaken
The Nomination Committee met on two occasions in order to fulfil its responsibilities delegated to it by the Board. The key areas of focus for the Committee are: to review the structure, size and composition of the Board and recommend to the Board any changes required; to plan for succession taking into account diversity of gender, social and ethnic backgrounds, cognitive and personal strengths; and to identify and nominate for the approval of the Board, candidates to fill vacancies as and when they arise. The Committee is also responsible for reviewing the results of any Board performance evaluation process and making recommendations to the Board concerning the Board's committees and the re-election of Directors at the AGM. 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.

Membership and attendance at meetings held in 2019
The Nomination Committee was initially chaired by Alison Littley and then subsequently, Philip Lawrence. It comprises a majority of Independent Non-Executive Directors as required by the Code and their biographies are set out on page 54. The Committee met on two occasions during the year under review and the table below set out its members and their attendance.

Members	Meetings attended	Eligible to attend
Philip Lawrence	2	2
Alison Littley	2	2
Amanda Aldridge	2	2
Keith Edelman	2	2
Steve Wilson	2	2
Former Member		
Andrew Eastgate (stepped down as a Director 31/5/19)	0	0

Only members of the Nomination Committee are entitled to be present at meetings but other Directors, members of the Executive Team and advisers may be invited to attend. The Company Secretary is the Secretary to the Committee.

An annual workplan for standing items is in place which ensures that all of its delegated responsibilities are concluded within the year.

Board changes and appointment and re-appointment of Directors
Andrew Eastgate stepped down from the Board on 31 May 2019 following nine years' service.

The Committee has procedures in place with regard to maintaining a formal, rigorous and transparent process for Board appointments, ensuring that appointments to the Board are made on merit, against objective criteria, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. There have been no appointments during the year to the Board other than Alison Littley's appointment becoming effective on 1 January 2019. In the case of recruitment to Chairman or Non-Executive Director positions, following a formal skills assessment, the following procedure is used:

- Appoint and brief an independent recruitment consultancy with no other connection to the Company or its directors to carry out a market appraisal and to present potential candidates with the particular skills required. Recruitment agencies for Board and senior management positions are selected on the basis that they will put forward a diverse list of candidates;
- Consider each candidate on merit against the comprehensive candidate brief developed by the Committee;
- Interviews and meetings with the Board;
- Committee meet / debate and agree candidate for recommendation to the Board; and
- Board discuss and confirm appointment.

All Non-Executive Directors are appointed to the Board for an initial three-year term which may be extended by two further three-year terms, subject to independence and effectiveness assessments by the Committee and annual re-election by shareholders at annual general meetings. The letters of appointment of all Non-Executive Directors (alongside the service contracts for the Executive Directors) are available for inspection by any person 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. 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, that they can continue to dedicate sufficient time to the Company's business.

Skills assessment
The Committee leads the process to regularly assess whether there is an appropriate blend of skills and experience on the Board and within the Executive Team to enable the implementation of the Group's strategy. A full skills assessment is in the process of being undertaken. The Non-Executive Director skills assessment was completed in January 2020 alongside a review of cognitive and personal strengths. A detailed discussion was held on the skills and experience required from the appointed Non-Executive Directors to enable them to appropriately challenge and support the Executive Directors and these were then matched against the skills present on the Board.

For the Executive Directors, the Nomination Committee has approved a detailed matrix which will map the existing skills and experience of the Executive Directors against those desired for the effective implementation of the Group's strategic priorities whilst considering the factors affecting the long-term success and future viability of the Company. The matrix will be completed and presented to the next Committee meeting for review.

The Committee and the Board, based on work completed to date and the evidence from Board meetings, have concluded that the skills and experience currently available are sufficient for the implementation of Company strategy.

Succession planning
Planning for succession is of vital importance to ensure the long-term effectiveness and smooth operation of the business, additionally, it provides the opportunity to further the Group's diversity objectives as appropriate candidates present themselves. Succession planning is therefore a key area of focus for the Committee.

Detailed consideration has been given to both contingency and long-term succession planning.

Contingency succession planning
The aim of contingency succession planning is to identify suitable individuals who could assume the responsibilities of another in the case of sudden absence. A full review was undertaken of all Board and Executive Team roles and suitable individuals identified within the Company who, either on their own or together could effectively assume additional responsibilities until the incumbent returned to their position or a successor appointed.

Long-term succession planning

Executive Directors and the Executive Team – the Committee has performed a succession planning exercise for the Executive Directors. With the aim of ensuring that the business's leadership needs are met, the Committee considered suitable individuals who were identified as being able to fill each Executive Director and Executive Team position on a short- or medium-term basis. Development plans were proposed and reviewed by the Committee for each individual identified as a potential successor. As part of their development, all of the Executive Team are invited to attend Board meetings and present on items within their remit. In 2020 the Board intends to hold two Board meetings on site, at which local management will be invited to present, giving the Board a greater understanding of the breadth of talent across the business.

Long-term succession planning

Chairman and Non-Executive Directors – the Committee annually reviews the length of service and independence of the Chairman and Non-Executive Directors to ensure compliance with the Code and plan for the progressive refreshment of the Board in a controlled manner. The Committee considered the changes on the Board during the previous two years and it was agreed that no further progressive refreshment was necessary.

The succession planning process in the broader organisation allows active steps to be taken towards monitoring and increasing diversity not just at board and senior management level.

Board Evaluation

Detailed information on how the externally facilitated board and committee effectiveness reviews were conducted and the outcomes, can be found on page 65. The review found that this Committee is operating effectively and that its role and remit remained appropriate for the current needs of the business. The Committee discussed the findings of the evaluation to identify opportunities for further improvement. There was no finding that would influence Board composition.

Governance

The composition and performance of the Board and its Committees were considered and it was concluded that the Board and each Committee continue to function effectively. The Committee considers that the balance of the Board, consisting of the Chairman, three Non-Executive Directors and two Executive Directors not only meets the provisions of the Code but will continue to provide the appropriate mix of experience, expertise and challenge to enable the Company to achieve its strategic aims.

Retirement and Re-election of Directors

In line with the 2019 AGM and the Code, all Board members will again stand for re-election at the 2020 AGM. Each director has been subject to a performance evaluation conducted by the Chairman, with the Senior Independent Director discussing with the Chairman the results of his external review. The evaluation, amongst other items, covered the appropriateness of the Directors' experience and their time commitment and contribution to the Board during the year. In light of the results of these effectiveness evaluations, the Board recommends that shareholders approve the resolutions to be proposed to the forthcoming AGM relating to the re-election of the Directors.

Diversity and Inclusion Policy

The Company is fully committed to developing a diverse workforce and equal opportunities for all. The Board recognises the valuable contribution that diversity can bring to achieving the right mix of skills, experience and perspective that enables the organisation to reach its full potential. Steve Wilson has been appointed as champion of the Company's diversity and inclusion initiatives.

Board Policy

In accordance with DTR 7.2.3A, the Committee confirms that a Board Diversity Policy is in place and was last reviewed and approved in January 2020 by the Board. It remains the policy that all appointments to the Board and Executive Team should be made on merit and against objective criteria. However, whilst adopting this approach, the Board's diversity objective is to have a broad range of age, gender, approach, skills, experience and educational / professional backgrounds represented in senior management positions. Recruitment agents engaged by the Company for Board and senior management positions are selected on the basis that they will put forward a diverse range of candidates including female candidates and candidates from ethnic backgrounds.

Gender Diversity

The Company continues to take note of the guidance provided by the Hampton-Alexander Review on FTSE Women Leaders which recommended a voluntary target of 33% female directors in FTSE 350 companies. Whilst the Company is a constituent of the FTSE SmallCap and not currently covered by this voluntary target, it is pleased to confirm that as at 31 December 2019, 33% of the Board, 60% of the Executive Team (excluding Executive Directors) and 28% of the Executive Team and their direct reports were female.

Whilst fully supporting the aim of increasing diversity across the Board and wider workforce, the Board does not currently publish specific targets on gender balance.

Ethnic Diversity

The Committee is also mindful of the best practice recommendations of the Parker Review that each FTSE 250 Board should have at least one director of colour by 2024, and the recommendations of the McGregor-Smith Review which include the publication of 5-year diversity targets. While fully supporting the aim of increasing diversity across the Board and wider workforce, the Board does not currently publish specific targets on ethnicity.

When performing its annual review, the Board reviewed and approved the diversity and inclusion plan for the business. Further information is set out on page 49.

Advice

The Nomination Committee has access to such information and advice, both from within the Company and externally, at the cost of the Company, as it deems necessary. This may include the appointment of external executive search consultants, where appropriate. No Director is involved in any decisions regarding their own re-appointment or re-election including the Chairman.

Changes to Directors' commitments are reported as they arise and where there is a potential conflict, they are reported to the Nomination Committee and considered on their individual merits. Appointments to the Nomination Committee are made by the Board.

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

Philip Lawrence
Chair of the Nomination Committee
5 March 2020

Audit Committee Report

Amanda Aldridge Independent Non-Executive Director

Statement from the Chair of the Audit Committee

On behalf of the Board, I am pleased to present the Committee's report for the year ended 31 December 2019 and to summarise below, and in the report which follows, the ongoing responsibilities and objectives of the Committee; the work that has been carried out during 2019; and the priorities for 2020. I would like to thank Andrew Eastgate, who stood down from the Committee on retiring from the Board in May 2019, for his contribution to the Committee and I am delighted to have welcomed Alison Littley to the Committee from 1 January 2019.

The Audit Committee is given its authority by the Board and we act in accordance with our written terms of reference which are available in full on the Company's website. An important part of our role is to monitor the integrity of the Group's financial reporting and management. In performing this role, we scrutinise the full and half yearly financial statements, and review in detail the work of the external auditor (the 'Auditor') and any significant financial judgements made by management to ensure they are appropriate. Another important part of our role is to review the risk management and internal control framework operating across the Group to ensure that risks are being carefully identified; assessed; appropriately mitigated; and that sound systems of internal control are operating effectively.

An externally facilitated evaluation of the Committee's effectiveness was undertaken as part of the Board Performance evaluation during the year. Results were initially considered by the Board at its December 2019 meeting with those relating specifically to the Committee formally being considered at its meeting in March 2020. The evaluation results were very positive and confirmed that the Committee continued to operate effectively. Further information on the evaluation of the Audit Committee is set out on page 75.

The Committee reviewed its terms of reference and annual calendar in October 2019. The annual calendar allocates all responsibilities delegated by the Board (as set out in our terms of reference) to one or more Committee meetings. It additionally takes into account the external environment, internal operations of the business and any planned accounting and regulatory changes, to ensure that all of the areas we need to prioritise are included. We also ensure that the programme is sufficiently flexible to permit the Committee to respond quickly to any major changes in circumstances should this be necessary.

In performing our duties during the year, we have complied with all applicable requirements of the Code and followed the best practice guidance set out by the FRC. We work closely with the Group accounting team and Auditor, helping to ensure that our financial reporting remains clear; accounting issues and judgements appropriate; and our internal control system sound and operational.

The Committee intends, over the next year, to build on the progress made during 2019. Our main areas of focus during 2020 will be:

- To continue to monitor changes in accounting and governance standards, assess their impact on the Group, and evolve internal control procedures to test operational compliance;
- To continue our focus on developing the overall assurance and risk management framework, including links with the executive risk committee;
- To ensure that the finance function is evolving to include the talent and skills required to support the strategic and operational objectives in the business, through the attraction, development and retention of team members with the appropriate skillset; and
- To consider the impact of the FRC revised Ethical Standard 2019 and the implications for our policy on non-audit services.

In this report, we share some of the Committee's discussions from the year including details of the Committee's assessment of significant accounting matters and issues in relation to the Group's financial statements. We explain why the issues were considered significant in order to provide context for understanding the Group's accounting policies and financial statements. Additionally, we set out further information of how we have discharged our duties in respect of the year under review.

I will be available at the AGM to answer any further questions about our work.

Amanda Aldridge
Chair of the Audit Committee
5 March 2020

Main role and activities undertaken

The Audit Committee met on four occasions in order to fulfil its responsibilities delegated to it by the Board and is the body responsible for carrying out the audit functions required by DTR 7.1.3R. The key areas of focus for the Committee are to assist the Board in fulfilling its corporate governance responsibilities relating to the Group's risk management and internal control framework; financial reporting practices including key accounting judgements; and the external audit process.

Membership and attendance at meetings held in 2019

The Audit Committee is chaired by Amanda Aldridge and all members are independent Non-Executive Directors as required by the Code. The Committee has a meeting agenda linked to events in the Company's financial calendar, meeting at a minimum twice a year before the final and interim results announcements and subsequent publication of the reports. The Audit Committee met four times in the year and attendance was as follows:

Members	Meetings attended	Eligible to attend
Amanda Aldridge	4	4
Keith Edelman	4	4
Alison Littley	4	4
Former Member		
Andrew Eastgate (stepped down as a Director 31/5/19)	1	1

The Code additionally requires that at least one member has recent and relevant financial experience and Amanda Aldridge has fulfilled that role throughout the year under review. In addition, all members of the Committee are financially literate and have expertise relevant to the Company's sector, gained through a variety of corporate and professional appointments (see biographies on pages 54 and 55).

The Chief Executive, Chief Financial Officer, Chairman and the Auditor also attend the Committee's meetings at the invitation of the Committee Chair. Meetings of the Committee with the Auditor without the presence of management were also held during the year and the Committee Chair additionally holds meetings with the Lead Audit Partner. The role of Secretary to the Committee is performed by the Company Secretary.

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

Key activities of the Audit Committee during the year

The Audit Committee agrees annually a workplan which is designed to cover its terms of reference across its meetings. This has been followed throughout the year and the Committee, therefore, confirms that it has completed the items delegated to it throughout the year. In addition to matters relating specifically to its terms of reference, agendas incorporate matters arising and topical items on which the Audit Committee has chosen to focus. The key activities of the Audit Committee during the year in discharging its principal areas of responsibility were:

Area of responsibility	Key Activities
Financial Reporting	• Reviewed the half year and annual financial statements and reports, and the significant financial reporting estimates and judgements. • Reviewed the process established for ensuring that (and opined upon whether) the annual report and accounts is fair, balanced and understandable, and provides information necessary for shareholders to assess the Group's performance, business model and strategy. • Assessed the impact of the adoption of IFRS16. • Reviewed and approved the Audit Committee Report to be published in the annual report and accounts.
Going Concern and Viability Statement	• Considered liquidity risk and the basis for preparing the Group's half yearly and full year accounts on a going concern basis and reviewed the related disclosures in the annual report and accounts. • Assessed the long-term prospects of the Company, and agreed the timescale to be covered by the long-term viability statement for disclosure in the Annual Report and Accounts. • Reviewed the Viability Statement included in the annual report and accounts in the context of the Group's three-year financial plan which had previously been considered by the Board.
External Audit	• Considered and approved the audit approach and scope of the audit work to be undertaken by the External Auditor, and the audit fee. • Reviewed reports on audit findings. • Assessed and confirmed the independence of the Auditor. • Reviewed the policy for provision of non-audit services. • Assessed the effectiveness of the external audit. • Considered audit succession planning and approved the appointment of a new Audit Partner following the current partner's announcement that he will move off the account during 2020.

Audit Committee Report continued

Internal Controls and Risk	• Considered reports from management, the Auditor and other third parties on their assessment of the control environment. • Assessed the effectiveness of the Group's internal control environment and the need for an internal audit function. • Reviewed output from the Executive Risk Committee, and considered the systems and processes for identifying, managing and mitigating those risks. • Reviewed reporting disclosures in relation to internal controls, risk management, principal risks and uncertainties and the work of the Audit Committee. • Reviewed the Whistleblowing, Fraud and Anti-Money Laundering and the prevention of Bribery Policies.
Governance	• Progressed actions arising from the 2018 internal effectiveness review. • Participated in the 2019 externally facilitated evaluation of its performance. • Received updates on general corporate governance requirements relevant to its responsibilities. • Reviewed the Committee's Terms of Reference and annual workplan.

Significant financial reporting issues and areas of estimate and judgement
A key responsibility of the Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial statements. The Committee has received reports and recommendations from management and the Auditor setting out the significant areas. These areas of judgement and estimation were discussed with management during the year and with the Auditor, at the time the Audit Committee reviewed and agreed the Auditor's Group audit plan, and when the Auditor presented its findings at the conclusion of its year-end audit. Set out below is a description of how the Committee concluded that such judgements and estimates were appropriate.

Carrying value of Domus goodwill
The Domus business was acquired in December 2017 at which time £23m of goodwill was recognised. The assessment of the recoverable amount of goodwill is a significant judgement and any impairment has the potential to be material.

The Directors performed sensitivity analysis on the estimated recoverable amounts and concluded that an impairment charge of £2.1m was appropriate in respect of the carrying amount of the goodwill in respect of the Domus Group of Companies Ltd.

The key assumptions used in the cash flow forecasts are considered to be revenue growth and the discount rate. The values assigned to the sales growth assumptions in 2021 through to 2024 are 9%, 8%, 7% and 5% respectively. The value assigned to the discount rate is 9.4%.

The Committee considered the impairment review carried out by management and discussed the basis of the key assumptions and the sensitivities performed. Based on this discussion and review of the Auditor's findings, the Committee was satisfied that the approach taken by management was robust and that the assumptions made were reasonable.

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.

The Audit Committee reviewed management's calculation of amounts expected to be received. Management explained the process of recalculating the amounts expected to be received and confirming these balances with suppliers. The Audit Committee challenged the assumptions used by management and reviewed the level of cash receipts or credit notes received after the year-end. The Audit Committee is satisfied that the amounts recognised have been appropriately scrutinised and that the assumptions upon which the calculation was based are sufficiently robust.

Inventory valuation
Inventory amounts to £132.5 million and represents the Group's second largest asset class. Inventory is held across a broad and diverse product range which is subject to a risk that changes in consumer tastes and demand may result in some inventory lines becoming slow-moving or obsolete, such that the recoverable amount is less than the carrying value.

The Audit Committee discussed the Group's management of its inventory position and calculation of net cost and gave careful consideration to the gross carrying value and related provisions. Management explained to the Audit Committee that the process of determining the appropriate valuation of inventory entails close monitoring of inventory levels, review of relevant supplier rebates and overheads which are absorbed into the cost of inventory, review of the ageing profile and consideration of inventory sold for less than its carrying value.

The Audit Committee reviewed the valuation basis and challenged management's assumptions. The Audit Committee was satisfied that the significant assumptions used for determining the valuation of inventory had been appropriately scrutinised and challenged and were sufficiently robust.

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. During the year under review the Company undertook a consultation exercise and has agreed to close the Scheme to future accrual from 31 March 2020 (the 'Closure Date'). At 31 December 2019, the Scheme had assets of £114.5 million and liabilities, measured on an IAS 19 basis, of £116.7 million, with a net deficit of £2.2 million. As set out in note 21 to the financial statements, the Scheme liabilities are calculated by estimating the amount of benefit that employees have earned for their service in current and until 31 March 2020. This estimation 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 materially impact the net IAS 19 deficit reported in the statement of financial position. The assumptions adopted by management are set out in note 21 to the financial statements.

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 highlighted to the Audit Committee how they arrived at the key assumptions.

The Audit Committee considered the views and procedures of the Auditor, which entailed a benchmarking of management's assumptions with the Auditor's expectations.

The Audit Committee reviewed management's assumptions and were satisfied that they had been appropriately scrutinised and challenged and were robust. They also reviewed the sensitivity analysis set out in note 21 to the financial statements and consider it to be appropriate.

Non-underlying items

The Group accounting policy for non-underlying items states that performance measures will be presented which exclude items which by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. Management must exercise judgements 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. The most significant items treated as non-underlying are in respect of the impairment of Domus goodwill, amortisation of acquired intangible assets, acquisition related expenses, and the remeasurement and finance costs on deferred and contingent consideration. The Committee concluded that the disclosure of the non-underlying items was sufficient for the user of the accounts to understand the nature of the items and reason for their treatment as non-underlying.

IFRS16

The Group adopted IFRS16 during the year under review. Given the number of leases held by the Group there was an increased risk in respect of the completeness and accuracy of lease liabilities on adoption of the new standard.

An exercise was undertaken by management to identify lease commitments subject to IFRS16 and to ensure that the data used for the assessment of the underlying assets and lease liabilities was accurate and complete.

The Audit Committee considered this process and the new reporting disclosures. The Audit Committee also considered the views and procedures undertaken by the Auditor to assess the completeness and accuracy of management's calculations.

Following these considerations, the Audit Committee concluded that management's response to the implementation of IFRS16 and the associated processes undertaken had been appropriate and sufficient to underpin accurate and sufficient reporting of the financial implications.

Misstatements

Management reported to the Audit 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 Audit Committee the misstatements that had been found in the course of the audit work and no material amounts remain unadjusted. The Audit Committee confirmed that it was satisfied that the Auditor's responsibilities had been fulfilled with diligence and professional scepticism.

Risk management and internal control

The Board has ultimate responsibility for effective management of risk for the Group including determining its risk appetite and identifying key strategic and emerging risks. An overview of the risk management process and the principal risks and uncertainties identified is set out on pages 34 to 36. The Executive Risk Committee serves as a governance body to provide oversight, review and challenge of the risk management processes, and to confirm that appropriate and proportionate risk management procedures are in place. The work of the Executive Risk Committee is reviewed by the Board. The role of the Audit Committee in risk management is to monitor and review assurance provided via the Executive Risk Committee, including over any non-financial internal controls and management systems requested by the Board.

In supporting the Board to assess the effectiveness of risk management and internal control process, the Audit Committee relies on a number of different sources including reports provided by management and the assurance provided by the Auditor and other third parties in specific risk areas. Additionally, the Audit Committee receives reports from the Auditor on matters identified in the course of its statutory audit work. The Audit Committee also 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.

