Investing for the future

Annual Report and Accounts
for the year ended 2023

INTRODUCING OUR 2023 ANNUAL REPORT

The UK's leading floor covering distributor

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

Our Vision
The leading, most trusted experts in flooring

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

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

And always, do the right thing

Our Culture
Colleagues are at the heart of our business, and are our greatest asset. There are over 2,300 colleagues at Headlam within a variety of departments, including warehousing, transport, sales, and administration. We continue to focus on making Headlam a great place to work, and ensure colleagues share in the Group's long-term success.

Our investment proposition

Strong Financial Foundations

- Strong balance sheet
- Cash generative business model
- Low capital requirements

Financial Review

For more information see pages 32 to 39

Market Leading Position

- Market leader with established operational expertise and unrivaled scale
- Opportunity to further broaden market presence
- Large addressable market

Our Strategy

For more information see pages 18 to 23

Improving Future Performance

- Significant growth opportunity from market recovery
- Building revenue streams from strategic initiatives
- Increasing efficiencies to support margins

Our Marketplace

For more information see pages 14 to 15

Contents

OUR YEAR IN REVIEW

Chris Payne, Chief Executive

“These are a few of the common questions we are asked by stakeholders”

Q What has been the most challenging aspect of 2023?

A 2023 has undeniably been a very challenging year for the flooring market, reflecting a number of macroeconomic and industry headwinds, including lower RMI (residential maintenance and improvement) spend, a reduction in the number of housing transactions, and a decline in consumer spending. Home improvements has been one of the hardest hit categories of retail spend in 2023 as households cut back on discretionary spend. Added to which there was high operational cost inflation in areas such as energy costs and wages. This combination of lower demand and higher costs has weighed on profitability, although we worked hard to successfully offset a proportion of it by taking mitigating action.

Q What are your views on the timing of recovery in the marketplace after this suppressed period of time?

A I'll leave it to the economists to predict the macroeconomic outlook for the years ahead, but what we do know is that volumes in the UK flooring market are around 20% lower than in 2019 and we would expect those volumes to come back over the next few years. There is a significant opportunity ahead, as and when those volumes recover. We have a relatively high fixed cost base, which means that declining volume can have a significant impact on profitability, but the reverse happens as volumes grow. Whilst the short-term outlook is uncertain, I feel optimistic about the medium-term prospects, with the recovery in the market combining with the results of our current strategic investments to create meaningful profit improvement.

Q What are your key focuses for 2024, including to recover financial performance?

A The key focuses are to grow with new and existing customers and continue to deliver great service, whilst controlling costs and driving through efficiencies. By doing so we will drive volume growth whilst also supporting and improving margins. The macroeconomic conditions have been challenging, but we will continue to invest in the business to position it well for when the market improves.

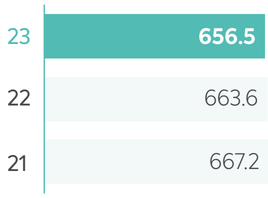
OUR PERFORMANCE

Revenue

(1.1)%

£656.5m

(2022: £663.6m)

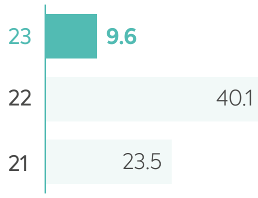


Statutory basic earnings per share

(76.1)%

9.6p

(2022: 40.1p)

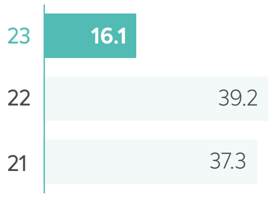


Underlying[1] operating profit

(58.9)%

£16.1m

(2022: £39.2m)
Statutory operating profit: £12.2m (2022: £43.9m)

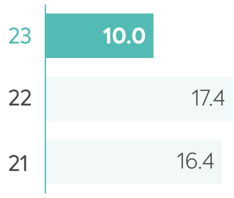


Total ordinary dividend[2]

(42.5)%

10.0p

(2022: 17.4p)

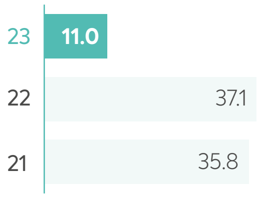


Underlying[1] profit before tax

(70.4)%

£11.0m

(2022: £37.1m)