Audit Committee Report continued

During the year the Committee received reports on and/or considered the following:

(i) Management's follow up on control recommendations raised by the Auditor.
(ii) Monitoring progress with implementation of recommendations made by third parties for strengthening the IT infrastructure and reducing risk of cyber-attack.
(iii) Internal control review work undertaken by the finance team at each location in the Group.
(iv) Structure, qualifications, competence and experience of the finance team.

The Group's control framework has developed over many years and is intended to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The control framework is evolving in line with the strategic objectives outlined on page 20 and monitoring this will be a key element of the Committee's focus in 2020.

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

Internal audit

The Audit 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 was provided to the Committee in the form of internal control audits undertaken by the Group finance team; various additional reports provided by management; assurance reporting from third parties and internal self-certification reports. Following detailed consideration of the assurance available, the Audit Committee considers that the Group's accounting team control systems and associated procedures are adequate for the business and therefore does not currently propose to introduce a formal Group internal audit function.

External Auditor

Each year the Audit Committee reviews the appointment and performance of the Auditor and considers their independence and objectivity, taking into account all appropriate guidelines.

PwC was appointed as Auditor in 2016 following a full tender exercise. Mark Smith has been the lead audit partner since PwC's appointment and accordingly this is his fourth year in that role. Mark Smith has indicated his intention to step down as lead audit partner following the audit of the 2019 Annual Report and Accounts. Gill Hinks was proposed by PwC to replace Mark and following interviews with the Chair of the Audit Committee and the Chief Financial Officer, was appointed to the role and will serve with effect from the conclusion of the AGM in May 2020. She will serve as lead audit partner for a maximum of five years, in accordance with current professional standards. During the year, the Audit Committee considered conducting a tender of its external audit to coincide with the change of the audit partner, however, following review of the quality and effectiveness of the audit, the change of the partner was considered preferable at this time, recognising that under current FRC guidance it will be due to retender its audit for the 2026 year-end. The Audit Committee will continue to monitor the performance of the Auditor during this time and make recommendations accordingly.

The Auditor has processes in place to ensure that independence is maintained and has written to the Audit Committee confirming that, in their opinion, they remain independent within the meaning of the relevant regulations on this matter and their professional standards.

Non-audit services

The Audit Committee has the specific task of keeping the nature and extent of non-audit services provided by the Auditor under review in order to ensure that objectivity and independence are maintained. The Audit Committee recognises that there are occasions when it is advantageous to use the Auditor to undertake non-audit services, as it may improve the quality of the audit and reduce cost and complexity for the Company. The Committee has approved a policy for the provision of non-audit services by the auditor which it has reviewed during the year. Under this policy and in line with the EU Audit Directive, non-audit fees paid to the Auditor should not exceed 70% of the audit fee. During the year under review £8,731 was paid to the Auditor for non-audit services out of a total fee of £360,131. The non-audit fees represented the provision of business development support to the Group's Swiss subsidiary.

Under the policy, the Audit Committee is required to authorise all non-audit services as it did regarding the non-audit services described above. The policy prescribes services which the Auditor is prohibited from providing including, amongst other things: taxation services; bookkeeping and payroll; designing and implementing internal control or risk management procedures relating to financial information or IT; valuation services; certain legal services; and internal audit. A full breakdown of audit and non-audit fees is provided in note 3 to the Financial Statements.

The Audit Committee notes the Revised Ethical Standard issued by the FRC in December 2019 and will consider it's impact on it's policy for the provision of non-audit services in addition to any wider impacts.

Effectiveness of External audit

The scope of the external audit for the 2019 Annual Report was presented by the Auditor to the Committee in October 2019. The Committee had the opportunity to discuss and challenge the audit plan to gain a good understanding of the key elements.

The Committee assesses the effectiveness of the Auditor during the year on the basis of meetings with management and carries out a formal review of its performance after the year-end audit is completed. In undertaking this assessment, the Audit Committee considers a number of factors which include the experience and tenure of the audit partner, the completion of the agreed audit plan, the professional skepticism displayed as part of the audit process, robustness and perceptiveness of the Auditor in handling of key accounting judgements and the interaction between management and the Auditor.

The Audit Committee has independent access to the Auditor, and the Auditor has direct access to the Chair of the Audit Committee outside formal Audit Committee meetings. At each meeting there is an opportunity for the Auditor to discuss matters with the Audit Committee, without executive management being present.

The Audit Committee is satisfied with the independence, objectivity and effectiveness of the Auditor and recommends PwC to be reappointed by the shareholders at the forthcoming AGM.

Interaction with the FRC

The Company can confirm that during the year under review it had no interaction with the FRC's Corporate Reporting Review Team or its Audit Quality Review Team.

Fair, balanced and understandable
The Audit Committee undertook a detailed review of the drafting and preparation process of the Annual Report and Accounts to support its deliberations on whether the 2019 Annual Report and Accounts were fair, balanced and understandable. The drafting and preparation process involved various teams and individuals within the Group including Executive Directors, Finance Team, Director of Communications, senior managers of the businesses and Company Secretary working together with support and advice from the Company's advisers. This collaborative approach helped to ensure a consistent and detailed approach between the Strategic Report, the Governance section and the Financial Statements. At its meeting in March 2020, the Audit Committee deliberated on whether the 2019 Annual Report and Accounts were fair, balanced and understandable. Following detailed consideration of all sections, the Audit Committee concluded that the 2019 Annual Report and Accounts contained an accurate reflection of the Company's performance and business model, correctly reflected its strategy, and included consistent messaging throughout. It, therefore, recommended to the Board that the 2019 Report and Accounts 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.

Viability statement
The Audit Committee assessed the Group's resilience to the principal risks and uncertainties by consideration of a paper which included stress testing forecasts through the application of adverse scenarios. These scenarios included (A) a reduction in market demand whilst there is ongoing inflationary fixed cost pressure and (B) an economic crisis similar to that experienced in 2008, both modelled over a three-year period. The testing indicated that the Group would be able to operate within its current facilities and meet its financial covenants, however the scenario based on a severe economic environment did require management to take swift action to manage the cost base in mitigation. The Audit Committee was therefore comfortable that the Group would maintain resilience in the event such scenarios occurred and concluded that there was a reasonable expectation that the Group would continue to operate and meet its liabilities over a three-year period. The Audit Committee agreed that the long-term viability assessment should continue to be performed over a three-year timespan. This conclusion was communicated and recommended to the Board for approval.

The viability statement is shown on page 37.

Whistleblowing policy, Fraud and the Bribery Act
The Group has in place a whistleblowing 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. During the year, the Audit Committee and the Board reviewed the Whistleblowing Policy and found that it remained appropriate and was operating effectively.

The Group also has in place a procedure for detecting fraud and systems to prevent a breach of anti-bribery legislation. 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 considered by the Committee during the year and approved in October 2019.

Committee effectiveness review
The effectiveness of the Audit Committee was evaluated this year as part of the Board Performance evaluation process. Details of this can be found on page 65. The review found that the Committee is operating effectively and that its role and remit remained appropriate for the current needs of the business. The Committee discussed the findings of the evaluation to identify opportunities for further improvement.

Summary
The Audit 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.

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

Amanda Aldridge
Chair of the Audit Committee
5 March 2020

Directors' Remuneration Report

Alison Littley **Chair of the Remuneration Committee**

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 2019. The Report includes my Annual Statement, a revised Directors' Remuneration Policy ('Policy') and the Annual Report on Remuneration for the financial year ended 31 December 2019. The Directors' Remuneration Report, excluding the Policy, will be subject to an advisory shareholder vote at the Annual General Meeting on 22 May 2020. The proposed Policy will be subject to a binding vote at the same meeting. The new Policy, subject to approval by shareholders, will be in place for three years from the forthcoming AGM or until an alternative Policy is approved in a general meeting.

Remuneration Policy Review
Shareholders approved our current Remuneration Policy at the 2017 AGM, with over 99% of votes cast in favour. The three-year term of the current Policy is due to expire in 2020, as a result of which, we are required to seek approval for a new Policy at the 2020 AGM.

The Board has recently completed a strategic review of the business, the outcome of which has been critical in determining how best to optimise the new Policy in support of delivering the Group's future ambition. However, due to the timing of the review, the Remuneration Committee was unable to take account of its full conclusions when reviewing the Policy, ahead of the expiry of its three-year term. Therefore, it is our intention to conduct a full review of the Policy during the course of 2020. This will ensure the Policy and Group strategy are effectively aligned. If appropriate, we will seek to consult shareholders during 2020 if further changes to the Policy are considered necessary.

In the meantime, the Committee believes that the current framework continues to be effective and that no significant changes are required at this stage. We operate a simple and transparent structure comprising salary, annual bonus, single long-term incentive plan, benefits and pension, subject to stretching performance conditions. Incentive pay is subject to withholding and recovery provisions, part of any annual bonus payment is deferred into shares for a period of time, a post-vesting holding period operates for the long-term incentive plan and significant share ownership guidelines apply. These features enhance the alignment of interest between our Executive Directors and shareholders and contribute to an appropriate level of risk mitigation.

The one substantive change to the Policy that we are proposing relates to Executive Director pension provision. Under the revised Policy the pension contribution level for new Executive Director appointments will fall from the current maximum of 15% of salary to the level available to the majority of the workforce. We will consider our approach to current Executive Director pension provision as part of the Policy Review. This important change will bring our policy into alignment with the provisions of the 2018 UK Corporate Governance Code (the 'Code') in this regard.

Our current approach to incentives ensures that Executive Directors would normally continue to have significant interest in Company shares for a period following cessation of employment. Under our current policy they will not normally be entitled to accelerated vesting of their unvested share awards. In addition, for LTIP awards, the post-vesting holding period will also continue to operate. However, we are aware some shareholders are advocating the adoption of specific post-cessation shareholding requirements linked to the in-employment guideline. Therefore, we will be implementing appropriate changes to this element as part of the Policy Review later in the year.

Business performance and incentive out-turn for 2019
For 2019, the Executive Directors had a maximum annual bonus opportunity equal to 125% of base salary, with the bonus assessed, 75% of bonus opportunity against the Company's underlying profit before tax performance metric and 25% against non-financial / strategic targets as shown in the table on page 89. Threshold performance was achieved in respect of the underlying profit before tax performance metric leading to a bonus payment of 32% salary for this element. The non-financial / strategic targets are fully disclosed on page 89 along with the extent to which they have been achieved. A bonus payment of 25% salary will be paid for this element. A total bonus payment of 57% salary will therefore be paid out of a total bonus opportunity of 125% salary.

Awards granted under the PSP in 2017 will vest with respect to performance for the financial year ended 31 December 2019. The awards were subject to two performance conditions, based on underlying EPS growth (80% of the award) and relative TSR (20% of the award). The combined assessment of the two performance conditions means that 5.7% of the awards will vest, as shown on page 90.

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 during the year.

Remuneration for 2020

The Executive Directors received an increase in base salary of 2% effective 1 January 2020, in line with the 2020 award to all UK employees. Neither the Chairman, nor the Non-Executive Directors received a fee increase for 2020.

The framework for operating our annual bonus and PSP in 2020 will be generally consistent with our approach in 2019. Maximum bonus potential will remain at 125% of salary but with 100% of the annual bonus opportunity being based on a sliding scale underlying profit before tax target albeit the Committee will also consider progress made against the strategy when assessing any payouts. The PSP awards will again be made at 80% of salary and vesting will be based 80% on EPS and 20% on relative TSR. 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 and shareholders and with the delivery of the strategy.

Taking account of the revised 2018 UK Corporate Governance Code

In reviewing our Policy during the course of 2019 and in planning for its implementation in 2020, we have been careful to take full account of the provisions of the Code. The Code will continue to be a key touchstone when we further review the Policy in 2020.

In summary, with regard to how we have sought to comply with the six factors outlined in Provision 40 of the Code, we think 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.
- **Risk** – Our Policy has been designed to ensure that it is aligned with the Board's risk appetite. Any inappropriate risk-taking is discouraged and mitigated through (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 targets, which are underpinned by key strategic objectives, and shareholder return targets, (ii) the significant proportion of long-term share-based pay in our packages (together with the operation of significant shareholding guidelines) and (iii) the operation of robust recovery and withholding provisions.
- **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 Company culture and this will be a key consideration when we review our Policy later in 2020. We strive 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 UK employee share scheme arrangements in pursuit of this objective.

Shareholder views and voting outcomes

We conducted a consultation exercise with our larger shareholders early in 2020 on the Policy to be proposed to shareholders at the AGM. The consultation also set out our proposals for the operation of the policy in 2020.

Whilst feedback on the Committee's approach was generally very positive, the Committee will review the Company's approach to pension provision and the implementation of post-cessation shareholdings during the 2020 review in light of a number of comments received.

The Committee was pleased with the level of support received for the advisory vote on the Remuneration Report at the 2019 AGM with 99% of votes cast in favour, and hope we will again receive your support for the resolutions relating to remuneration at the forthcoming AGM.

We remain committed to a responsible approach to executive pay, as I trust this Directors' Remuneration Report and new Policy demonstrates. As always, I am happy to meet or speak with shareholders if there are any questions or feedback on our approach to executive remuneration.

Alison Littley
Chair of the Remuneration Committee
5 March 2020

DIRECTORS' REMUNERATION POLICY

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy for the Company. The three-year approval of our current Remuneration Policy by shareholders expires in 2020 and, as a result, we are seeking approval for a new Policy at the AGM in 2020. The Policy in this report will therefore be put to a binding shareholder vote at the AGM on 22 May 2020 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 the delivery of value to shareholders;
- 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.

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. Whilst employees are not formally consulted on executive remuneration, a number of them are shareholders and as such are able to exercise their influence along with other shareholders. Additionally, the Company operates an Employee Forum at which aspects of remuneration across the Group will be discussed. The Chair of the Remuneration Committee is a member of the Employee Forum and as such receives feedback on remuneration matters directly from other Forum members. 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 2017 AGM

As outlined in the Remuneration Committee Chair's annual statement on page 76, the Board recently finalised a review of Group strategy and associated strategic objectives. The outcome of this review will be key to helping to shape the Committee's full thinking on how the remuneration policy can best support the delivery of the Group's future strategic ambitions. However, due to the timing of the recent completion, the Committee has not been in a position to take full account of its conclusions when reviewing the remuneration policy during the course of 2019 and early 2020, ahead of the expiry of its three-year term. As a result, it is our intention to conduct a full review of the remuneration policy during the course of 2020. If appropriate, we will seek to consult shareholders during 2020 if further changes to the policy are considered necessary.

In the meantime, the Committee believes that the current overarching framework continues to be effective and that no significant changes are required at this stage. However, some minor amendments have been proposed in order to ensure that the policy is sufficiently flexible to operate effectively over the next policy period, aligned with the Code, and to provide additional clarity on how we operate our policy in some areas. Specifically, the policy incorporates additional flexibility with regard to the specific measures and weightings which will be used for the bonus and LTIP to ensure that any measures and targets are fully aligned with the Group's strategic objectives.

In addition, we are proposing to change our approach to Executive Director pension provision. We are proposing a reduction in the pension contribution level for new Executive Director appointments from the current maximum of 15% of salary to a level which is aligned with the prevailing pension contribution (in percentage of salary terms) available to the majority of the workforce. This important change will bring our policy into alignment with the provisions of the Code in this regard.

Policy table for Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
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.	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.

Directors’ Remuneration Report continued

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
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).	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.
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.	For newly appointed Executive Directors, maximum defined contribution or cash allowance in lieu of pension is limited to the contribution level available to the majority of the workforce (in percentage of salary terms) prevailing at the time of hire or promotion. Incumbent Executive Directors may receive a defined contribution or cash allowance of up to 15% of base salary.	Not applicable.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
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 Committee has the right to apply malus and/or clawback (in respect of both the cash and deferred elements of bonuses) in the event of certain defined circumstances. 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 annual bonus opportunity is 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/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.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
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. 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 (in cash or 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.	The normal maximum PSP award is 100% of salary in respect of a financial year. The normal maximum award limit will only be exceeded in exceptional circumstances such as on the recruitment of an Executive Director and is subject to an overall limit of 200% of salary in respect of a financial year. PSP awards to the current Executive Directors in respect of 2020 will be 80% of salary.	PSP awards currently vest based on performance against a mix of financial targets and relative TSR performance targets set and assessed by the Committee in its discretion. Financial targets currently determine vesting in relation to at least 50% of awards. A maximum of 25% of any element vests for achieving the threshold performance target and 100% for maximum performance. Any vesting is also subject to the Committee being satisfied that the Company's performance on the headline measures is consistent with underlying business performance and the vesting outcome may be reduced if deemed appropriate. 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.

Non-Executive Directors (including the Chairman)

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
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.	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

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 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 2020 will be based on underlying basic Earnings Per Share ('EPS') and relative Total Shareholder Return ('TSR'). 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. 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.

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.

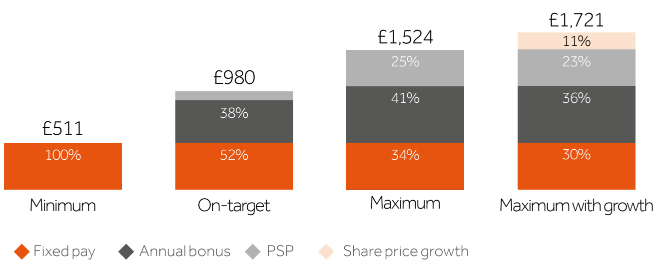
Differences in pay policy for Executive Directors compared to employees more generally
The Remuneration Policy applied to the Executive Directors is similar to the policy for the wider senior management team in that a significant element of remuneration is dependent on Group performance and the key principles 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 new Executive Directors going forward with those of the majority of 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.

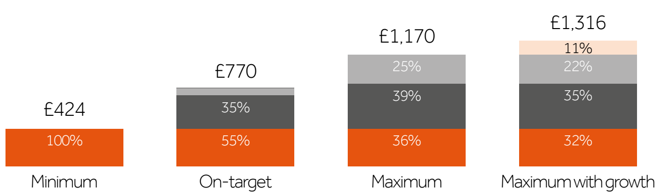
Directors’ Remuneration Report continued

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 2020 of the 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).

Chief Executive



Chief Financial Officer



In illustrating the potential reward, the following assumptions have been made.

	Fixed pay	Annual bonus (including any amount deferred)	PSP
Minimum performance	Fixed elements of remuneration only – base salary (being the salary effective 1 January 2020, benefits as disclosed in the single figure table on page 88 for the year ended 31 December 2019 and cash in lieu of pension of 11% of salary for the Chief Financial Officer only (the current Chief Executive receives no pension contribution or cash equivalent allowance)	No annual bonus award.	No vesting.
Performance in line with expectations		75% of salary awarded for achieving target performance.	25% of maximum award vesting (equivalent to 20% of salary) for achieving target performance.
Maximum performance		125% of salary awarded for achieving maximum performance.	100% of maximum award vesting (equivalent to 80% of salary) for achieving maximum performance.
Maximum performance plus 50% share price growth			100% of maximum award vesting (equivalent to 80% 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 325% 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 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 basic 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 and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid 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). 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).
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.

	Policy
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.

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.

Shareholding guidelines
In order to further align the Executive Directors' long-term interests with those of shareholders, the Group operates share ownership guidelines. The guidelines provide that the Executive Directors are required to build up and maintain (as relevant) a certain level of shareholding in the Group equivalent in value to 200% of annual salary. Until the guideline has been reached Executive Directors are required to retain half 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).

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 table below reports the total remuneration receivable in respect of qualifying services by each of the Executive Directors for the years 2019 and 2018.

Executive Directors' remuneration as a single figure – 2019 (audited)

Executive Directors	Base salary/ fees 2019 £000	Non-salary benefits[1] 2019 £000	Pension related benefits[4] 2019 £000	Annual performance bonus 2019 £000	Share-based incentive schemes[2,3] 2019 £000	Total 2019 £000
Steve Wilson	**484**	**16**	**–**	**276**	**23**	**799**
Chris Payne	**357**	**20**	**39**	**203**	**13**	**632**
	841	**36**	**39**	**479**	**36**	**1,431**

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 Performance conditions for the PSP were tested after 31 December 2019 and 5.7% of the award will vest in March 2020. The market price of the shares has been calculated based on an average market value over three months to 31 December 2019 (470.98p). Given that the share price at grant was 536p, neither of the amounts presented for Steve Wilson or Chris Payne include any amount in respect of share price appreciation.
3 Includes the grant of options under the Sharesave Scheme on 3 May 2019, calculated on an intrinsic value basis for Steve Wilson.
4 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.

Executive Directors' remuneration as a single figure – 2018 (audited)

Executive Directors	Base salary/ fees 2018 £000	Non-salary benefits[1] 2018 £000	Pension related benefits[3] 2018 £000	Annual performance bonus 2018 £000	Share-based incentive schemes[2] 2018 £000	Total 2018 £000
Steve Wilson	475	16	–	–	97	588
Chris Payne	346	19	38	–	4	407
Tony Judge (stepped down 14/9/18)	301	10	–	–	87	398
	1,122	45	38	–	188	1,393

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 CIP awards vested in respect of the performance to the year ended 31 December 2018 and approximately 53.5% of the award vested in May 2019. The long-term incentives figure for the year ended 31 December 2018 has been restated to reflect the market value of the shares on the date of vesting. Figures also include the grant of options under the Sharesave Scheme on 3 May 2018, calculated on an intrinsic value basis. The figure shown for Chris Payne relates solely to the grant of options under the Sharesave Scheme.
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.

The following tables report the total remuneration receivable in respect of qualifying services by each of the Non-Executive Directors for the years 2019 and 2018.

Non-Executive Directors' remuneration as a single figure – 2019 (audited)

Non-Executive Directors	Fees 2019 £000	Non-salary benefits 2019 £000	Pension related benefits 2019 £000	Annual performance bonus 2019 £000	Share-based incentive schemes 2019 £000	Total 2019 £000
Philip Lawrence	**143**	**–**	**–**	**–**	**–**	**143**
Amanda Aldridge	**53**	**–**	**–**	**–**	**–**	**53**
Keith Edelman	**55**	**–**	**–**	**–**	**–**	**55**
Alison Littley	**49**	**–**	**–**	**–**	**–**	**49**
Andrew Eastgate (stepped down 31/5/19)	**19**	**–**	**–**	**–**	**–**	**19**
	319	**–**	**–**	**–**	**–**	**319**

Non-Executive Directors' remuneration as a single figure – 2018 (audited)

Non-Executive Directors	Fees 2018 £000	Non-salary benefits 2018 £000	Pension related benefits 2018 £000	Annual performance bonus 2018 £000	Share-based incentive schemes 2018 £000	Total 2018 £000
Philip Lawrence (appointed Chairman 1/6/18)[1]	102	–	–	–	–	102
Andrew Eastgate	55	–	–	–	–	55
Amanda Aldridge (appointed 1/2/18)	46	–	–	–	–	46
Keith Edelman (appointed 1/10/18)	11	–	–	–	–	11
Dick Peters (stepped down 31/5/18)	46	–	–	–	–	46
	260	–	–	–	–	260

1 Philip Lawrence's fees until 31 May 2018 were paid to the Coal Authority which released him to perform his duties as a Non-Executive Director. Philip resigned from the Coal Authority with effect from 31 May 2018 upon assuming his appointment as Chairman on 1 June 2018. Fees from 1 June 2018 were paid to him directly.

Annual performance bonus

For 2019, the Executive Directors had a maximum annual bonus opportunity equal to 125% of base salary. The bonus was assessed against the Company's underlying profit before tax (75% of the bonus opportunity) and against a number of strategic and personal objectives (25% of the bonus opportunity) as shown in the tables below:

Performance metric	Proportion of bonus determined by metric	Threshold performance	Target performance	Maximum performance	Actual performance	Bonus earned (% max)
Underlying Profit Before Tax	75%	£37.35m	£41.5m	£49.8m	£39.46m	34%
Strategic and personal objectives	25%		See commentary below			80%

Strategic and personal objectives

The non-financial strategic objectives for the Executive Directors were designed to focus on the achievement of certain key elements of Company strategy:

Objectives	Assessment / outcome	Potential bonus weighting (% of bonus opportunity)	Bonus achieved (% of bonus opportunity)
Business Development To develop strategic options for the business.	A full review of the market, strategic options for the business and staffing requirements undertaken. Proposals made to the Board for assessment.	10	10
Network Optimisation To effectively manage the development of the new regional distribution centre in Ipswich, and to complete and evaluate the transport consolidation project.	The management of the building of the new distribution centre has been undertaken during the year and the project is being delivered on time and on budget. A trial was undertaken to optimise the utilisation of delivery capability in the South Wales area. The trial was concluded by management and results shared with the Board with lessons learned being rolled out across the business.	7.5	7.5
People, Skills and Culture To review the Company's approach to reward and make recommendations accordingly.	Options for a new approach to reward were evaluated and proposals developed. The implementation of any new reward practices was postponed to allow focus on the operational priorities of the business.	7.5	2.5

In accordance with our remuneration policy, one-third of the bonus earned will be deferred into shares for a two-year period.

Share based payments vesting in the financial year

Awards granted under the PSP in 2017 vest with respect to performance for the financial year ended 31 December 2019. The awards were subject to two performance conditions, based on EPS growth (80% of the award) and relative TSR (20% of the award) each measured over a three-year period. The performance outcome and consequent vesting was as follows:

Vesting (% of maximum)	EPS growth (80% of award)	TSR Relative performance against FTSE SmallCap Index (20% of award)
0%	Less than 5% p.a.	Below median
25% (threshold)	5% p.a.	Median
100% (maximum)	8% p.a.	Upper quartile
Outcome	-1.22% p.a.	Just above median
Vesting (% of each element)	0%	28.6%
Proportion of total award vesting	0%	5.7%

	Shares granted	Shares vesting	Value of shares Vesting
Steve Wilson	70,789	4,049	£19,070
Chris Payne	48,435	2,770	£13,046

Value is based on the average share price for the final quarter of the financial year which was 470.98 pence based on the mid-market closing share price.

PSP awards granted during the financial period

PSP awards were granted to Executive Directors in 2019 as follows:

	Number of ordinary shares over which award granted	Value of Award £000	% of salary	% of award vesting at threshold	Date of grant	Performance period
Steve Wilson	86,459	388	80	25	10 April 2019	3 years
Chris Payne	63,707	286	80	25	10 April 2019	3 years
	150,166	674				

The share price used to determine the number of shares under the PSP was 448.30 pence, being the average mid-market closing share price for the five business days prior to the date of award.

There are two performance conditions attaching to the PSP award: an EPS condition which accounts for 80% of the award and a TSR condition which accounts for 20% of the award.

The EPS target required for maximum vesting was set at 8% compound annual growth over the three years to 31 December 2021. This was above consensus market expectations at the date of the grant and above the Company's internal business plan, and at a level which the Remuneration Committee considered to be appropriate given the level of stretch within the forecast numbers. Threshold performance at which 25% of the award vests is EPS growth of 5% per annum. The Remuneration Committee is satisfied that the EPS target range appropriately reflects business risks and uncertainties.

The amount of the award which vests is also based on a TSR condition. The TSR for the period of three financial years commencing with the financial year in which the award is granted is calculated for both the Company and a comparator group. The comparator group is constituted from the companies making up the FTSE SmallCap Index (excluding investment trusts) at the start of the relevant period of three financial years. If the Company's TSR is below the median TSR for the comparative group then none of the award is vested. If the Company's TSR is equal to the median of the TSR of the comparator group then 25% of the award shall vest. If the Company's TSR is between the median and upper quartile of the TSR of the comparator group then between 25% and 100% of the award shall vest on a straight-line basis. If the Company's TSR is above the upper quartile of the TSR of the comparator group then 100% of the award shall vest.

Any awards vesting will be subject to a two-year holding period following the date of vesting.

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 3.92% 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 SAYE 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

The only Executive Director to receive any pension benefit during the year was Chris Payne, who received pension contributions from the Company equivalent to 11% of his base salary which is in line with pension payments to members of the Company's senior management.

Payment for loss of office and to past Directors (audited)

No payments for loss of office were made to past Directors during the financial period other than in respect of Tony Judge who stepped down as an Executive Director on 14 September 2018. Tony Judge remained employed by the Company until 14 March 2019 and continued to receive his base salary and normal benefits during this time. For the period between 14 September 2018 and 14 March 2019 the payment to Tony Judge relating to his salary and benefits was £217,277. The Company also made a contribution of £12,000 plus VAT in respect of Tony's legal fees incurred in relation to his leaving arrangements. A payment of £212,500 in lieu of notice was paid in respect of the six months from 14 March 2019 in equal monthly instalments. As he was employed for the whole of the relevant performance period in respect of the 2016 awards under the CIP, the awards granted in 2016 vested in 2019 and, accordingly, 19,550 shares vested and were issued. Tony Judge still retains his 2017 grant under the Performance Share Plan. The Remuneration Committee has assessed the performance conditions and has determined that 2,656 nil cost options will vest in March 2020 but will be subject to a further holding period of one year before the option can be exercised. In addition, 29,424 nil cost options under the Deferred Bonus Plan will vest on 1 March 2020 and will be exercisable for the following six months.

As outlined on page 70 of the 2017 Annual Report and Accounts, Tony Brewer was permitted to retain his 2016 CIP awards which subsequently vested on 6 May 2019. Accordingly, 7,123 shares vested and were issued to Tony Brewer following the application of pro-rating for his period in office and performance conditions.

No further payments to former Directors have been made in the 2019 financial year and up to the date of this Report except those disclosed above.

Executive Directors' Share Awards Outstanding

Steve Wilson

Scheme	Number of shares / options as at 31 December 2018	Shares / Options granted	Shares / Options lapsed	Shares / Options exercised	Number of Options at 31 December 2019	Date of Grant	Share Price at Grant (pence)	Exercise Price (pence)	Market price on exercise date (pence)	Vesting Date	Expiry Date
PSP	–	86,459	–	–	86,459	10 April 2019	448	Nil	–	March 2022[1]	April 2029
PSP	86,187	–	–	–	86,187	9 April 2018	441	Nil	–	March 2021[1]	April 2028
DBP	29,514	–	–	–	29,514	9 April 2018	441	Nil	–	March 2020	April 2020
PSP	70,789	–	–	–	70,789	5 July 2017	536	Nil	–	March 2020[1]	July 2027
CIP[2]	40,886	–	19,026	–	21,860	6 May 2016	477	Nil	–	May 2019	May 2026
SAYE	–	5,013	–	–	5,013	3 May 2019	443	359	–	July 2022	Dec 2022
SAYE	7,874	–	–	7,874	0	8 May 2014	476	381	454	July 2019	Dec 2019

1 Award vests on date shown but is subject to a further two-year holding period during which the option may not be exercised.
2 Award vested during the year.

Chris Payne

Scheme	Number of shares / options as at 31 December 2018	Shares / Options granted	Shares / Options lapsed	Shares / Options exercised	Number of Options at 31 December 2019	Date of Grant	Share Price at Grant (pence)	Exercise Price (pence)	Market price on exercise date (pence)	Vesting Date	Expiry Date
PSP	–	63,707	–	–	63,707	10 April 2019	448	Nil		March 2022[1]	April 2029
PSP	63,506	–	–	–	63,506	9 April 2018	441	Nil		March 2021[1]	April 2028
PSP	48,435	–	–	–	48,435	25 Sept 2017	536	Nil		March 2020[1]	Sept 2027
SAYE	5,084	–	–	–	5,084	3 May 2018	442	353		July 2021	Dec 2021

1 Award vests on date shown but is subject to a further two-year holding period during which the option may not be exercised.

Statement of Directors' shareholding and share interests (audited)

In order to align the interests of the Executive Directors with those of the Company's shareholders, the Remuneration Committee encourages Executive Directors to increase their shareholdings in the Company. The Executive Directors are required to build up and maintain a beneficial interest (including interests of connected persons) in the ordinary shares of the Company equivalent in value to two times annual base salary. Executive Directors are required to retain half of the net of tax vested shares under the CIP, PSP and DBP until the guideline is met.

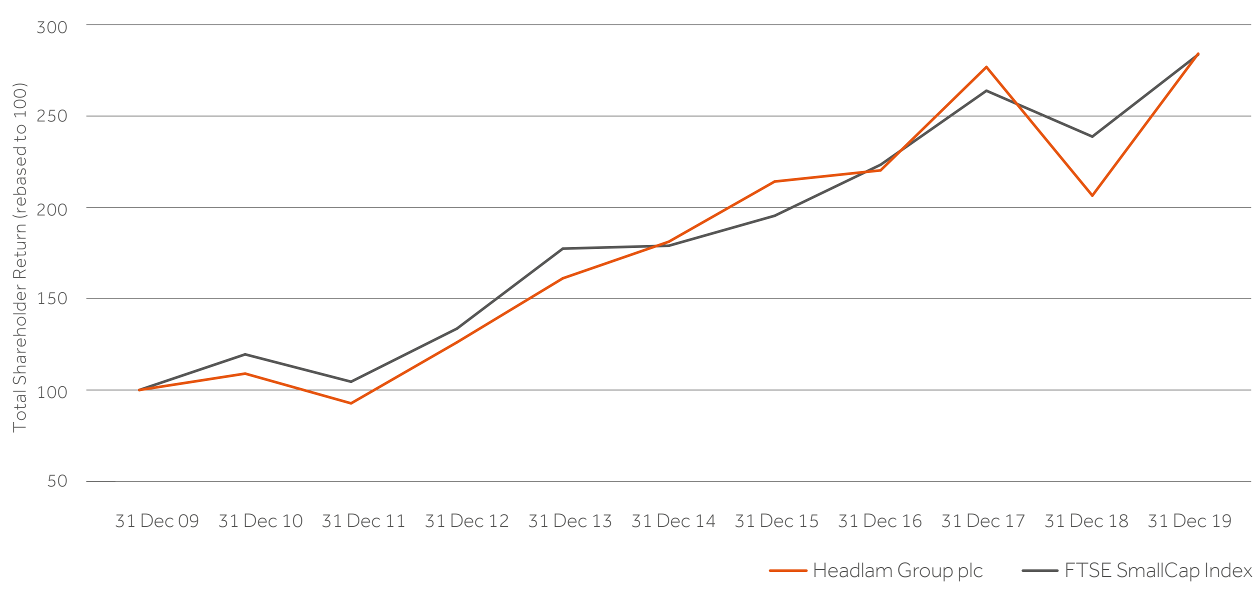
The interests of Directors and their connected persons in the Company's ordinary shares as at 31 December 2019 were as set out below. There have been no changes to those interests between 31 December 2019 and the date of signing of these financial statements and reports.

		Interests in Share Schemes					
Director	Owned Shares at 31 December 2019	PSP	Deferred Bonus	CIP	SAYE	Shares under Shareholding Guidelines[1]	Shareholding Guidelines achieved (%)
Steve Wilson	665,146	243,435	29,514	21,860	5,013	676,731	100%
Chris Payne	Nil	175,648	Nil	Nil	5,084	Nil	0%
Amanda Aldridge	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Keith Edelman	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Philip Lawrence	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Alison Littley	Nil	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.

TSR Graph
The graph below shows the value at 31 December 2019 of £100 invested in the Company on 1 January 2010 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 %
2019	Steve Wilson	799	45.5	5.7
2018	Steve Wilson	588	0.0	53.5
2017	Steve Wilson	1,069	65.8	97.5
2016	Steve Wilson	1,067[1]	76.8	98.6
	Tony Brewer	737[2]	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
2012	Tony Brewer	1,347	65.5	n/a
2011	Tony Brewer	1,095	66.5	n/a
2010	Tony Brewer	1,179	64.7	n/a

1 This remuneration 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
2 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.

Percentage change in Chief Executive remuneration

The table below shows the percentage change in the Chief Executive's remuneration and the Company's employees as a whole between the financial periods 2019 and 2018.

Percentage increase/(decrease) in remuneration in 2019 compared with 2018	Chief Executive	Total Employees
Salary and fees	2%	2%
All taxable benefits	0%	0%
Annual bonuses	100%[1]	28.1%

1 The Chief Executive did not receive a bonus for the financial period 2018.

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.

	2019 £000	2018 £000	% change
Dividends[1]	**20,941**	20,969	(0.00)
Pay	**103,432**	103,239	(0.08)

1 Includes dividends paid during the financial year.

CEO pay ratio

The data shows how the CEO's single figure remuneration for 2019 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for full-time equivalent UK employees, on a Group basis, ranked at the 25th, 50th and 75th percentile.

Year	Method	25th percentile ratio	Median (50th percentile) ratio	75th percentile ratio
2019	Option A	39.3:1	31.8:1	22.7:1

No components of pay and benefits have been omitted for the purpose of the above calculations. 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 for 2019.

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
2019	25th percentile	£20,354	£20,354
	Median	£25,160	£25,160
	75th percentile	£31,397	£35,272

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
Philip Lawrence	1 June 2018[1]	31 May 2021
Keith Edelman	1 October 2018	30 September 2021
Amanda Aldridge	1 February 2018	31 January 2021
Alison Littley	1 January 2019	31 December 2021

1 Philip Lawrence was appointed to the Board on 1 June 2015, the appointment date above represents the date on which he was appointed to his current role as Chairman.

Statement of implementation of remuneration policy in 2020
Details of how the Company will operate the Remuneration Policy in 2020 is provided below.

Base salaries for 2020
The Executive Directors received an increase in base salary of 2% for 2020 in line with the overall UK workforce, effective 1 January 2020, as shown below:

Role	Salary effective 1 Jan 2019 £000	Salary effective 1 Jan 2020 £000
Chief Executive	484	494
Chief Financial Officer	357	364

Annual bonus
The maximum annual bonus opportunity for 2020 will remain at 125% of base salary. The payment of the annual bonus will be based on underlying profit before tax ('PBT') performance albeit the Committee will also consider progress made against the strategy when assessing any payouts. Full disclosure of the PBT target, will be provided in the 2020 Annual Report and Accounts. One third of any amount earned will be deferred into shares which vest two years after the date on which the annual bonus pay-out is determined.

PSP
Awards in respect of 2020 will be granted in the form of nil cost options over ordinary shares in the Company at the level of 80% of salary, subject to EPS and TSR metrics as described below:

Vesting (% of maximum)	EPS growth (80% of award)	TSR relative to the constituents of the FTSE SmallCap Index excluding investment trusts (20% of award)
0%	Less than 5% p.a.	Below median
25%	5% p.a.	Median
100%	8% p.a.	Upper quartile

Straight-line vesting between points.

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.

Malus and clawback
Prior to the vesting of an annual bonus 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). The circumstances in which malus and clawback may be operated are as follows.
- The Executive's gross negligence, fraud, dishonesty or other misconduct causing or contributing to the Group or any Group business having to restate all or a portion of its financial statements to a material degree;
- 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); or
- Such other exceptional circumstances which, in the Remuneration Committee's absolute discretion, justify such reimbursement being imposed.

Directors' Remuneration Report continued

Non-Executive Directors' fees for 2020

The fees of the Non-Executive Directors were reviewed and no increase is to be applied for the financial year ended 31 December 2020.

Role	Fees effective 1 Jan 2019 £000	Fees effective 1 Jan 2020 £000
Chairman fee	143.5	143.5
Non-Executive Director base fee	45.0	45.0
Senior Independent Director fee	10.0	10.0
Audit Committee chair fee	7.5	7.5
Remuneration Committee chair fee	7.5	7.5

Remuneration Committee activity

The Board approved the terms of reference, delegating certain responsibilities to the Remuneration Committee, most recently on 23 October 2019. 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, and attendance at scheduled meetings of the Committee during the year was as follows:

Members	Meetings attended	Eligible to attend
Philip Lawrence	2	2
Keith Edelman	2	2
Amanda Aldridge	2	2
Alison Littley (appointed 1 January 2019)	2	2
Former Member		
Andrew Eastgate (stepped down 31 May 2019)	1	1

Other Directors may attend Remuneration Committee meetings by invitation. The Committee also receives assistance from the Group People Director, the Company Secretary and from independent external advisers, and 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.

The Remuneration Committee's main responsibilities include:

- Selecting the framework and policy for Executive Directors remuneration and determining the remuneration packages for the Executive Directors and Chairman.
- Setting the level and structure of remuneration for the Senior Management Team.
- 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.
- Administering share plans as required.

The key matters discussed at the two meetings of the Remuneration Committee in 2019 were as follows:

Meeting Date	Key agenda items
1 March 2019	Review of performance related pay outturn for 2018 including approval of the Annual Bonus payments and the percentage vesting of the 2016 CIP; Approval of the Annual Bonus scheme for 2019 and the PSP Award and targets; and approval of the 2018 Remuneration Report.
19 September 2019	Appointment of Remuneration Advisers; approach to policy review; CEO pay ratio; gender pay gap; review of terms of reference.

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. The Committee discussed the findings of the evaluation to identify opportunities for further improvement.

Advisers

FIT Remuneration Consultants LLP (FIT) was appointed as independent adviser to the Remuneration Committee in August 2019 following a tender process. FIT's fees in respect of advice to the Remuneration Committee during the period ended 31 December 2019 were £14,804 (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.

Prior to the appointment of FIT, Deloitte LLP provided advice to the Remuneration Committee. Deloitte's fees during the period ended 31 December 2019 were £6,150 (excluding VAT).

The Remuneration Committee is satisfied that all advice received was objective and independent.

Statement of shareholders' votes

The following table sets out the results of the advisory vote on the 2018 annual report on remuneration at the 2019 AGM and the binding vote on the remuneration policy at the 2017 AGM.

	% of votes cast For	% of votes cast Against	Number of shares Withheld
2019 Directors' Remuneration Report	98.99	1.01	6,568,330
2017 Remuneration Policy	99.34	0.66	160,202

This report has been approved by the Board of Directors and signed on its behalf by Alison Littley, Chair of the Remuneration Committee.

Alison Littley
Chair of the Remuneration Committee
5 March 2020

Other Statutory Disclosures

The Directors present their report, together with the audited financial statements, for the year ended 31 December 2019. 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 12 to the Statement of Directors' Responsibilities on page 102, this section constitutes the Directors' Report in accordance with the Companies Act 2006.

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 160. Further details of the Group's activities and future plans are set out in the Strategic Report on pages 12 to 53.

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 the inside front cover to page 53. The Strategic Report includes certain disclosures required to be contained in the Directors' Report as follows: approach to diversity (page 49), workforce engagement (page 40), equal opportunities (page 40) and an indication of likely future developments (page 14, Chief Executive's Review), and the approach to risk management (pages 34 to 36).

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 60 and is incorporated into this report by reference.

Acquisitions
On 18 October 2019, a subsidiary company of Headlam Group plc completed the acquisition of all the trade and assets of Edel Telenzo Carpets Ltd. ('Telenzo'). Telenzo is the UK distribution company for Edel Carpets, a modern carpet producer from Genemuiden, in the Netherlands. The acquisition of Telenzo supports the Group's position as Europe's leading floorcoverings distributor.

Post-balance sheet events
On 1 March 2020, HFD Ltd, a group subsidiary company acquired 100% of the issued share capital of Supertex Furnishing Ltd, a floorcovering distribution business based in Leyland, Lancashire, for a consideration of £1.3 million, subject to finalising the net assets position.

Financial results and ordinary dividends
The results for the year and financial position at 31 December 2019 are shown in the Consolidated Income Statement on page 110 and Statements of Financial Position on page 112.

A 2019 interim dividend of 7.55p per ordinary share (2018: 7.55p) was paid on 2 January 2020 to shareholders on the register at the close of business on 29 November 2019. The Directors propose a final dividend of 17.45p per ordinary share (2018: 17.45p), to be paid on 1 July 2020 to shareholders on the register of members at the close of business on 5 June 2020, the associated ex-dividend date being 4 June 2020.

This would bring the total dividend for the year to 25.0p per ordinary share (2018: 25.0p). The payment of the final dividend is subject to shareholder approval at the AGM on 22 May 2020.

Share capital
As at 31 December 2019, 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. 88,350 Ordinary Shares were issued during the year to satisfy the deferred consideration payments under the terms of the acquisition of Domus Group of Companies as announced on 7 December 2017. Following this new issue, the Company's total issued share capital was 85,452,093 Ordinary Shares as at 31 December 2019. During the year, the Company purchased no shares into treasury pursuant to the authority granted by shareholders at the Company's Annual General Meeting on 24 May 2019.

A total of 209,440 Ordinary Shares were transferred from treasury stock during 2019 in connection with the Company's employee share schemes, and the balance of shares in treasury stock following these transfers was 548,649 Ordinary Shares as at 31 December 2019 (0.64% of the Company's total issued share capital).

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 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 24 May 2019, 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.

At the AGM on 24 May 2019, the Company was given the authority to purchase shares in the Company up to 10% of the issued share capital. Under this authority there is a minimum and maximum price to be paid for such shares. Any shares which are brought back may be held as treasury shares and cancelled, sold for cash or used to satisfy share options and share awards under the Company's employee share schemes. As detailed above, the Company did not use this authority during the year under review. No further shares have been purchased into treasury since 1 January 2020 and to the date of signing of this report. The Directors will be seeking to renew the authority at the forthcoming AGM. For the avoidance of doubt, the Company does not currently intend to use the authority in relation to share buyback and cancellation of Ordinary Shares unless in the opinion of the Directors, it would increase the EPS and be in the best interests of shareholders in general. 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 54 and 55.

Changes to the Board during the period are set out on page 67. 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 re-election
Executive Directors				
Steve Wilson	2 December 1991	n/a	3 March 2017	22 May 2020
Chris Payne	13 September 2017	n/a	13 September 2017	22 May 2020
Non-Executive Directors				
Philip Lawrence (Chairman)	1 June 2015	18 June 2015	26 October 2017	22 May 2020
Amanda Aldridge	1 February 2018	12 January 2018	12 January 2018	22 May 2020
Keith Edelman	1 October 2018	15 August 2018	15 August 2018	22 May 2020
Alison Littley	1 January 2019	15 August 2018	15 August 2018	22 May 2020

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 Code.

Directors' Powers
Subject to the Company's Articles of Association, the Act 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.

Other Statutory Disclosures continued

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 2019, 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

	Aggregate total voting rights[1]	% of total voting rights[2]	Indirect/direct
Franklin Templeton Institutional, LLC	9,222,208	10.86	Indirect
FIL Limited	4,635,824	5.46	Indirect
Heronbridge Investment Management LLP	4,209,552	5.04	Direct
Investec Asset Management Limited	4,248,163	5.02	Indirect
Aggregate of Standard Life Aberdeen plc affiliated management entities	4,189,429	4.95	Indirect
Rathbone Brothers plc	4,070,078	4.87	Indirect
Canaccord Genuity Group Inc	2,770,314	3.27	Indirect

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.

Between 1 January 2020 and 5 March 2020 the following change in respect of the interests in voting rights in the Company's issued share capital have been notified to the Company:

	Aggregate total voting rights[1]	% of total voting rights[2]	Indirect/direct
Franklin Templeton Institutional, LLC	8,364,908	9.85	Indirect

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.

Rights under employees' share schemes
As at 31 December 2019, Kleinwort Hambros, as trustee of the Headlam Group Employee Trust Company Limited ('Trust') held 711,747 shares, approximately 0.8% 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 on pages 76 to 97.

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.

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 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.

Overseas Branches
The Company operates through statutory entities overseas and they are listed on page 160.

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. Any new suppliers in higher risk areas are assessed for modern slavery and human trafficking purposes prior to establishing a business relationship.

During the year the Company conducted an audit of its supply chain and assessed the risk of modern slavery for each supplier taking into consideration their country of operation as well as other matters. Each supplier assessed as higher risk was required to complete a tailored modern slavery and human trafficking questionnaire, the results of which were assessed by the Company Secretary and Commercial Director and any follow-up actions and requests for additional information taken as appropriate.

Full information can be found in the Company's annual Modern Slavery Statement which is published 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 of Disabled persons
It is our policy that people with disabilities should have full and fair consideration for vacancies within the Group having regard for their aptitudes and abilities. Where existing employees become disabled, it is the Company's policy, wherever practicable to provide continuing employment under normal terms and conditions and to provide training career development wherever appropriate.

Employee Involvement and Communication
We are committed to communicating matters of importance to our employees. Communication is however not just one way and we actively encourage feedback from our employees, either through formal channels such as our Employee Forum (page 40) and our bi-annual employee survey, or more informal methods of feedback. In addition to our Employee Forum, we additionally hold champions meeting in our businesses and specific departmental group meetings where we get together those with specific job roles to share best practice and learn from the ideas and practices of others.

We are proud that our employees are committed and loyal to the Company and listening to their ideas through formal and informal channels helps to inform company decision-making.

Environmental policy and mandatory greenhouse gas emissions reporting
The Company's policy towards the environment, actions being undertaken to mitigate its environmental impact, and all required regulatory disclosures can be found within the Strategic Report on pages 50 to 51.

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 can be found on page 40.

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 102 and a statement by the Auditor on their responsibilities is given on page 109.

Political donations and expenditure
The Company's policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure. Accordingly, neither the Company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2018: £nil).

Charitable donations
Details are given on page 53 of the Strategic Report.

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.

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 150 to 157.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group is described in the Financial Review on page 24. In addition, note 24 to the financial statements on pages 150 to 157 includes the Group's objectives, policies and processes for managing its exposures to interest rate risk, foreign currency risk, counterparty risk, credit risk and liquidity risk.

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements set out on pages 110 to 160 have been prepared on the going concern basis.

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 2020 AGM.

AGM
This year's AGM will be held at the Company's distribution hub in Coleshill on Friday, 22 May 2020 at 10.00am. 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.

This report was approved by the Board and signed on its behalf by:

Karen Atterbury
Company Secretary
5 March 2020
Company registration number: 00460129

Statement of Directors' Responsibilities

in respect of the financial statements

The directors are responsible for preparing the Annual Report 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 financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and parent company financial statements in accordance with IFRSs as adopted by the European Union. Under company law the 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 parent company and of the profit or loss of the group and parent company 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 IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, 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 parent company will continue in business.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the parent 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 and parent company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Annual report and accounts confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and 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 parent 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 and parent 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 and parent company's auditors are aware of that information.

For and on behalf of the Board

Steve Wilson
Director
5 March 2020

Chris Payne
Director
5 March 2020

Streamlined Energy & Carbon Reporting ('SECR') Disclosure

Executive Summary

This Executive Summary alongside and in conjunction with the information contained with the Environment section on page 50 summarises the energy usage, associated emissions, energy efficiency actions and energy performance for Headlam Group plc under the government policy Streamlined Energy & Carbon Reporting ('SECR'), as implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

This Executive Summary, and full supporting report, has been prepared by Net Zero Compliance (a division of Inspired Energy PLC) 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.

Annual Reporting Figures

The total consumption (kWh) figures for energy supplies reportable by Headlam Group plc are as follows:

Utility and Scope	**2019 Consumption (kWh)**	2018 Consumption (kWh) (for illustrative purposes*)
Grid-Supplied Electricity (Scope 2)	**8,252,552**	7,265,231
Natural Gas (Scope 1)	**5,055,888**	5,020,115
Transportation (Scope 1)	**91,911,413**	90,066,828
Total	**105,219,853**	102,352,174

The total emission (tCO_2e) figures for energy supplies reportable by Headlam Group plc are as follows. Conversion factors utilised in these calculations are detailed below:

Utility and Scope	**2019 Consumption (tCO_2e)**	2018 Consumption (tCO_2e) (for illustrative purposes*)
Grid-Supplied Electricity (Scope 2)	**2,109**	1,857
Natural Gas (Scope 1)	**930**	923
Transportation (Scope 1)	**22,423**	22,018
Total	**25,462**	24,798

Intensity Metric

An intensity metric of tCO_2e per £m revenue has been applied for the annual total emissions of the Company that is related to the operation of facilities i.e. grid-supplied electricity and natural gas. The methodology of the intensity metric calculations are detailed below, and results of this analysis is as follows:

Utility and Scope	**2019 Intensity Metric**	2018 Intensity Metric
tCO_2e/£m revenue	**41.7**	41.0

* 2018 consumption and emission figures have been provided for illustrative purposes from data collated for the Phase 2 compliance activities with the Energy Savings Opportunity Scheme ('ESOS').

Reporting Methodology

Scope 1 and 2 consumption and CO_2e emission data has been calculated in-line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used: Database 2019, Version 1.01.

Estimations undertaken to cover missing billing periods were calculated on a kWh/day pro-rata basis at meter level. Where data was not available for the entirety of the reporting period, an average of similar meter classes were taken and applied to the properties with no available data.

Intensity metrics have been calculated utilising the UK 2019 revenue figure of £610,242,000, and applying to the whole estate's carbon emissions.

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 2019 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the Group and Company Statements of financial position as at 31 December 2019; 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 to the group or the company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall group materiality: £2.0 million (2018: £2.0 million), based on 5% of underlying profit before tax (2018: 5% of profit before tax).
- Overall company materiality: £1.9 million (2018: £1.9 million), based on 0.75% of total assets.

- 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 Limited, Domus Group of Companies and Headlam Group plc (the company) due to their size and risk characteristics. These UK reporting components comprise 84% of consolidated revenue and 87% of consolidated underlying profit before tax.
- In addition, we targeted significant balances in components outside of full scope. These were identified as other interest-bearing loans and borrowings within the components of Headlam BV and LMS, and cash balances within Headlam BV and Belcolor.
- All work was performed by the group team and no reliance was taken on component auditors.
- Finally, we performed analytical procedures on insignificant trading components for group reporting purposes.

- Supplier arrangements
- Impairment of Domus goodwill

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.

Capability of the audit in detecting irregularities, including fraud
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 and health and safety 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 preparation of the financial statements such as the Companies Act 2006, the Listing Rules, tax legislation and pension legislation. 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 inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the group engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud;
- Reading key correspondence with regulatory authorities, such as the Competition and Markets Authority (CMA);
- Review of correspondence with legal advisors;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Testing of journals posted to revenue, rebates and cash that have unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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.

Key audit matter	How our audit addressed the key audit matter
Supplier arrangements	
Refer to the Audit Committee Report on page 72 and the use of estimates and judgements in the Accounting Policies on page 124. 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-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.	We tested a sample of rebate balances by requesting confirmations from the counterparty. For those balances where no counterparty confirmation was 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 comfort over the recoverability of the balances. In addition, 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of Domus goodwill	
Refer to the Audit Committee Report on page 72 and the use of estimates and judgements in the Accounting Policies on page 121 and note 12 to the financial statements on page 137. During the financial year, the performance of the Domus trading subsidiary has declined, with the business achieving an operating profit of £1.0 million in FY19 (FY18 - £1.9 million). This decline represents an impairment trigger in respect of goodwill. At 31 December 2019 the group had a net balance of £20.9 million (2018: £23.0 million) of goodwill in respect of Domus, following management’s decision to record an impairment of £2.1 million during the year ended 31 December 2019. Management believe the decline in performance is because of the depressed market conditions in London and the South East over the last two years, and expect the business’ performance to recover to pre-acquisition levels by 2023. Consequently, the carrying value of goodwill is contingent on an improvement in the future cash flows of the business and there is a risk that the goodwill could be further impaired if these revenue growth rates do not meet the company’s expectations.	We obtained management’s model supporting the impairment of £2.1 million and tested its integrity and accuracy. Our work highlighted the two most sensitive assumptions to be revenue growth and the discount rate. We agreed the revenue and cash flows used as the basis of the model back to Board approved 5 year forecasts and held discussions with management to determine whether the rationale behind the expected recovery is of sound logic. We reviewed the historical performance of the business to determine whether it has previously experienced fluctuations in performance and whether it has a track record of recovering from previous declines. In addition, we performed benchmarking against independent market indices, and noted a correlation between the Domus revenue levels and wider macro-economic indicators. We also reviewed post year-end financial data which shows early evidence of a year on year increase in order intake, supporting management’s forecasts. We engaged independent valuation experts to review and benchmark the discount rate calculated by management and concluded that it lay within our expected range. We reviewed management’s impairment sensitivity disclosures and concluded these adequately reflect ‘reasonably possible’ changes in key assumptions. As a result of these procedures, we consider the directors’ assessment of the carrying value of goodwill to be supportable.

We determined that there were no key audit matters applicable to the company to communicate in our report.

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 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 components outside of full scope. These were identified as other interest-bearing loans and borrowings within the components of Headlam BV and LMS, and cash balances within Headlam BV and Belcolor.

Finally, we performed analytical procedures on insignificant trading components for group reporting purposes.

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.

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:

	Group financial statements	Company financial statements
Overall materiality	£2.0 million (2018: £2.0 million).	£1.9 million (2018: £1.9 million).
How we determined it	5% of underlying profit before tax (2018: 5% of profit before tax)	0.75% of total assets.
Rationale for benchmark applied	In the current year we have revised our benchmark to be based on underlying profit before tax. 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.

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 £239,000 and £1,900,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (Group audit) (2018: £100,000) and £100,000 (Company audit) (2018: £100,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to 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 Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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 Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 73 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 37 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 102, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 71 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- 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.

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. (CA06)

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 set out on page 102, 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.

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 received 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 4 years, covering the years ended 31 December 2016 to 31 December 2019.

Mark Smith *(Senior Statutory Auditor)*
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

5 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Note	Underlying 2019 £000	Non-underlying (Note 3) 2019 £000	Total 2019 £000	Underlying 2018 £000	Non-underlying (Note 3) 2018 £000	Total 2018 £000
Revenue	2	**719,237**	**–**	**719,237**	708,423	–	708,423
Cost of sales		**(489,825)**	**–**	**(489,825)**	(479,349)	–	(479,349)
Gross profit		**229,412**	**–**	**229,412**	229,074	–	229,074
Distribution costs		**(135,738)**	**–**	**(135,738)**	(134,316)	–	(134,316)
Administrative expenses		**(51,520)**	**(3,885)**	**(55,405)**	(50,485)	(2,942)	(53,427)
Operating profit	2	**42,154**	**(3,885)**	**38,269**	44,273	(2,942)	41,331
Finance income	6	**821**	**–**	**821**	709	–	709
Finance expenses	6	**(3,515)**	**(406)**	**(3,921)**	(1,593)	–	(1,593)
Net finance costs		**(2,694)**	**(406)**	**(3,100)**	(884)	–	(884)
Profit before tax	3	**39,460**	**(4,291)**	**35,169**	43,389	(2,942)	40,447
Taxation	7	**(6,877)**	**277**	**(6,600)**	(7,750)	807	(6,943)
Profit for the year attributable to the equity shareholders		**32,583**	**(4,014)**	**28,569**	35,639	(2,135)	33,504
Earnings per share							
Basic	9	**38.8p**		**34.0p**	42.5p		40.0p
Diluted	9	**38.6p**		**33.8p**	42.2p		39.6p
Ordinary dividend per share							
Interim dividend for the financial year	23			**7.55p**			7.55p
Final dividend proposed for the financial year	23			**17.45p**			17.45p

All Group operations during the financial years were continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Profit for the year attributable to the equity shareholders		**28,569**	33,504
Other comprehensive income/(expense			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	21	**917**	8,562
Related tax		**(159)**	(1,628)
		758	6,934
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations		**(549)**	540
		(549)	540
Other comprehensive income for the year		**209**	7,474
Total comprehensive income attributable to the equity shareholders for the year		**28,778**	40,978

Statements of Financial Position

At 31 December 2019

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Assets					
Non-current assets					
Property, plant and equipment	10	**114,573**	102,048	**15,958**	476
Investment properties	10	**–**	–	**79,957**	81,647
Right of use assets	11	**43,865**	–	**656**	–
Intangible assets	12	**48,514**	50,924	**–**	–
Investments in subsidiary undertakings	13	**–**	–	**122,024**	121,380
Deferred tax assets	14	**692**	516	**–**	–
		207,644	153,488	**218,595**	203,503
Current assets					
Inventories	15	**132,474**	132,704	**–**	–
Trade and other receivables	16	**123,705**	119,007	**21,316**	23,491
Cash and cash equivalents	17	**33,385**	44,005	**17,548**	12,573
		289,564	295,716	**38,864**	36,064
Total assets		**497,208**	449,204	**257,459**	239,567
Liabilities					
Current liabilities					
Bank overdraft	17	**(10)**	(221)	**–**	–
Other interest-bearing loans and borrowings	18	**(222)**	(236)	**–**	–
Lease liabilities	11	**(13,921)**	–	**(6)**	–
Trade and other payables	19	**(181,845)**	(181,300)	**(40,287)**	(34,226)
Income tax payable	8	**(5,037)**	(6,730)	**(1,302)**	(394)
		(201,035)	(188,487)	**(41,595)**	(34,620)
Non-current liabilities					
Other interest-bearing loans and borrowings	18	**(6,201)**	(6,805)	**–**	–
Lease liabilities	11	**(30,734)**	–	**(658)**	–
Trade and other payables	19	**–**	(2,592)	**–**	(2,007)
Provisions	20	**(2,299)**	(2,249)	**–**	–
Deferred tax liabilities	14	**(7,608)**	(8,063)	**(5,216)**	(5,487)
Employee benefits	21	**(4,263)**	(5,888)	**(2,174)**	(2,561)
		(51,105)	(25,597)	**(8,048)**	(10,055)
Total liabilities		**(252,140)**	(214,084)	**(49,643)**	(44,675)
Net assets		**245,068**	235,120	**207,816**	194,892
Equity attributable to equity holders of the parent					
Share capital	23	**4,273**	4,268	**4,273**	4,268
Share premium		**53,512**	53,512	**53,512**	53,512
Other reserves	23	**1,334**	185	**15,106**	13,364
Retained earnings		**185,949**	177,155	**134,925**	123,748
Total equity		**245,068**	235,120	**207,816**	194,892

The notes on pages 116 to 160 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 £31,238,000 (2018:£34,350,000).

These financial statements were approved by the Board of Directors on 5 March 2020 and were signed on its behalf by

Steve Wilson
Director

Chris Payne
Director

Company Number: 00460129

Statement of Changes in Equity – Group

For the year ended 31 December 2019

	Share capital £000	Share premium £000	Capital redemption reserve £000	Special reserve £000	Translation reserve £000	Treasury reserve £000	Restated* Retained earnings £000	Total equity £000
Balance at 1 January 2018	4,268	53,512	88	–	6,859	(4,056)	157,903	218,574
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	33,504	33,504
Other comprehensive income	–	–	–	–	540	–	6,934	7,474
Total comprehensive income for the year	–	–	–	–	540	–	40,438	40,978
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	1,478	1,478
Share options exercised by employees	–	–	–	–	–	2,579	(1,518)	1,061
Consideration for purchase of own shares	–	–	–	–	–	(5,825)	–	(5,825)
Current tax on share options	–	–	–	–	–	–	38	38
Deferred tax on share options	–	–	–	–	–	–	(169)	(169)
Deferred tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(46)	(46)
Dividends to equity holders	–	–	–	–	–	–	(20,969)	(20,969)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	(3,246)	(21,186)	(24,432)
Balance at 31 December 2018	4,268	53,512	88	–	7,399	(7,302)	177,155	235,120
Balance at 1 January 2019	**4,268**	**53,512**	**88**	**–**	**7,399**	**(7,302)**	**177,155**	**235,120**
Change in accounting policy *(note 1c & 11)*	**–**	**–**	**–**	**–**	**–**	**–**	**(216)**	**(216)**
Restated total equity at 1 January 2019	**4,268**	**53,512**	**88**	**–**	**7,399**	**(7,302)**	**176,939**	**234,904**
Profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**28,569**	**28,569**
Other comprehensive (expense)/income	**–**	**–**	**–**	**–**	**(549)**	**–**	**758**	**209**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(549)**	**–**	**29,327**	**28,778**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**807**	**807**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**1,273**	**(448)**	**825**
Ordinary shares issued	**5**	**–**	**–**	**469**	**–**	**–**	**–**	**474**
Effect of movement on foreign exchange on current taxation	**–**	**–**	**–**	**–**	**(44)**	**–**	**–**	**(44)**
Current tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**20**	**20**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**245**	**245**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(20,941)**	**(20,941)**
Total contributions by and distributions to equity shareholders	**5**	**–**	**–**	**469**	**(44)**	**1,273**	**(20,317)**	**(18,614)**
Balance at 31 December 2019	**4,273**	**53,512**	**88**	**469**	**6,806**	**(6,029)**	**185,949**	**245,068**

* Retained earnings for the group were restated by a change in accounting policy arising from the adoption of IFRS 16 at 1 January 2019, see note 1c and 11.

Statement of Changes in Equity – Company

For the year ended 31 December 2019

	Share capital £000	Share premium £000	Capital redemption reserve £000	Special reserve £000	Treasury reserve £000	Restated* Retained earnings £000	Restated* Total equity £000
Balance at 1 January 2018	4,268	53,512	88	20,578	(4,056)	105,128	179,518
Restatement for discounting on inter-company receivable	–	–	–	–	–	(1,601)	(1,601)
Restated balance at 1 January 2018	4,268	53,512	88	20,578	(4,056)	103,527	(177,917)
Profit for the year attributable to the equity shareholders	–	–	–	–	–	34,350	34,350
Other comprehensive income	–	–	–	–	–	6,887	6,887
Total comprehensive income for the year	–	–	–	–	–	41,237	41,237
Transactions with equity shareholders, recorded directly in equity							
Share-based payments	–	–	–	–	–	1,478	1,478
Share options exercised by employees	–	–	–	–	2,579	(1,518)	1,061
Consideration for purchase of own shares	–	–	–	–	(5,825)	–	(5,825)
Current tax on share options	–	–	–	–	–	29	29
Deferred tax on share options	–	–	–	–	–	(36)	(36)
Dividends to equity holders	–	–	–	–	–	(20,969)	(20,969)
Total contributions by and distributions to equity shareholders	–	–	–	–	(3,246)	(21,016)	(24,262)
Balance at 31 December 2018	4,268	53,512	88	20,578	(7,302)	123,748	194,892
Balance at 1 January 2019	**4,268**	**53,512**	**88**	**20,578**	**(7,302)**	**123,748**	**194,892**
Profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**31,238**	**31,238**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**306**	**306**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**31,544**	**31,544**
Transactions with equity shareholders, recorded directly in equity							
Share-based payments	**–**	**–**	**–**	**–**	**–**	**807**	**807**
Share options exercised by employees	**–**	**–**	**–**	**–**	**1,273**	**(448)**	**825**
Ordinary share issues	**5**	**–**	**–**	**469**	**–**	**–**	**474**
Current tax on share options	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**214**	**214**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**(20,941)**	**(20,941)**
Total contributions by and distributions to equity shareholders	**5**	**–**	**–**	**469**	**1,273**	**(20,367)**	**(18,620)**
Balance at 31 December 2019	**4,273**	**53,512**	**88**	**21,047**	**(6,029)**	**134,925**	**207,816**

* Retained earnings for the Company were restated when an inter-company loan was discounted in accordance with IFRS 9 see note 1.

Cash Flow Statements

For the year ended 31 December 2019

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash flows from operating activities					
Profit before tax for the year		**35,169**	40,447	**31,883**	33,977
Adjustments for:					
Depreciation of property, plant and equipment, amortisation and impairment	3	**8,898**	7,038	**1,692**	1,688
Depreciation of right-of-use asset	11	**15,260**	–	**21**	–
Finance income	6	**(821)**	(709)	**(803)**	(691)
Finance expense	6	**3,921**	1,593	**1,109**	985
Profit on sale of property, plant and equipment	3	**(60)**	(50)	**–**	–
Share-based payments	22	**807**	1,478	**163**	739
Operating cash flows before changes in working capital and other payables		**63,174**	49,797	**34,065**	36,698
Change in inventories		**(572)**	1,563	**–**	–
Change in trade and other receivables		**(4,725)**	12,524	**5,581**	(2,170)
Change in trade and other payables		**(1,916)**	(13,878)	**(100)**	(10,357)
Cash generated from the operations		**55,961**	50,006	**39,546**	24,171
Interest paid		**(3,407)**	(1,426)	**(799)**	(765)
Tax paid		**(8,289)**	(7,789)	**146**	(590)
Additional contributions to defined benefit plan	21	**–**	(747)	**–**	(747)
Net cash flow from operating activities		**44,265**	40,044	**38,893**	22,069
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**130**	403	**–**	–
Interest received		**857**	601	**314**	258
Acquisition of subsidiaries, net of cash acquired	25	**(4,448)**	(9,141)	**(1,137)**	–
Repayment of acquired borrowings on acquisition		**–**	(435)	**–**	–
Acquisition of property, plant and equipment	10	**(15,777)**	(4,384)	**(12,967)**	(667)
Net cash flow from investing activities		**(19,238)**	(12,956)	**(13,790)**	(409)
Cash flows from financing activities					
Proceeds from the issue of treasury shares		**825**	1,061	**825**	1,061
Payment to acquire own shares		**–**	(5,825)	**–**	(5,825)
Drawdown of borrowings		**45,000**	45,443	**45,000**	45,000
Repayment of borrowings		**(45,229)**	(45,232)	**(45,000)**	(45,000)
Principal elements of lease payments	11	**(14,880)**	–	**(12)**	–
Dividends paid	23	**(20,941)**	(20,969)	**(20,941)**	(20,969)
Net cash flow from financing activities		**(35,225)**	(25,522)	**(20,128)**	(25,733)
Net (decrease)/increase in cash and cash equivalents		**(10,198)**	1,566	**4,975**	(4,073)
Cash and cash equivalents at 1 January		**43,784**	42,030	**12,573**	16,646
Effect of exchange rate fluctuations on cash held		**(211)**	188	**–**	–
Cash and cash equivalents at 31 December	17	**33,375**	43,784	**17,548**	12,573

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 International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'). 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 5 March 2020.

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 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 12 and Chief Executive's Review on pages 14 to 16.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 24 to 31. 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. As highlighted in note 18 to the financial statements, the Group has maintained two separate agreements with Barclays Bank PLC and HSBC Bank Plc and these include both Sterling and Euro term facilities. The Group's Sterling committed facilities are £68.5 million and its Euro committed facilities are €9.6 million. The Group also has short term uncommitted facilities which continue at £25 million, and €7.3 million and are renewable on an annual basis.

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 adopted IFRSs 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 amount, 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 may give rise to a 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. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased. Consequently, the calculation of these rebates require accurate inputs and calculations to be made. 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.

- *Inventory*
  Inventories are valued at the lower of cost and net realisable value. Cost is the invoiced cost of materials less any supplier discounts received and overheads incurred in bringing inventory to its present condition and location. This includes management's best estimates of overheads to be absorbed into the cost of inventory and discounts likely to be received from suppliers.

  Provisions to write down stock to its net realisable value are calculated based on the ageing profile and consideration of inventory sold for less than its carrying value.

- *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 asset growth rates, pension and salary increases, price inflation, discount rate used to measure actuarial liabilities and mortality rates.

  Sensitivities in respect of these assumptions are detailed in note 21.

- *Leases (IFRS 16)*
  Estimates are made in determining the use of an internal borrowing rate ("IBR"). The IBR is estimated and used for the purpose of discounting cashflows to their present value when the interest rate implicit within a lease cannot be determined. It comprises the risk free rate attributed to government bonds relevant to the economic environment in which the asset is being used, a credit worthiness adjustment based on a synthetic Headlam credit rating and the incremental cost of borrowing, the latter being the rate of interest that the Group would have to pay on borrowings to obtain an asset of similar value to that of the right of use asset. Further details on the incremental borrowing rates supplied are outlined in note 11.

- *Impairment of goodwill*
  The Group determines whether goodwill is impaired on an annual basis unless there is an indication of impairment at an earlier date. This requires an estimation of the value in use of the cash generating units to which they are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. During the year management have recognised an impairment of £2.1 million against goodwill in respect of the Domus business. Further details on the impairment, the assumptions used in determining the value in use calculations, and their associated sensitivity analysis can be found in note 12.

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:

- *Acquisition accounting*
  Assets and liabilities must also be recognised at fair value on acquisition. The identification and measurement of contingent liabilities and intangible assets are key areas of judgement.

  The Group made one acquisition during the year which is detailed in note 25. As part of this acquisition the Group has performed a purchase price allocation review and has assessed the fair value of the assets and liabilities acquired. Using assumptions regarding the performance of the acquired entity, management have identified additional intangibles relating to brand names, customer relationships and supply agreements which have been recognised and amortised over their expected useful economic life. The fair value of intangibles at the date of acquisition are calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at the appropriate discount rate. Key assumptions in valuing the intangibles were royalty rates, discount rates, and future cash flows which have been assessed by the directors and where appropriate bench-marked against the market. Any excess of the purchase consideration over the estimated fair values of acquired net identified assets is recorded as goodwill in the balance sheet and is allocated to an appropriate business segment. Any changes in the underlying assumptions or life of the determined assets and liabilities would alter the goodwill and amortisation charges included within the financial statements.

1 Presentation of the Financial Statements and Accounting Policies continued

Judgements continued

- *Leases (IFRS 16)*
  Judgements are made in determining the lease term when applying IFRS 16. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

- *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 by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. Consequently, the classification of these items requires judgement. Further details can be found in Note 3.

(c) Impact of newly adopted accounting standards

The Group and Company has adopted a new accounting standard in 2019 and this is detailed below:

International Financial Reporting Standard (IFRS) 16 'Leases' (replacing IAS 17).

This new standard eliminates the classification of leases over 12 months in length as either operating or finance leases and introduces a single lessee accounting model whereby all leases are accounted for on balance sheet, unless of low-value. The standard therefore requires that the Group's leased assets are recorded within non-current assets on the balance sheet as 'right of use assets' with a corresponding lease liability which is based on the discounted value of the cash payments required under each lease. The income statement is affected by the replacement of the operating lease expense with a depreciation charge and a finance expense.

The lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at transition. All right-of-use assets have been measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Transition recognition exemptions relating to short-term and low value leases have been applied and a single discount rate has been applied to a portfolio of leases with reasonably similar characteristics, to simplify the transition process.

The group has applied the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective approach. Under this approach, the cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening balance of retained earnings on 1 January 2019, with no restatement of comparative information. The impact this change in the Group's accounting policy has had on the financial statements is detailed further in note 11 below.

The Group and Company adopted two new accounting standards in 2018 and these are detailed below:

IFRS 9 – Financial Instruments

IFRS 9 replaced the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies but did not have a significant impact on the financial statements. The new accounting policies are set out in note 1 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

There was no material impact on the group's retained earnings as at 1 January 2018 arising from the transition but the Company's retained earnings were affected as follows:

In accordance with IFRS 9 the value of inter-company receivables were reviewed as at 31 December 2018. Headlam Group plc has an inter-company balance with Headlam (European) Limited, which is supported by Headlam (European) Limited's investment in the Group's French entities. The inter-company loan is due on demand and it has been valued by reference to the net present value of the future cash flows accruing to Headlam (European) Limited from its investment in the French entities and discounted at an appropriate discount rate.

	Restated 1 January 2018 £000
Retained earnings	105,128
Restatement due to discounting	(1,601)
Restated retained earnings	103,527

IFRS 15 – Revenue from Contracts with Customers
The Group adopted IFRS 15 'Revenue from Contracts with Customers' at 1 January 2018.

This standard uses a five-step model to be applied to all sales contracts. The key principle of the standard is that revenue is recognised when control of the goods or services passes to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

A detailed assessment of the impacts of the new standard was undertaken in 2018 including a review of the Group's performance obligations, treatment of variable consideration and the timing of revenue recognition. This assessment showed there were no material impacts on revenue for the Group.

(d) IFRS not yet applied
There are no other 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
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 statements of subsidiaries are included in the Group's financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

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.

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.

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.

Foreign currency exposure
Note 24 contains information about the foreign currency exposure of the Group and risks in relation to foreign exchange movements.

Derivative financial instruments
The Group holds derivative financial instruments to hedge its foreign currency and its interest rate risk exposures. Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either:
- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

1 Presentation of the Financial Statements and Accounting Policies continued

Derivative financial instruments continued

At inception of the hedge relationship, the group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The group documents its risk management objective and strategy for undertaking its hedge transactions.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The Group enters into forward exchange contracts and the fair value is their market price at the Statement of Financial Position date, being the present value of the forward price. The gain or loss on remeasurement to fair value of forward exchange contracts is recognised immediately in the income statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Where option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the options as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within other comprehensive income (OCI) in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, a Group company might designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

Further information about the derivatives used by the Group is provided in note 24 below.

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% – 33.3%
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.

Right-of-use assets
Right-of-use assets are measured at cost 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 and the lease term on a straight-line basis. The annual depreciation rates are determined on the same basis as the group's property, plant and equipment shown above.

Goodwill and other intangible assets
Goodwill
All business combinations are accounted for by applying the purchase method. Goodwill arises when a company acquires another business and represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following the requirements of IFRS 3 revised, 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 and customer relationships 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

1 Presentation of the Financial Statements and Accounting Policies continued

Financial assets

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.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. 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 (FVOCI);
- Fair value through the profit and loss (FVPL)

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 and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Trade and other receivables

Trade receivables are recognised at the transaction price (as defined in IFRS 15) 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 carried at amortised cost and fair valued through other comprehensive income (FVOCI). 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.

Where specific receivables are known to be 'bad' or it becomes apparent that payment is 'doubtful' then a credit loss allowance of 100% is applied.

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 discounts 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.

Allowances for inventory losses are determined by reference to each individual product and are calculated by assessing the age and quantity of each individual product.

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 at each Statement of Financial Position date.

For the purposes of impairment testing, assets are grouped together into 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.

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 post-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.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate, i.e. the effective interest rate computed at initial recognition of these financial assets. Receivables with a short duration are not discounted.

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 had 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.

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.

Borrowing costs

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

Borrowing costs are charged to the income statement using the effective interest rate method.

Provisions

Provisions are recognised in accordance with IAS 37 'Provisions, Contingent Assets and Contingent Liabilities'. 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.

Employee benefits

The Company and the Group operate both defined benefit and defined contribution plans, the assets of which 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 employee benefit expense in the income statement.

1 Presentation of the Financial Statements and Accounting Policies continued

Employee benefits continued

Guaranteed Minimum Pensions (GMPs) were required to be equalised across males and females, and as a result of clarity in legislation the Company added 1.1% to the liabilities as at 31 December 2018. No further adjustment was necessary as at 31 December 2019. The 2018 adjustment was an approximate scheme-specific allowance calculated by the scheme actuaries, which takes into account high-level summary data of the Scheme. The Company allowed for the additional liability in respect of GMP equalisation as a past service cost, which went through the income statement for the year ended 31 December 2018.

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 Group operates a UK defined benefit pension plan and a defined benefit plan in Switzerland. 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 76 to 97.

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 actual number of share options that vest except where forfeiture is due only to market conditions such as share prices not achieving the threshold for vesting.

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.

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. 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. Provision 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 discounts 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.

Lease payments

As explained in note 11 below, the group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed below.

Until 31 December 2018, leases were classified as finance leases whenever the lease transferred substantially all the risks and rewards of ownership to the group and all other leases were treated as operating leases.

Assets held under finance leases were included in property, plant and equipment at the lower of fair value at the date of acquisition or the present value of the minimum lease payments. The capital element of outstanding finance leases was included in financial liabilities. The finance charge element of rentals was charged to the income statement at a constant period rate of charge on the outstanding obligations.

Payments made under operating leases were recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received were recognised in the income statement as an integral part of the total lease expense.

Following the adoption of IFRS 16 from 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Assets and liabilities arising from a lease are initially measured on a present value basis. 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 reasonable 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 payments are discounted using the interest rate implicit in the lease, or the lessee's incremental borrowing rate if that rate cannot be readily determined.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly of IT equipment, for example; printers and photocopiers.

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.

Dividends

Paid

Interim and final dividends are recognised when they are paid or when approved by the members in a general meeting. Final 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.

1 Presentation of the Financial Statements and Accounting Policies continued

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 it is 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, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group.

2 Segment reporting

As at 31 December 2019, the Group had 62 operating segments in the UK and four operating segments in Continental Europe. Each segment represents an individual trading 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 Group Chief Executive. Discrete financial information is available for each segment and used by the Group Chief Executive to assess performance and decide on resource allocation.

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 Group Chief Executive, the Board and the executive management team and forms the basis for the presentation of operating segment information given below.

	UK		Continental Europe		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Revenue						
External revenues	**610,242**	604,150	**108,995**	104,273	**719,237**	708,423
Reportable segment underlying operating profit	**41,253**	45,163	**3,524**	488	**44,777**	45,651
Reportable segment assets	**329,002**	304,645	**47,229**	42,591	**376,231**	347,236
Reportable segment liabilities	**(205,530)**	(168,184)	**(29,057)**	(25,219)	**(234,587)**	(193,403)

During the year there were no inter-segment revenues for the reportable segments *(2018: £nil)*.

Reconciliations of reportable segment profit, assets and liabilities and other material items:

	2019 £000	2018 £000
Profit for the year		
Total underlying operating profit for reportable segments	**44,777**	45,651
Non-underlying items	**(3,885)**	(2,942)
Unallocated expense	**(2,623)**	(1,378)
Operating profit	**38,269**	41,331
Finance income	**821**	709
Finance expense	**(3,921)**	(1,593)
Profit before taxation	**35,169**	40,447
Taxation	**(6,600)**	(6,943)
Profit for the year	**28,569**	33,504

	2019 £000	2018 £000
Assets		
Total assets for reportable segments	**376,231**	347,236
Unallocated assets:		
Properties, plant and equipment	**102,081**	88,879
Right of use assets	**656**	–
Deferred tax assets	**692**	516
Cash and cash equivalents	**17,548**	12,573
Total assets	**497,208**	449,204
Liabilities		
Total liabilities for reportable segments	**(234,587)**	(193,403)
Unallocated liabilities:		
Lease liabilities	**(645)**	–
Employee benefits	**(4,263)**	(5,888)
Income tax payable	**(5,037)**	(6,730)
Deferred tax liabilities	**(7,608)**	(8,063)
Total liabilities	**(252,140)**	(214,084)

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
Other material items 2019					
Capital expenditure	**1,969**	**841**	**2,810**	**15,484**	**18,294**
Depreciation	**2,225**	**693**	**2,918**	**2,456**	**5,374**
Depreciation of right of use assets	**13,226**	**2,013**	**15,239**	**21**	**15,260**
Non-underlying items (excluding finance expenses)	**1,687**	**98**	**1,785**	**2,100**	**3,885**
Other material items 2018					
Capital expenditure	2,579	1,139	3,718	666	4,384
Depreciation	2,058	751	2,809	2,466	5,275
Non-underlying items	1,262	466	1,728	1,214	2,942

In the UK the Group's freehold properties are held within Headlam Group plc and a rent is charged to the operating segments for the period of use. Therefore, the operating reports reviewed by the Group Chief Executive show all the UK properties as unallocated and the operating segments report a segment result that includes a property rent. This is reflected in the above disclosure.

Each segment is a continuing operation.

Notes to the Financial Statements continued

2 Segment reporting continued

The Group 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	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Revenue						
Residential	**397,008**	400,710	**60,981**	57,046	**457,989**	457,756
Commercial	**213,234**	203,440	**48,014**	47,227	**261,248**	250,667
	610,242	604,150	**108,995**	104,273	**719,237**	708,423

3 Profit before tax

The following are included in profit before tax:

	2019 £000	2018 £000
Depreciation on property, plant and equipment	**5,374**	5,275
Depreciation of right of use assets	**15,260**	–
Amortisation and impairment of intangible assets	**3,524**	1,763
Profit on sale of property, plant and equipment	**(60)**	(50)
Operating lease rentals		
Plant and machinery	**–**	11,923
Land and buildings	**–**	3,566

Non-underlying items of £4,291,000 relate to the following:

	2019 £000	2018 £000
Impairment of goodwill (note 12)	**2,100**	–
Amortisation of acquired intangibles	**1,424**	1,763
Acquisitions related fees	**686**	513
Movements in deferred and contingent consideration	**(325)**	(1,384)
Finance costs on deferred and contingent consideration	**406**	–
Non-recurring people costs	**–**	836
GMP equalisation	**–**	1,214
	4,291	2,942

The related tax on these cost is £277,000.

Auditor's remuneration:

	2019 £000	2018 £000
Audit of these financial statements	**101**	111
Amounts received by the Auditor and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**250**	276
Corporate finance services	**9**	–
	360	387

4 Staff numbers and costs

The average number of people employed, including Executive Directors, during the year, analysed by category, was as follows:

	Number of employees			
	Group		Company	
	2019	2018	**2019**	2018
By sector:				
Floorcoverings	**2,555**	2,593	**–**	–
Central operations	**20**	22	**20**	22
	2,575	2,615	**20**	22
By function:				
Sales and distribution	**2,352**	2,401	**–**	–
Administration	**223**	214	**20**	22
	2,575	2,615	**20**	22

The aggregate payroll costs were as follows:

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Wages and salaries	**87,197**	84,147	**3,251**	2,801
Equity settled share-based payment expense (note 22)	**807**	1,478	**163**	739
Social security costs	**11,080**	10,775	**607**	445
Pension costs (note 21)	**4,348**	6,839	**98**	1,967
	103,432	103,239	**4,119**	5,952

5 Emoluments of key management personnel

Executive and Non-Executive Directors are considered to be the key management personnel of the Group.

	2019 £000	2018 £000
Short-term employee benefits	**1,750**	1,653
Equity settled share-based payment expense	**355**	638
	2,105	2,291

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 76 to 97.

6 Finance income and expense

	2019 £000	2018 £000
Interest income:		
Bank interest	**817**	709
Other	**4**	–
Finance income	**821**	709
Interest expense:		
Bank loans, overdrafts and other financial expenses	**(1,454)**	(1,331)
Interest on lease liability	**(1,688)**	–
Net interest on defined benefit plan obligations (note 21)	**(80)**	(232)
Finance costs on deferred and contingent consideration	**(406)**	–
Other	**(293)**	(30)
Finance expenses	**(3,921)**	(1,593)

Finance costs on deferred and contingent consideration are reported within non-underlying items (see note 3).

Notes to the Financial Statements continued

7 Taxation

Recognised in the income statement

	2019 £000	2018 £000
Current tax expense:		
Current year	**7,909**	8,775
Adjustments for prior years	**(642)**	(810)
	7,267	7,965
Deferred tax expense:		
Origination and reversal of temporary differences	**(745)**	(938)
Adjustments for prior years	**78**	(84)
	(667)	(1,022)
Total tax in income statement	**6,600**	6,943

	2019 £000	2018 £000
Tax relating to items credited/(charged) to equity		
Current tax on:		
Income and expenses recognised directly in equity	**(20)**	(38)
Translation reserve	**44**	–
	24	(38)
Deferred tax on:		
Share options	**(245)**	169
Income and expenses recognised directly in equity	**–**	46
Deferred tax on other comprehensive income:		
Defined benefit plans	**159**	1,628
	(86)	1,843
Total tax reported directly in reserves	**(62)**	1,805

Factors that may affect future current and total tax charges

The UK headline corporation tax rate for the period was 19% (2018: 19%). The UK tax rate is expected to be reduced to 17% with effect from 1 April 2020 which was enacted during 2016. The majority of the deferred tax balance in respect of UK entities has therefore been calculated at 17% (2018: 17%) on the basis that most of the balances will materially reverse after 1 April 2020.

In addition, a reduction in the French corporation tax rate to 25% by 2022 was enacted in December 2017 which has also been taken into account in the calculation of the related deferred tax balance.

Reconciliation of effective tax rate

	2019 %	2019 £000	2018 %	2018 £000
Profit before tax		**35,169**		40,447
Tax using the UK corporation tax rate	**19.0**	**6,682**	19.0	7,685
Effect of change in UK tax rate	**0.1**	**30**	0.0	20
Effect of change in overseas tax rate	**–**	**–**	(0.9)	(382)
Recognition of tax losses	**(1.6)**	**(555)**	–	–
Non-deductible expenses	**1.9**	**682**	1.3	516
Goodwill impairment	**1.1**	**401**	–	–
Effect of tax rates in foreign jurisdictions	**(0.2)**	**(76)**	0.0	(2)
Adjustments in respect of prior years	**(1.5)**	**(564)**	(2.2)	(894)
Total tax in income statement	**18.8**	**6,600**	17.2	6,943
Add back tax on non-underlying items		**277**		807
Total tax charge excluding non-underlying items		**6,877**		7,750
Profit before non-underlying items		**39,460**		43,389
Adjusted effective tax rate excluding non-underlying items		**17.43%**		17.86%

8 Current tax liabilities

The Group's current tax liability of £5,037,000 *(2018: £6,730,000)* 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 £1,302,000 *(2018: £394,000)* represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

At 31 December 2019, the Group held a current provision of £999,086 (2018: £1,726,859) in respect of uncertain tax provisions. Liabilities relating to these open and judgmental matters are based on an assessment as to whether additional taxes will be due, after taking into account external advice where appropriate. The Group expects this uncertain tax provision to decrease in the next 12 months.

9 Earnings per share

	2019 £000	2018 £000
Earnings		
Earnings for underlying basic and underlying diluted earnings per share	**32,583**	35,639
Earnings for basic and diluted earnings per share	**28,569**	33,504

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**83,971,792**	83,862,658
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	**83,971,792**	83,862,658
Dilutive effect of share options	**536,952**	674,621
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,508,744**	84,537,279
Earnings per share		
Basic	**34.0p**	40.0p
Diluted	**33.8p**	39.6p
Underlying basic	**38.8p**	42.5p
Underlying diluted	**38.6p**	42.2p

At 31 December 2019, the Company held 1,260,396 shares *(2018: 1,523,370)* 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 £000	Plant and equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2018	119,867	37,138	89	157,094
Acquisitions	1,021	300	–	1,321
Additions	396	3,514	474	4,384
Disposals	(272)	(931)	–	(1,203)
Reclassification	–	90	(90)	–
Effect of movements in foreign exchange	447	221	1	669
Balance at 31 December 2018	121,459	40,332	474	162,265
Balance at 1 January 2019	**121,459**	**40,332**	**474**	**162,265**
Additions	**194**	**2,627**	**15,473**	**18,294**
Disposals	**(981)**	**(3,683)**	**–**	**(4,664)**
Reclassification	**(77)**	**77**	**–**	**–**
Effect of movements in foreign exchange	**(528)**	**(428)**	**–**	**(956)**
Balance at 31 December 2019	**120,067**	**38,925**	**15,947**	**174,939**
Depreciation and impairment				
Balance at 1 January 2018	27,753	27,710	–	55,463
Depreciation charge for the year	2,466	2,809	–	5,275
Disposals	–	(850)	–	(850)
Effect of movements in foreign exchange	199	130	–	329
Balance at 31 December 2018	30,418	29,799	–	60,217
Balance at 1 January 2019	**30,418**	**29,799**	**–**	**60,217**
Depreciation charge for the year	**2,454**	**2,920**	**–**	**5,374**
Disposals	**(981)**	**(3,613)**	**–**	**(4,594)**
Reclassification	**(71)**	**71**	**–**	**–**
Effect of movements in foreign exchange	**(302)**	**(329)**	**–**	**(631)**
Balance at 31 December 2019	**31,518**	**28,848**	**–**	**60,366**
Net book value				
At 1 January 2018	92,114	9,428	89	101,631
At 31 December 2018 and 1 January 2019	91,041	10,533	474	102,048
At 31 December 2019	**88,549**	**10,077**	**15,947**	**114,573**

At 31 December 2019, the cost less accumulated depreciation of long leasehold property held by the Group was £7,069,000 *(2018: £7,250,000)*.

Company investment properties and plant and equipment

	Investment properties £000	Plant and equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2018	103,396	10	–	10
Additions	190	2	474	476
Disposals	–	(3)	–	(3)
Balance at 31 December 2018	103,586	9	474	483
Balance at 1 January 2019	**103,586**	**9**	**474**	**483**
Additions	**–**	**11**	**15,473**	**15,484**
Balance at 31 December 2019	**103,586**	**20**	**15,947**	**15,967**
Depreciation				
Balance at 1 January 2018	20,253	8	–	8
Depreciation charge for the year	1,686	2	–	2
Disposals	–	(3)	–	(3)
Balance at 31 December 2018	21,939	7	–	7
Balance at 1 January 2019	**21,939**	**7**	**–**	**7**
Depreciation charge for the year	**1,690**	**2**	**–**	**2**
Balance at 31 December 2019	**23,629**	**9**	**–**	**9**
Net book value				
At 1 January 2018	83,143	2	–	2
At 31 December 2018 and 1 January 2019	81,647	2	474	476
At 31 December 2019	**79,957**	**11**	**15,947**	**15,958**

The Company obtains a valuation triennially, and this is always by an external valuer. Investment properties were last valued by an independent professional valuer on 9 January 2020. This valuation of the investment properties, not including those under construction at 31 December 2019, was £101.4 million, however the Company has chosen to hold them at cost. .

11 Leases

In adopting IFRS 16, the Group and Company has used the modified retrospective approach, and as such there has been no restatement of the comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged from 2.70% to 3.77% depending on the leased asset.

	Group 2019 £000	Company 2019 £000
Operating lease commitments as disclosed as at 31 December 2018	**50,436**	**1,937**
Additional operating lease liabilities on implementation of IFRS 16*	**4,065**	**–**
	54,501	**1,937**
Discounting effect using the lessee's incremental borrowing rates of between 2.7% and 3.77%	**(4,673)**	**(1,261)**
Lease liability recognised as at 1 January 2019	**49,828**	**676**
Of which are:		
Current lease liabilities	**13,930**	**16**
Non-current lease liabilities	**35,898**	**660**
Lease liability recognised as at 1 January 2019	**49,828**	**676**

* Operating lease commitments as at 31 December 2018 were restated by £4,065,000 to correct for omissions identified during the transition to IFRS16. The restatement relates to the disclosure note only and there is no impact on the Consolidated Income Statement or Consolidated Statement of Financial Position.

11 Leases continued

Adjustments recognised on adoption of IFRS 16 continued

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. The adjustment for accrued lease payments relating to the leases recognised on this date was a decrease of £216,000. Consequently retained earnings on 1 January 2019 were reduced by this amount.

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	Group		Company	
	31 December 2019 £000	1 January 2019 £000	**31 December 2019 £000**	1 January 2019 £000
Right-of-use assets				
Properties	**15,883**	18,692	**652**	661
Non-property	**27,982**	30,920	**4**	15
	43,865	49,612	**656**	676

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.

	Group		Company	
	31 December 2019 £000	1 January 2019 £000	**31 December 2019 £000**	1 January 2019 £000
Lease liabilities				
Current	**13,921**	13,930	**6**	16
Non-current	**30,734**	35,898	**658**	660
	44,655	49,828	**664**	676

The lease liabilities are split on the balance sheet between current and non-current. In the previous year, the Group only recognised lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17. At 31 December 2018 the Group had operating leases amounting to £54.7 million (restated) and no finance leases.

Additions to the right-of-use assets in the group during the 2019 financial year were £9,513,000 which include £533,000 for contract modifications. There were no additions in the Company.

(ii) Amounts recognised in the income statement

The statement of profit or loss shows the following amounts relating to leases:

	Group	Company
	31 December 2019 £000	**31 December 2019 £000**
Depreciation charge of right-of-use assets		
Properties	**4,509**	**9**
Non-property	**10,751**	**11**
	15,260	**20**
Interest expense		
Expense relating to IFRS 16 cost	**1,688**	**25**
Expense relating to IAS 17 cost previously included in administrative expenses	**(16,375)**	**(37)**
Net impact on the income statement	**573**	**8**

(iii) Impact on segment disclosures and earnings per share

The segment assets and liabilities for 31 December 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The impact on the following segments was as follows:

	UK £000	Continental Europe £000	Total £000
Reportable segment assets	**38,095**	**5,770**	**43,865**
Reportable segment liabilities	**(38,717)**	**(5,938)**	**(44,655)**

Earnings per share decreased by 0.6p per share, from 34.6p to 34.0p, for the twelve months to 31 December 2019 as a result of the adoption of IFRS 16

(iv) The group's leasing activities and how these are accounted for

The group leases various properties and 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.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Right of use assets are depreciated over the shorter of the assets useful life and the lease term on a straightline basis. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period, this being the amortised cost method.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate as it has been difficult to determine the interest rate implicit in the lease for existing leases.

Right-of-use assets are measured at cost 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.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(v) 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.

Notes to the Financial Statements continued

12 Intangible assets – group

	Goodwill £000	Order book £000	Customer relationships £000	Brand names £000	Non-compete £000	Supply agreements £000	Total £000
Cost							
Balance at 1 January 2018	36,981	6,202	5,443	4,996	–	–	53,622
Addition (note 25)	4,427	272	1,345	1,950	31	–	8,025
Balance at 31 December 2018	41,408	6,474	6,788	6,946	31	–	61,647
Balance at 1 January 2019	**41,408**	**6,474**	**6,788**	**6,946**	**31**	**–**	**61,647**
Addition (note 25)	**258**	**–**	**217**	**471**	**–**	**168**	**1,114**
Balance at 31 December 2019	**41,666**	**6,474**	**7,005**	**7,417**	**31**	**168**	**62,761**
Impairment and Amortisation							
Balance at 1 January 2018	3,197	5,690	45	28	–	–	8,960
Amortisation charge for the year	–	650	659	450	4	–	1,763
Balance at 31 December 2018	3,197	6,340	704	478	4	–	10,723
Balance at 1 January 2019	**3,197**	**6,340**	**704**	**478**	**4**	**–**	**10,723**
Impairment/amortisation charge for the year	**2,100**	**125**	**726**	**559**	**10**	**4**	**3,524**
Balance at 31 December 2019	**5,297**	**6,465**	**1,430**	**1,037**	**14**	**4**	**14,247**
Net book value							
At 31 December 2018 and 1 January 2019	38,211	134	6,084	6,468	27	–	50,924
At 31 December 2019	**36,369**	**9**	**5,575**	**6,380**	**17**	**164**	**48,514**

Cumulative impairment losses recognised in relation to goodwill is £5,297,000 (2018: £3,197,000).

Impairment tests for cash-generating units containing goodwill ('CGU')
Goodwill is attributed to the businesses identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent operating segments.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported segment	2019 £000	2018 £000
Joseph, Hamilton & Seaton	**UK**	**4,348**	4,348
Crucial Trading	**UK**	**1,369**	1,369
Belcolor AG	**Continental Europe**	**3,342**	3,342
Domus Group of Companies Limited	**UK**	**20,855**	22,955
Mitchell Carpets Limited	**UK**	**345**	345
McMillan Flooring	**UK**	**96**	96
CECO (Flooring) Limited	**UK**	**2,240**	2,240
Dersimo BV	**Continental Europe**	**1,313**	1,313
Ashmount Flooring Supplies Limited	**UK**	**437**	437
Rackhams Limited	**UK**	**400**	400
Telenzo	**UK**	**258**	–
Other	**UK**	**1,366**	1,366
		36,369	38,211

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 balances allocated to its cash-generating units.

An impairment test is a comparison of the carrying value of the assets of a business 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. During the year, all goodwill was tested for impairment, this resulted in an impairment charge on goodwill attributable to the Domus Group of Companies Limited CGU ("Domus") of £2,100,000 (2018: no impairment).

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2018, and applying the following key assumptions.

Key assumptions
Cash flows were projected based on actual operating results, the approved 2020 business plan and management's assessment of planned performance in the period to 2024. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.0% beyond 2024.

The main assumptions within the operating cash flows used for 2020 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.

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. A post-tax weighted average cost of capital of 8.5% (2018: 10.7%) has been used for impairment testing adjusted to 9.5% (2018: 11.6%) for Continental Europe to reflect the differing risk profile of that segment. The post-tax discount rate has been applied to the post-tax cash flows, the equivalent pre-tax discount rates for the UK and Continental Europe are 10.5% (2018:13.0%) and11.5% (2018:14.0%).

The CGUs in the UK, excluding Domus have similar characteristics and risk profiles, and therefore a single discount rate has been applied to each UK CGU. Similarly, the Directors view the CGUs in Continental Europe as having consistent risk profiles and therefore a single risk factor has been applied. The CGUs in Continental Europe operate under a different regulatory environment and this is therefore reflected in the risk factor used to determine the discount rates in the UK and Continental Europe. Domus has different characteristics to the rest of the CGUs in the UK and therefore a post-tax discount rate of 9.4% has been deemed more appropriate, the equivalent pre-tax rate being 11.4%.

Sensitivity analysis
The Group has applied sensitivities to assess whether any reasonable possible changes in these key assumptions could cause an impairment that would be material to these Consolidated Financial Statements. With the exception of the goodwill attributed to the Domus Group of Companies Limited CGU which was impaired by £2,100,000 during the year, sensitivity analysis has been carried out and did not identify any risk of material impairment.

Domus
The Directors performed sensitivity analysis on the estimated recoverable amounts and found that the excess of the recoverable amount over the revised carrying amount of the Domus goodwill would be reduced to nil as a result of a reasonably possible change in the key assumptions of:

i) sales growth in the cash flow forecasts and
ii) the post tax discount rate used to convert the cash flow forecasts to present values.

The Directors do not consider that changes in these assumptions will have a material effect on other key assumptions made. The values assigned to the sales growth assumptions in 2021 through to 2024 are 9%, 8%, 7% and 5% respectively. If the sales growth were to be reduced by 1% across each of the forecasting periods, the value in use would be reduced by £4,000,000. The value assigned to the discount rate is 9.4%. If the discount rate were to be increased by 1%, the value in use would be reduced by £4,000,000.

13 Investments in subsidiaries
Summary information on investments in subsidiary undertakings is as follows:

	£000
Cost	
Balance at 1 January 2018	120,640
Share options granted to employees of subsidiary undertakings	740
Acquisitions *(note 25)*	–
Balance at 31 December 2018	121,380
Balance at 1 January 2019	**121,380**
Share options granted to employees of subsidiary undertakings	**644**
Balance at 31 December 2019	**122,024**
Carrying value	
At 1 January 2018	120,640
At 31 December 2018	121,380
At 31 December 2019	**122,024**

A full list of the Group's subsidiaries are listed on page 160. There were no impairments recognised on the Company's investments in subsidiaries in the year ended 31 December 2019.

Notes to the Financial Statements continued

14 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	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Property, plant and equipment	**–**	–	**(5,988)**	(6,146)	**(5,988)**	(6,146)
Intangible assets	**–**	–	**(2,341)**	(2,399)	**(2,341)**	(2,399)
Employee benefits	**1,340**	1,315	**–**	–	**1,340**	1,315
Tax losses	**290**	–	**–**	–	**290**	–
Other items	**–**	–	**(217)**	(317)	**(217)**	(317)
Tax (liabilities)/assets	**1,630**	1,315	**(8,546)**	(8,862)	**(6,916)**	(7,547)
Set-off of tax	**(938)**	(799)	**938**	799	**–**	–
	692	516	**(7,608)**	(8,063)	**(6,916)**	(7,547)

Movement in deferred tax during the year

	1 January 2019 £000	**Opening reserves IFRS 16 £000**	**Brought in on acquisition £000**	**Recognised in income £000**	**Recognised in equity £000**	**31 December 2019 £000**
Property, plant and equipment	**(6,146)**	**–**	**–**	**158**	**–**	**(5,988)**
Intangible assets	**(2,399)**	**–**	**(145)**	**203**	**–**	**(2,341)**
Employee benefits	**1,315**	**–**	**–**	**(52)**	**77**	**1,340**
Tax losses	**–**	**–**	**–**	**290**	**–**	**290**
Other items	**(317)**	**23**	**–**	**68**	**9**	**(217)**
	(7,547)	**23**	**(145)**	**667**	**86**	**(6,916)**

Movement in deferred tax during the prior year

	1 January 2018 £000	Brought in on acquisition £000	Recognised in income £000	Recognised in equity £000	31 December 2018 £000
Property, plant and equipment	(7,552)	–	1,406	–	(6,146)
Intangible assets	(2,097)	(614)	315	(3)	(2,399)
Employee benefits	2,892	–	220	(1,797)	1,315
Other items	558	87	(919)	(43)	(317)
	(6,199)	(527)	1,022	(1,843)	(7,547)

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Property, plant and equipment	**–**	–	**(6,046)**	(6,172)	**(6,046)**	(6,172)
Employee benefits	**821**	647	**–**	–	**821**	647
Other items	**9**	38	**–**	–	**9**	38
Tax (liabilities)/assets	**830**	685	**(6,046)**	(6,172)	**(5,216)**	(5,487)
Set-off of tax	**(830)**	(685)	**830**	685	**–**	–
	–	–	**(5,216)**	(5,487)	**(5,216)**	(5,487)

Movement in deferred tax during the year

	1 January 2019 £000	Recognised in income £000	Recognised in equity £000	31 December 2019 £000
Property, plant and equipment	**(6,172)**	**126**	**–**	**(6,046)**
Employee benefits	**647**	**22**	**152**	**821**
Other items	**38**	**(29)**	**–**	**9**
	(5,487)	**119**	**152**	**(5,216)**

Movement in deferred tax during the prior year

	1 January 2018 £000	Recognised in income £000	Recognised in equity £000	31 December 2018 £000
Property, plant and equipment	(6,287)	115	–	(6,172)
Employee benefits	1,795	299	(1,447)	647
Other items	54	(16)	–	38
	(4,438)	398	(1,447)	(5,487)

Unrecognised deferred tax assets and liabilities – Group and Company

At 31 December 2019, the Group and Company has unused capital losses of £11,197,000 (2018: £11,197,000) 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 £1,187,000 (2018 £1,376,000). 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.

15 Inventories

	Group		Company	
Goods for resale	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Balance as at 31 December	**132,474**	132,704	**–**	–

Cost of sales consists of the following:

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Material cost	**486,159**	475,701	**–**	–
Processing cost	**3,666**	3,648	**–**	–
	489,825	479,349	**–**	–

The cost of inventories within cost of sales stated above includes movements in the provision for obsolete inventory of £132,000 release *(2018: £211,000 release)*.

Notes to the Financial Statements continued

16 Trade and other receivables

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Trade receivables	**91,788**	89,100	**–**	–
Prepayments and accrued income	**5,839**	4,924	**334**	274
Other receivables	**26,078**	24,983	**246**	213
Amounts due from subsidiary undertakings	**–**	–	**20,736**	23,004
	123,705	119,007	**21,316**	23,491

Other receivables include balances totaling £145,000 that fall due after more than 1 year *(2018: £145,000)*.

Amounts due from subsidiary undertakings are unsecured, interest bearing and are repayable on demand.

£1,469,000 *(2018: £1,281,000)* was recognised as an impairment loss in the Consolidated Income Statement in respect of trade receivables.

The impairment loss is attributable to the reportable segments as follows:

	2019 £000	2018 £000
UK	**1,099**	1,009
Continental Europe	**370**	272
	1,469	1,281

Further details on the impaiment of trade receivables is provided in note 24.

17 Cash and cash equivalents

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash	**33,385**	44,005	**17,548**	12,573
Bank overdrafts	**(10)**	(221)	**–**	–
Cash and cash equivalents per Statement of Financial Position	**33,375**	43,784	**17,548**	12,573

18 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 5 August 2019, the Group completed a refinancing of its existing banking facilities to extend their term from 14 December 2021 to 30 April 2023. The Group has maintained its two agreements with Barclays Bank PLC and HSBC Bank Plc, but decreased the level of Sterling committed facilities from £72.5 million to £68.5 million and increased its euro committed facilities from €8.6 million to €9.6 million. The Group also has short term uncommitted facilities which continue at £25 million, and are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2019 were £109,671,000 *(2018: £112,779,000)*.

For more information about the Group's and Company's exposure to interest rate and foreign currency risk, see note 24.

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Current liabilities				
Bank overdraft	**10**	221	**–**	–
Interest-bearing loan	**222**	236	**–**	–
	232	457	**–**	–
Non-current liabilities				
Interest-bearing loans	**6,201**	6,805	**–**	–
	6,201	6,805	**–**	–

The interest-bearing loans relate to the euro committed facilities that have been drawn by the Group's European subsidiaries. LMS SA has drawn £4.2 million and Headlam Holdings BV has drawn £2.2 million, £0.2 million of this is shown within current liabilities as it makes repayments each year.

The Group has undrawn borrowing facilities at 31 December 2019, which amounted to £103,238,000 *(2018: £105,518,000)*. 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. There is a downstream guarantee from the Company in relation to its borrowing facility in the Netherlands and France. Covenant calculations have been prepared for the year ending 31 December 2019 and there were no breaches.

The undrawn borrowing facilities are as follows:

	Interest rate %	2019 £000	Interest rate %	2018 £000
UK	**1.80**	**93,500**	1.80	97,500
Netherlands	**1.93**	**2,452**	1.98	1,563
France	**1.30**	**3,389**	1.30	2,472
Switzerland	**1.50**	**3,897**	1.50	3,983
		103,238		105,518

All the borrowing facilities above bear interest at floating rates. The Swiss facility may be drawn as an overdraft or fixed rate loan with different rates depending on the term and amount.

Changes in net funds

	At 1 January 2019 £000	Cash flows £000	Reclassification £000	Foreign exchange movements £000	At 31 December 2019 £000
Cash at bank and in hand	**44,005**	**(10,403)**	**–**	**(217)**	**33,385**
Bank overdraft	**(221)**	**205**	**–**	**6**	**(10)**
	43,784	**(10,198)**	**–**	**(211)**	**33,375**
Debt due within one year	**(236)**	**229**	**(228)**	**13**	**(222)**
Debt due after one year	**(6,805)**	**–**	**228**	**376**	**(6,201)**
	36,743	**(9,969)**	**–**	**178**	**26,952**

19 Trade and other payables

	Group		Company	
Current	2019 £000	2018 £000	2019 £000	2018 £000
Trade payables	**140,869**	142,382	**3,840**	788
Taxation and social security	**15,045**	17,069	**628**	2,114
Non-trade payables and accrued expenses	**25,583**	21,826	**5,458**	4,424
Amounts due to subsidiary undertakings	**–**	–	**30,307**	26,900
Derivative liabilities used for economic hedging:				
Other derivatives at fair value	**348**	23	**54**	–
	181,845	181,300	**40,287**	34,226

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.

	Group		Company	
Non-current	2019 £000	2018 £000	2019 £000	2018 £000
Non-trade payables and accrued expenses	**–**	2,592	**–**	2,007
	–	2,592	**–**	2,007

There are no non-current non-trade payables and accrued expenses as at the year ending 31 December 2019. Non-current non-trade payables and accrued expenses for the Group in 2018 relate to discounted deferred consideration for Domus Group of Companies Limited and Betu Holdings Limited, the holding company of CECO (Flooring) Limited, see note 25. A discounted amount of deferred consideration in respect of Domus Group of Companies Ltd is due for payment in 2020 of £1,654,000 and this is disclosed within current non-trade payables and accrued expenses.

20 Provisions

	Property	
	2019 £000	2018 £000
Balance at 1 January	**2,249**	2,048
Acquired on acquisition	**–**	224
(Credited)/charged to the income statement:		
Additional provisions	**50**	–
Utilisation of provisions	**–**	(23)
Balance at 31 December	**2,299**	2,249

The property provisions relate to property dilapidations.

21 Employee benefits

During the year, the Group operated UK and Swiss defined benefit plans and defined contribution plans in the UK, France and the Netherlands.

UK defined benefit plan

The Headlam Group plc Staff Retirement Benefits Scheme is the principal defined benefit plan 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 a registered scheme under UK legislation. 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. There have been no payments made to the Company out of the plan's assets over the year, and so no additional liability has been recognised on the balance sheet.

There have been no amendments, curtailments or settlements made to the plan during 2019.

The plan holds a number of annuity policies which match a portion of the pensions in payment.

The plan is funded partly by contributions from members and partly by contributions from the Company at rates advised by professionally qualified actuaries. The last scheme funding valuation of the plan was as at 31 March 2017 and revealed a funding deficit of £2,388,000.

The main annual rate assumptions at 31 March 2017 used by the actuary for the 2017 valuation were: increase in salaries 4.69%; increase of pensions in payment 3.19%; discount rate before retirement 3.66%; discount rate after retirement 1.91%; and inflation 3.19%. Assets were taken at their market value at the valuation date.

Under the schedule of contributions dated 10 May 2018, Company contributions were fixed at 51.6% of pensionable salaries each month. The Company expected to pay contributions of £258,000 over the next accounting period for the accrual of benefits on the basis that accrual in the plan ceases with effect from 31 March 2020.

In accordance with the recovery plan dated 26 March 2015, payments were made to the plan during 2018 of £747,000 towards the deficit. There were no payments made to the plan during 2019 towards the deficit under this recovery plan.

Under the recovery plan dated 10 May 2018, the Company is not expected to pay any additional contributions over the next year.

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 weighted average duration of the liabilities is approximately 19 years.

Swiss defined benefit plan

The plan provides occupational retirement, disability and survivors' benefits. The members are entitled to receive pensions from age 64 (female) or 65 (male), equal to the old age savings balance multiplied with a conversion rate of 6.8% for the mandatory part of the savings balance and 5.2% for the part beyond the mandatory part. The minimum interest rate on old age savings has legally been fixed.

The Company is affiliated to the Collective Foundation Sammelstiftung berufliche Vorsorge Swiss Life, Sammelstiftung mit Anlagerisiko. The pension plans remained unchanged. The plan is legally separated from the Company. The executive body of the collective foundation is the board of trustees, which is elected directly by the insured of the affiliated companies/occupational benefits funds and functions independently of Swiss Life. Its members include employer and employee representatives from a wide range of occupations and companies of different sizes. The collective foundation is reinsured for risk benefits with Swiss Life insurance company.

There have been no amendments, curtailments or settlements made to the plan during 2019.

The occupational benefits fund commission (OBC) defines the investment strategy; the affiliated occupational benefits fund itself bears the investment risk. The investments are managed with Credit Suisse.

The last scheme funding valuation of the plan was as at 31 December 2018 and revealed that the plan was overfunded. This overfunding is appropriate to Swiss legislation and cannot be considered in the context of IAS 19R. According to Swiss rules there is no need to evaluate the scheme using assumptions for future changes of salary increase, benefit increase or inflation.

As at 1 January 2020, the plans have been amended. The old age credits will increase and the coordination amount will be disestablished. The plan amendment leads to a past service credit of £841,000 to be recognised in the income statement for 2019.

The last IAS 19 valuation at year-end 2019 revealed a funding deficit of £1,744,000 *(2018: £2,964,000)*. The Group is expected to pay £501,000 for future service costs over the next accounting period.

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 50 years or more. The weighted average duration of the liabilities is approximately 19.45 years.

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. The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary. The Company recognises a cost equal to its contributions payable for the period net of amounts recharged in relation to the Group deficit to the participating subsidiary companies.

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Present value of funded defined benefit obligations	**(129,481)**	(125,101)	**(116,654)**	(111,592)
Fair value of plan assets	**125,563**	119,576	**114,480**	109,031
Net obligations	**(3,918)**	(5,525)	**(2,174)**	(2,561)
Other long-term employee benefits	**(345)**	(363)	**–**	–
Total employee benefits	**(4,263)**	(5,888)	**(2,174)**	(2,561)
Analysed as:				
Current liabilities	**–**	–	**–**	–
Non-current liabilities	**(4,263)**	(5,888)	**(2,174)**	(2,561)
Total employee benefits	**(4,263)**	(5,888)	**(2,174)**	(2,561)

Movements in present value of defined benefit obligation

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
At 1 January	**125,101**	139,048	**111,592**	126,308
Current service cost	**1,617**	2,254	**975**	1,462
Past service costs	**(841)**	1,214	**–**	1,214
Interest cost	**3,086**	3,063	**2,969**	2,966
Net remeasurement losses/(gains) – financial	**10,867**	(14,874)	**10,110**	(14,464)
Net remeasurement (gains)/losses – demographic	**(5,761)**	(1,005)	**(5,761)**	(1,006)
Net remeasurement (gains)/losses – experience	**(307)**	281	**47**	553
Benefits paid	**(4,399)**	(5,914)	**(3,398)**	(5,577)
Contributions by members	**400**	370	**120**	136
Effect of movements in foreign exchange	**(282)**	664	**–**	–
At 31 December	**129,481**	125,101	**116,654**	111,592

21 Employee benefits continued

Movements in fair value of plan assets

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
At 1 January	**119,576**	126,709	**109,031**	116,560
Interest income on plan assets	**3,006**	2,831	**2,914**	2,753
Return on assets, excluding interest income	**5,716**	(7,036)	**4,765**	(6,619)
Contributions by employer:	**1,487**	1,351	**1,048**	1,031
Past service deficit contributions	**–**	747	**–**	747
Contributions by members	**400**	370	**120**	136
Benefits paid	**(4,399)**	(5,914)	**(3,398)**	(5,577)
Effect of movements in foreign exchange	**(223)**	518	**–**	–
At 31 December	**125,563**	119,576	**114,480**	109,031

The fair value of the plan assets were as follows:

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Equities	**50,078**	36,557	**47,157**	33,577
Government debt	**27,180**	18,244	**27,180**	18,244
Corporate bonds	**25,012**	19,209	**20,566**	14,829
Annuities	**1,387**	4,870	**1,387**	4,870
Hedge funds	**3,910**	22	**3,910**	22
Other	**17,996**	40,674	**14,280**	37,489
	125,563	119,576	**114,480**	109,031

Expense recognised in the income statement relating to defined benefit obligation

	Group	
	2019 £000	2018 £000
Service cost	**776**	3,468
Net interest on the net defined benefit liability (note 6)	**80**	232
Total	**856**	3,700

Service costs, including past service costs and net interest are charged to Administration expenses and Net finance costs respectively. Included within the service cost for 2018 was an amount of £1,214,000 for guaranteed minimum pensions ('GMP') equalisation, this was included within non-underlying costs. GMPs must be equalised across males and females, and as a result of clarity in legislation the Company added 1.1% to the liabilities as at 31 December 2018. No adjustment was required for the year ended 31 December 2019.

Remeasurement of the net defined benefit liability in the Statement of Comprehensive Income:

	Group	
	2019 £000	2018 £000
Return on assets, excluding interest income	**(5,716)**	7,036
Net remeasurement – financial	**10,867**	(14,874)
Net remeasurement – demographic	**(5,761)**	(1,005)
Net remeasurement – experience	**(307)**	281
	(917)	(8,562)

Principal actuarial assumptions are as follows:

	UK 2019 %	UK 2018 %	Swiss 2019 %	Swiss 2018 %
Discount rate	**2.0**	2.7	**0.3**	0.8
Future salary increases	**3.1**	3.4	**2.0**	2.0
Future pension increases	**3.1**	3.4	**–**	–
Inflation rate	**3.1**	3.4	**2.0**	2.0
Mortality table assumptions: UK pre-retirement	**AC00 (Ultimate) table**	AC00 (Ultimate) table	**–**	–
UK post-retirement – future pensioners	**96%(M)/98%(F) of the S2PA tables with future improvements from 2007 in-line with the CMI _2018 projections model with the initial addition to mortality improvements parameter of 0.2% and a long-term rate of improvement of 1.5% per annum.**	96%(M)/98%(F) of the S2PA tables with future improvements from 2007 in-line with the CMI mortality projections model CMI_2017 with the default smoothing parameter and a long-term rate of improvement of 1.5% per annum.		
UK post-retirement – current pensioners	**96%(M)/98%(F) of the S2PA tables with future improvements from 2007 in-line with the CMI _2018 projections model with the initial addition to mortality improvements parameter of 0.2% and a long-term rate of improvement of 1.5% per annum.**	96%(M)/98%(F) of the S2PA tables with future improvements from 2007 in-line with the CMI mortality projections model CMI_2017 with the default smoothing parameter and a long-term rate of improvement of 1.5% per annum.		
Swiss scheme	**–**	–	**BVG 2015**	BVG 2015

The mortality assumption implies the expected future lifetime from age 65 is as follows:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Non-pensioner male	**24.2**	24.1	**24.2**	24.1
Pensioner male	**22.5**	22.4	**22.5**	22.4
Non-pensioner female	**26.1**	26.0	**26.1**	26.0
Pensioner female	**24.2**	24.2	**24.2**	24.2

Company

The principal actuarial assumptions for the Company are the same as those disclosed for the UK above.

Sensitivity analysis

The tables below for the UK and Swiss defined benefit plans show the impact on the defined benefit obligation of changing each of the most significant assumptions in isolation.

UK defined benefit plan

		Impact on scheme liabilities 2019		Impact on scheme liabilities 2018	
Effect in £millions	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	0.25% movement	**(5.3)**	**5.7**	(5.3)	5.6
Rate of inflation (RPI)*	0.25% movement	**4.8**	**(4.7)**	4.8	(4.5)
Salary increases	0.25% movement	**1.1**	**(1.1)**	1.1	(1.1)
Assumed life expectancy	one year movement	**5.5**	**(5.5)**	5.3	(5.3)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2019 have been calculated using the same valuation method that was used to calculate the UK defined benefit obligation at the same date. The figures in the table as at 31 December 2018 have been calculated by applying the same percentage increase or decrease as at 31 December 2019.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

Notes to the Financial Statements continued

21 Employee benefits continued

Swiss defined benefit plan

Effect in £millions	Change in assumption	Impact on scheme liabilities 2019		Impact on scheme liabilities 2018	
		Increase	**Decrease**	Increase	Decrease
Discount rate	0.25% movement	**(0.6)**	**0.7**	(0.6)	0.7
Rate of inflation (RPI)*	0.25% movement	**0.5**	**–**	0.5	–
Salary increases	0.25% movement	**0.1**	**(0.1)**	0.1	(0.1)
Assumed life expectancy	one year movement	**0.2**	**(0.1)**	0.1	(0.1)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2019 have been calculated using the same valuation method that was used to calculate the Swiss defined benefit obligation at the same date. The figures in the table as at 31 December 2018 have been calculated by applying the same percentage increase or decrease as at 31 December 2019.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

History of plans

The history of the plans for the current and prior periods is as follows:

Statement of Financial Position

Group	**2019 £000**	2018 £000	2017 £000	2016 £000	2015 £000
Present value of defined benefit obligation	**(129,481)**	(125,101)	(139,048)	(141,947)	(115,849)
Fair value of plan assets	**125,563**	119,576	126,709	119,339	97,167
Deficit	**(3,918)**	(5,525)	(12,339)	(22,608)	(18,682)

Company	**2019 £000**	2018 £000	2017 £000	2016 £000	2015 £000
Present value of defined benefit obligation	**(116,654)**	(111,592)	(126,308)	(128,002)	(102,766)
Fair value of plan assets	**114,480**	109,031	116,560	109,719	86,601
Deficit	**(2,174)**	(2,561)	(9,748)	(18,283)	(16,165)

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 2019 is £345,000 (2018: £363,000). 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 £3,572,000 *(2018: £3,371,000)*. Contributions amounting to £188,000 *(2018: £175,000)* in respect of the December 2019 payroll were paid in January 2020.

The total Group cost of operating the plans during the year was £4,348,000 *(2018: £6,839,000)* and, at 31 December 2019, there was an amount of £352,000 *(2018: £346,000)* owed to the plans, being employer and employee contributions due for December 2019, which was paid in January 2020.

22 Share-based payments

Group and Company

Executive Directors and executive management currently participate in executive share option schemes. Options granted under the 1998 Inland Revenue approved scheme are normally exercisable between the third and tenth anniversaries of their date of grant, subject to the movement of the Group's basic earnings per share exceeding RPI over the relevant period.

Options granted under the 1998 unapproved scheme are normally exercisable between the third and seventh anniversaries of their date of grant. Awards are subject to the movement of the Group's basic earnings per share exceeding RPI between 3% and 5% per annum respectively over the relevant period.

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 3 May 2019 when employees with over one month's service were invited to participate.

The Group also operates a 2008 HMRC approved scheme, a 2008 unapproved scheme, the Headlam Group Performance Share Plan 2008 and the Headlam Group Co-Investment Plan 2008. Further details of these schemes and plans are given in the Remuneration Report on pages 76 to 97.

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	**2019**	2018	**Vesting conditions**	**Contractual life of options**
Five-year Sharesave scheme granted to other employees 8 May 2014	**787**	52,347	Continuous service	01/07/19 – 01/01/20
Three-year Sharesave scheme granted to other employees 5 May 2015	**–**	6,404	Continuous service	01/07/18 – 01/01/19
Five-year Sharesave scheme granted to other employees 5 May 2015	**135,157**	166,036	Continuous service	01/07/20 – 01/01/21
Headlam Group Co-Investment Plan 2008 granted to key management 6 May 2016*	**21,860**	162,647	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
Three-year Sharesave scheme granted to other employees 4 May 2016	**6,290**	176,048	Continuous service	01/07/19 – 01/01/20
Five-year Sharesave scheme granted to other employees 4 May 2016	**29,658**	36,701	Continuous service	01/07/21 – 01/01/22
Headlam Group Performance Share Plan 2008 granted to key management 5 July 2017*	**239,045**	239,045	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	06/07/20 – 06/07/27
Three-year Sharesave scheme granted to other employees 3 May 2017	**75,913**	104,064	Continuous service	01/07/20 – 01/01/21
Five-year Sharesave scheme granted to other employees 3 May 2017	**15,612**	19,157	Continuous service	01/07/22 – 01/01/23
Headlam Group Performance Share Plan 2008 granted to key management 9 April 2018*	**328,596**	328,596	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	10/04/21 – 08/04/24
Three-year Sharesave scheme granted to other employees 1 May 2018	**375,708**	504,141	Continuous service	01/07/21 – 01/01/22
Five-year Sharesave scheme granted to other employees 1 May 2018	**59,706**	75,549	Continuous service	01/07/23 – 01/01/24
Headlam Group Performance Share Plan 2008 granted to key management 10 April 2019*	**304,260**	–	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	11/04/22 – 09/04/25
Three-year Sharesave scheme granted to other employees 3 May 2019	**415,721**	–	Continuous service	01/07/22 – 01/01/23
Total share options	**2,008,313**	1,870,735		

* Further details are provided on pages 76 to 97 of the Remuneration Report.

Notes to the Financial Statements continued

22 Share-based payments continued

Group and Company continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (pence) 2019	Number of options 2019	Weighted average exercise price (pence) 2018	Number of options 2018
Outstanding at the beginning of the year	**230.1**	**1,870,735**	249.3	1,736,812
Exercised during the year	**377.2**	**(262,974)**	203.2	(525,905)
Granted during the year	**266.6**	**764,273**	238.6	1,007,865
Lapsed during the year	**294.4**	**(363,721)**	391.1	(348,037)
Outstanding at the end of the year	**221.4**	**2,008,313**	230.1	1,870,735
Exercisable at the end of the year	**398.0**	**28,937**	340.0	6,404

The weighted average share price for options exercised during the year was 474.3p (2018: 455.4p).

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 1.65 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 2019 are shown below:

2019		Three-year Performance Share Plan 2008	Three-year Sharesave scheme
Number of options granted		**304,260**	**460,013**
Fair value at measurement date:			
No performance conditions		**–**	**156.9p**
Performance conditions	EPS 80% & TSR 20%	**383.8p**	**–**
Share price at 31 December		**535.0p**	**535.0p**
Exercise price		**–**	**359.0p**
Expected volatility		**58.0%**	**58.0%**
Option life		**three years**	**three years**
Dividend yield		**5.2% p.a.**	**5.2% p.a.**
Risk-free rate of interest		**0.7% p.a.**	**0.8% p.a.**

Details of share options granted during 2018 are shown below:

2018		Three-year Performance Share Plan 2008	Three-year Sharesave scheme	Five-year Sharesave scheme
Number of options granted		328,596	582,621	96,648
Fair value at measurement date:				
No performance conditions		–	167.9p	156.2p
Performance conditions	EPS 80% & TSR 20%	374.9p	–	–
Share price at 31 December		410.0p	410.0p	410.0p
Exercise price		–	354.0p	354.0p
Expected volatility		66.1%	66.1%	56.9%
Option life		three years	three years	five years
Dividend yield		5.4% p.a.	5.4% p.a.	5.4% p.a.
Risk-free rate of interest		0.9% p.a.	0.8% p.a.	1.1% p.a.

The total expenses recognised for the year arising from share-based payments are as follows:

	Group		Company		Subsidiaries	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Total expense recognised	**807**	1,478	**163**	739	**644**	739

23 Capital and reserves

Share capital

	Ordinary shares	
	2019	2018
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	**85,363,743**	85,363,743
Issued during the year	**88,350**	–
In issue at 31 December	**85,452,093**	85,363,743

	2019 £000	2018 £000
Allotted, called up and fully paid		
Ordinary shares of 5p each	**4,273**	4,268
	4,273	4,268
Shares classified in Shareholders' funds	**4,273**	4,268
	4,273	4,268

At 31 December 2019, the Company held 1,260,396 shares *(2018: 1,523,370)* 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 1.5% *(2018: 1.8%)* of the issued share capital as at 31 December 2019 with a nominal value of £63,020 *(2018: £76,169)*.

In the period from 1 January 2020 to 5 March 2020 no 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

	2019 £000	2018 £000
Interim dividend for 2018 of 7.55p paid 2 January 2019	**6,322**	–
Final dividend for 2018 of 17.45p paid 1 July 2019	**14,619**	–
Interim dividend for 2017 of 7.55p paid 2 January 2018	**–**	6,372
Final dividend for 2017 of 17.25p paid 6 July 2018	**–**	14,597
	20,941	20,969

Interim dividends for 2019 of 7.55p per share *(2018: 7.55p per share)* are not provided for at 31 December 2019, but are recognised in the financial statements when the dividend is paid. The dividend was paid on 2 January 2020 and totalled £6,331,000.

The final proposed dividend of 17.45p per share *(2018: 17.45p per share)* will not be provided for until authorised by shareholders at the forthcoming AGM. There are no income tax consequences. The cost of the final proposed dividend will be £14,633,000.

The total value of dividends proposed but not recognised at 31 December 2019 is £20,964,000 (*2018: £20,941,000*).

23 Capital and reserves continued

Reserves

Other reserves

Other reserves as disclosed on the Statement of Financial Position comprise the capital redemption reserve, translation reserve, cash flow hedging 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. During 2019, shares were issued as part of the deferred consideration of the acquisition of Domus Group of Companies Limited and £469,000 was transferred to this reserve.

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 (FVOCI) and at fair value through profit or loss (FVPL), 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	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Trade and other receivables (note 16)	**117,866**	114,083	**20,982**	23,217
Cash and cash equivalents (note 17)	**33,385**	44,005	**17,548**	12,573
	151,251	158,088	**38,530**	35,790

The fair values of the above financial assets at both 31 December 2019 and 2018, 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:

	2019		2018	
Group	**Gross £000**	**Impairment £000**	Gross £000	Impairment £000
Not past due	**90,291**	**(306)**	85,822	(154)
Past due 0 – 30 days	**1,916**	**(408)**	2,851	(242)
Past due 31–120 days	**2,238**	**(1,943)**	3,417	(2,594)
	94,445	**(2,657)**	92,090	(2,990)

All other receivables and derivative financial assets are not past due *(2018: not past due)*.

The Company had trade receivables of £nil *(2018 £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 2019 or 1 January 2019 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 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 the days past due. The loss allowance provision as at 31 December 2019 is determined as follows;

	Not past due	**Past due 0-30 days**	**Past due 31-120 days**	**Total**
31 December 2019				
Expected loss rate	**0.3%**	**21.3%**	**86.7%**	
Gross carrying amount – trade receivables	**90,291**	**1,916**	**2,238**	**94,445**
Loss allowance	**306**	**408**	**1,943**	**2,657**

	Not past due	Past due 0-30 days	Past due 31-120 days	Total
31 December 2018				
Expected loss rate	0.2%	8.5%	75.9%	
Gross carrying amount – trade receivables	85,822	2,851	3,417	92,090
Loss allowance	154	242	2,594	2,990

Notes to the Financial Statements continued

24 Financial instruments continued

Impairment of financial assets continued

The maximum exposure to credit risk for trade receivables at the Statement of Financial Position date by geographic region was:

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
UK	**80,171**	76,640	**–**	–
Continental Europe	**11,617**	12,460	**–**	–
	91,788	89,100	**–**	–

During the year the Group's impairment loss as a percentage of revenue amounted to 0.20% (2018: 0.19%).

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	Group Trade receivables		Company Trade receivables	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Opening loss allowance at 1 January	**2,990**	2,683	**–**	–
Increase in loan loss allowance recognised in profit or loss during the year	**1,469**	1,281	**–**	–
Receivables written off during the year as uncollectible	**(1,796)**	(1,089)	**–**	–
Acquired loss allowance	**–**	92	**–**	–
Effect of movement in foreign exchange	**(6)**	23	**–**	–
Closing loss allowance at 31 December	**2,657**	2,990	**–**	–

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.

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 2019, cash and cash equivalents covered the amounts of borrowings maturing in the next 12 months with a net positive liquidity of £33,153,000 *(2018: £43,548,000)*. Details of the total facilities that the Group has access to are given in note 18.

The following are the contractual maturities of financial liabilities:

31 December 2019 Group	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1–2 years £000**	**2–5 years £000**
Non-derivative financial liabilities					
Bank overdraft	**10**	**(10)**	**(10)**	**–**	**–**
Unsecured bank loans	**6,423**	**(6,712)**	**(293)**	**(291)**	**(6,128)**
Trade and other payables	**166,452**	**(166,452)**	**(166,452)**	**–**	**–**
Derivative financial liabilities					
Other derivatives	**348**	**(348)**	**(348)**	**–**	**–**
	173,233	**(173,522)**	**(167,103)**	**(291)**	**(6,128)**

31 December 2018 Group	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1–2 years £000	2–5 years £000
Non-derivative financial liabilities					
Bank overdraft	221	(221)	(221)	–	–
Unsecured bank loans	7,041	(7,335)	(313)	(310)	(6,712)
Trade and other payables	164,508	(164,508)	(164,508)	–	–
Derivative financial liabilities					
Other derivatives	23	(23)	(23)	–	–
	171,793	(172,087)	(165,065)	(310)	(6,712)

31 December 2019 Company	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1–2 years £000**
Non-derivative financial liabilities				
Trade and other payables	**39,605**	**(39,605)**	**(39,605)**	**–**
Derivative financial liabilities				
Other derivatives	**54**	**(54)**	**(54)**	**–**
	39,659	**(39,659)**	**(39,659)**	**–**

31 December 2018 Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1–2 years £000
Non-derivative financial liabilities				
Trade and other payables	32,112	(32,112)	(32,112)	–

The value of the Group's and Company's financial liabilities as detailed above at 31 December 2019 and 2018 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.

24 Financial instruments continued

Liquidity risk continued

The table below sets out the Group's accounting classification of each class of financial assets and liabilities at 31 December 2019 and 2018.

31 December 2019	Fair value through profit or loss (FVPL) £000	Amortised cost £000	Total Carrying Value £000
Cash and cash equivalents	**–**	**33,385**	**33,385**
Bank overdraft	**–**	**(10)**	**(10)**
Borrowings due within one year	**–**	**(222)**	**(222)**
Borrowings due after one year	**–**	**(6,201)**	**(6,201)**
Trade payables	**–**	**(140,869)**	**(140,869)**
Non-trade payables	**–**	**(25,583)**	**(25,583)**
Leasing liability	**–**	**(44,655)**	**(44,655)**
Trade receivables	**–**	**91,788**	**91,788**
Other receivables	**–**	**26,078**	**26,078**
Provisions	**–**	**(2,299)**	**(2,299)**
Derivative liability	**(348)**	**–**	**(348)**
	(348)	**(68,588)**	**(68,936)**

31 December 2018	Fair value through profit or loss (FVPL) £000	Amortised cost £000	Total Carrying Value £000
Cash and cash equivalents	–	44,005	44,005
Bank overdraft	–	(221)	(221)
Borrowings due within one year	–	(236)	(236)
Borrowings due after one year	–	(6,805)	(6,805)
Trade payables	–	(142,382)	(142,382)
Non-trade payables	(416)	(24,002)	(24,418)
Trade receivables	–	89,100	89,100
Other receivables	–	24,983	24,983
Provisions	–	(2,249)	(2,249)
Derivative liability	(23)	–	(23)
	(439)	(17,807)	(18,246)

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 and euros at both fixed and floating rates. Deposits are in sterling, euros and Swiss francs at floating rates.

Floating rate borrowings are linked to the London Interbank Offered Rate and Euribor Over Night 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	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Variable rate instruments				
Financial assets	**33,385**	44,005	**17,548**	12,573
Financial liabilities	**(6,433)**	(7,262)	**–**	–
	26,952	36,743	**17,548**	12,573

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 2018.

	Group				Company			
	Profit or loss		Equity		Profit or loss		Equity	
	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000
31 December 2019								
Variable rate instruments	**270**	**(270)**	**–**	**–**	**175**	**(175)**	**–**	**–**
31 December 2018								
Variable rate instruments	367	(367)	–	–	126	(126)	–	–

Commodity risk
The Company and Group are exposed to the commodity risk of rising fuel prices. On 1 July 2019, in order to manage this risk, the Group entered into a 12 month fixed price agreement. Under the agreement the group agreed to purchase a notional 450,000 litres per month, under which a fixed diesel price of £0.43 pence per litre (Maximum Fixed Price Element) was paid monthly and the floating price according to BP was received.

The fair value of this diesel commodity contract is £32,000 in the Statement of Financial Position as at 31 December 2019, *(2018: £nil)*.

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, Swiss franc 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 a liability at 31 December 2019 amounted to £316,000 *(2018: liability of £23,000)*.

Derivatives
The group has the following derivative financial instruments in the following line items in the balance sheet:

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Current liabilities				
Foreign currency forwards – cash flow hedges	**316**	23	**54**	7
Commodity agreement	**32**	–	**–**	–
Total current derivative financial instrument liabilities	**348**	23	**54**	7

Derivatives are only used for economic hedging purposes and not as speculative investments.

24 Financial instruments continued

Derivatives continued

The movements in respect of derivative financial instruments were as follows:

	Foreign currency forwards £000
Opening balance 1 January 2019	**(23)**
Less: charge to profit or loss	**(293)**
Closing balance 31 December 2019	**(316)**

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness. In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of Headlam Group plc or the derivative counterparty. The Group now enters into forward rate agreements containing a delivery period in which the entity can drawdown the currency as they require it, subject to a final delivery date. This has enabled the Group to match the forward rate agreements to the hedged item with accuracy.

For the 12-month period to 31 December 2019, 9.2% (2018: 1.2%) of the Group's operating profit was derived from overseas subsidiaries and at 31 December 2019, 20.01% (2018: 17.5%) of the Group's net operating assets related to overseas subsidiary operations. Hedge accounting, following the adoption of IFRS, has not been applied to these operations.

The Group and Company do not use derivatives other than as described above.

The exposure to foreign currency risk was as follows:

	Group			**Company**		
2019	**Euro amount £000**	**Other amount £000**	**Total £000**	**Euro amount £000**	**Other amount £000**	**Total £000**
Trade and other receivables	**109**	**31**	**140**	**–**	**–**	**–**
Cash and cash equivalents	**1,043**	**147**	**1,190**	**588**	**–**	**588**
Trade and other payables	**(3,087)**	**(1,105)**	**(4,192)**	**–**	**–**	**–**
	(1,935)	**(927)**	**(2,862)**	**588**	**–**	**588**

	Group			Company		
2018	Euro amount £000	Other amount £000	Total £000	Euro amount £000	Other amount £000	Total £000
Trade and other receivables	336	3	339	–	–	–
Cash and cash equivalents	2,791	38	2,829	244	–	244
Trade and other payables	(7,569)	(1,324)	(8,893)	–	–	–
	(4,442)	(1,283)	(5,725)	244	–	244

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 2018.

	Group		**Company**	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Euro	**(194)**	(444)	**59**	24
Other	**(93)**	(128)	**–**	–

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 categorized 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 a diesel commodity contract on 1 July 2019, which was fair valued in accordance with level 2 for the year ended 31 December 2019 and forward currency contracts which were fair valued in accordance with level 2 (2018: level 2).

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 1.6 times.

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 of the Company's subsidiaries 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 5 August 2019, the Group completed a refinancing of its existing banking facilities to extend their term from 14 December 2021 to 30 April 2023. The Group has maintained its two agreements with Barclays Bank PLC and HSBC Bank Plc, but decreased the level of Sterling committed facilities from £72.5 million to £68.5 million and increased its euro committed facilities from €8.6 million to €9.6 million. The Group also has short term uncommitted facilities which continue at £25 million, and are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2019 were £109,671,000 *(2018: £112,779,000)*.

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 2019 and 31 December 2018.

Notes to the Financial Statements continued

25 Acquisitions

On 18 October 2019, a subsidiary company of Headlam Group plc completed the acquisition of all the trade and assets of Edel Telenzo Carpets Ltd. ('Telenzo'). Telenzo is the UK distribution company for Edel Carpets, a modern carpet producer from Genemuiden, in the Netherlands. Telenzo is renowned for its 100% wool and wool blend tufted carpets and high quality man-made fibre carpets for residential and commercial use, and distributes its products nationwide.

The acquired business contributed revenue of £1.7 million and an operating profit of £0.3 million to the group for the year ended 31 December 2019. If the acquisitions had occurred on 1 January 2019, pro-forma revenue and operating profit for the year ended 31 December 2019 would have increased to £725.7 million and £39.8 million respectively.

Details of the acquisition are provisional and are shown below:

	Acquiree's book value £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's provisional net assets at the acquisition date:			
Intangible assets	**–**	**856**	**856**
Property, plant and equipment	**11**	**(11)**	**–**
Trade and other receivables	**1,400**	**–**	**1,400**
Trade and other payables	**(272)**	**–**	**(272)**
Deferred tax	**–**	**(145)**	**(145)**
Net identifiable assets and liabilities	**1,139**	**700**	**1,839**
Goodwill on acquisition			**258**
Consideration			**2,097**
Satisfied by:			
Cash			**2,097**
Analysis of cash flows:			
On completion			**2,097**

Professional fees of £72,000 were incurred in relation to acquisition activity and have been expensed to the income statement within non-underlying administration expenses.

The book value of receivables given in the table above represents both the gross contracted and fair value of amounts receivable. At the acquisition date, the entire book value of receivables was expected to be collected.

Goodwill of £258,000 arose on the acquisition, there were also intangible assets on acquisition of £856,000 which were attributed to brand names, customer relationships and supply agreements. During the year £25,000 of intangibles have been amortised to the income statement.

The residual goodwill reflects the significant benefit the acquisitions will have on the Group by bringing further geographic coverage, offering an expanded product range, developing a more sophisticated customer route to market, providing an additional avenue for growth and a different order profile.

Furthermore, acquired businesses gain access to the Group's extensive product ranges and benefit from enhanced sales and marketing investment. These changes typically enable acquired businesses to enhance the service provided to their customers and ultimately, develop and grow.

Prior year acquisitions

In the prior year the Group acquired Dersimo BV ('Dersimo'), BETU Holdings Limited (a non-trading holding company) the parent company of CECO (Flooring) Limited ('CECO'), Ashmount Flooring Supplies Limited ('Ashmount'), Rackhams Limited ('Rackhams'), and the business and certain assets of Garrod Bros Ltd ('Garrod Bros').

The fair values of the assets and liabilities acquired have been reconsidered as part of the hindsight period, but no adjustment was considered necessary. In relation to CECO, the contingent consideration has been paid in full earlier than planned as a result of profitability exceeding management expectations. This has led to a reversal of part of the discounting applied on the original acquisition.

The acquired businesses contributed revenues of £13.7 million and an operating profit of £0.6 million to the Group for the year ended 31 December 2018. If the acquisitions had occurred on 1 January 2018, pro-forma revenue and operating profit for the year ended 31 December 2018 would have increased to £717.7 million and £42.0 million respectively.

Deferred and contingent consideration
The acquisition of Domus Group of Companies Limited was financed by initial cash consideration of £24.2 million paid on completion and satisfied from the Group's existing cash and debt facilities; a deferred consideration of £3.3 million, payable in cash and Ordinary shares of 5 pence each in the capital of the Company ('Ordinary Shares'), of which £1.6 million was payable on 7 December 2019 and £1.7 million is payable on 7 December 2020; and a further maximum contingent consideration of £2.7 million, payable in cash based on Domus achieving certain EBITDA targets over the three-year period ending 31 December 2020.

The deferred and contingent consideration were discounted back and reported at present value at the date of the acquisition. Management have written down the contingent consideration each year based on their assessment of the probability of it being paid. At 31 December 2019 the contingent consideration amount was fully written down with no payments expected on this, however the Group has a current liability for discounted deferred consideration of £1,654,000 which is due on 7 December 2020.

26 Capital commitments

Group
During the year ended 31 December 2019, the Group entered into commitments to purchase property, plant and equipment for £10,249,000 *(2018: £743,000)*. These commitments are expected to be settled in the following financial year.

Company
At 31 December 2019, the Company had commitments to purchase property, plant and equipment of £4,219,000 (2018: £nil). These commitments relate to the Company's Ipswich building project and are expected to be settled in the following year.

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 54 and 55.

As at 31 December 2019, Directors of the Company and their immediate relatives controlled 0.8% of the total voting rights of the Company *(2018: 0.9%)*.

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 £355,000 *(2018: £638,000)*.

Company only
In addition to the transactions with key personnel, the Company has the following transactions:

Transactions with other Group companies

	Highest during the year £000	**Balance at 31 December 2019 £000**	Highest during the year £000	Balance at 31 December 2018 £000
Amounts due from subsidiaries	**24,605**	**20,735**	24,605	24,605
Amounts due to subsidiaries	**(30,308)**	**(30,308)**	(26,900)	(26,900)

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 2019 £000	For year ended 31 December 2018 £000
Rental income	**8,897**	7,971
Dividends received	**29,681**	32,208
Recharge of operating expenses	**2,932**	3,380
Interest income	**284**	379

28 Subsequent events

Management has 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 has concluded that there are no material adjusting or non-adjusting events to be disclosed in these financial statements, with the exception of the acquisition of Supertex Furnishing Limited. On 1 March 2020, HFD Limited, a group subsidiary company acquired 100% of the issued share capital of Supertex Furnishing Limited, a floorcovering distribution business based in Leyland, Lancashire, for a consideration of £1.3 million, subject to finalising the net assets position.

29 Group subsidiaries

Company	Type	Place of incorporation
HFD Limited	Trading	Great Britain*
MCD Group Limited	Trading	Great Britain*
CECO (Flooring) Limited	Trading	Great Britain******
Domus Tiles Limited	Trading	Great Britain*
Rackhams Limited	Trading	Great Britain*
Headlam BV	Trading	Netherlands**
Dersimo BV	Trading	Netherlands*****
LMS SA	Trading	France***
Belcolor AG	Trading	Switzerland****
Headlam (European) Limited	Holding Company	Great Britain*
Betu Holdings Limited	Holding Company	Great Britain******
Headlam Holdings BV	Holding Company	Netherlands**
Headlam SAS	Holding Company	France***
Domus Group of Companies Limited	Holding Company	Great Britain*
Tileco (2012) Bidco Limited	Holding Company	Great Britain*
Tileco Group (2007) Limited	Holding Company	Great Britain*
Tileco Group Limited	Holding Company	Great Britain*
Yourfloors Plc	Dormant	Great Britain*
Crossforge Limited	Dormant	Great Britain*
Headlam Group Employee Trust Company Limited	Dormant	Great Britain*
Headlam Group Pension Trustees Limited	Dormant	Great Britain*
Mercado Group Limited	Dormant	Great Britain*
NCT (International) Limited	Dormant	Great Britain*
Mitchell Carpets Limited	Dormant	Great Britain*
Tileco Limited	Dormant	Great Britain*
Surface Tiles Limited	Dormant	Great Britain*
Ashmount Flooring Supplies Limited	Dormant	Great Britain*

The ordinary share capital of all of these subsidiaries are wholly owned and their principal activities 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: 7/14 Rue Du Fosse Blanc, 92230, Gennevilliers, France.
**** Registered address for Swiss subsidiaries: Zücherstrasse 493, 9015 St. Gallen, Switzerland.
***** 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.

Financial Record

	2019 £000	2018 £000	Restated** 2017 £000	Restated* &** 2016 £000	Restated* &** 2015 £000
Trading results					
Revenue	**719,237**	708,423	692,540	677,722	639,260
Gross profit	**229,412**	229,074	218,104	210,205	198,693
Overheads	**(187,258)**	(184,801)	(174,321)	(169,133)	(161,916)
Underlying profit before net financing costs	**42,154**	44,273	43,783	41,072	36,777
Net financing costs	**(2,694)**	(884)	(665)	(966)	(1,153)
Underlying profit on ordinary activities before tax	**39,460**	43,389	43,118	40,106	35,624
Taxation	**(6,877)**	(7,750)	(7,976)	(7,601)	(7,213)
Underlying profit on ordinary activities after taxation	**32,583**	35,639	35,142	32,505	28,411
Profit before tax	**35,169**	40,447	40,719	38,179	35,624
Shareholder value					
Earnings per share	**34.0p**	40.0p	39.1p	36.8p	33.8p
Underlying earnings per share	**38.8p**	42.5p	41.7p	38.7p	33.8p
Paid interim and final dividend per share	**25.0p**	24.8p	22.55p	20.70p	17.50p
Paid special dividend per share	**—**	–	8.00p	6.00p	–
Proposed dividend per share	**25.0p**	25.0p	24.8p	22.55p	20.70p
Net assets					
Non-current assets					
Property, plant and equipment	**114,573**	102,048	101,631	102,934	104,677
Right of use assets***	**43,865**	–	–	–	–
Intangible assets	**48,514**	50,924	44,662	10,388	10,388
Deferred tax assets	**692**	516	648	1,138	629
	207,644	153,488	146,941	114,460	115,694
Current assets					
Inventories	**132,474**	132,704	131,566	126,037	118,165
Trade and other receivables	**123,705**	119,007	127,976	128,934	120,300
Cash and cash equivalents	**33,385**	44,005	42,030	59,343	63,932
	289,564	295,716	301,572	314,314	302,397
Total assets	**497,208**	449,204	448,513	428,774	418,091
Current liabilities					
Bank overdraft	**(10)**	(221)	–	(4)	–
Other interest-bearing loans and borrowings	**(222)**	(236)	(233)	(224)	–
Lease liabilities***	**(13,921)**	–	–	–	–
Trade and other payables	**(181,845)**	(181,300)	(190,299)	(183,304)	(171,375)
Employee benefits	**—**	–	(2,235)	(2,169)	(2,171)
Income tax payable	**(5,037)**	(6,730)	(6,339)	(6,824)	(6,974)
	(201,035)	(188,487)	(199,106)	(192,525)	(180,520)
Non-current liabilities					
Other interest-bearing loans and borrowings	**(6,201)**	(6,805)	(6,519)	(6,493)	(20,000)
Lease liabilities***	**(30,734)**	–	–	–	–
Trade and other payables	**—**	(2,592)	(4,938)	–	–
Provisions	**(2,299)**	(2,249)	(2,048)	(1,531)	(1,087)
Deferred tax liabilities	**(7,608)**	(8,063)	(6,847)	(4,077)	(4,533)
Employee benefits	**(4,263)**	(5,888)	(10,481)	(20,781)	(16,843)
	(51,105)	(25,597)	(30,833)	(32,882)	(42,463)
Total liabilities	**(252,140)**	(214,084)	(229,939)	(225,407)	(222,983)
Net assets	**245,068**	235,120	218,574	203,367	195,108

* The balance sheet for 2015 was restated in order to: align certain accounting policies of overseas companies; better reflect the net value of certain inventory product lines; reassess deferred tax in relation to property; and to reclassify certain balances in order to present them in a consistent manner with subsequent years. This is fully described in the Annual Report and Accounts for the year ended 31 December 2016.

** The Condensed Consolidated Interim Income Statement for the years ended 31 December 2017, 2016 and 2015 have been restated to reclassify a number of items between revenue, cost of sales, and operating expenses in order to more appropriately reflect their nature. Consequently, these adjustments mean the earlier periods are presented in a consistent manner with the years ended 31 December 2019 and 2018.

*** IFRS 16 adopted from 1 January 2019.

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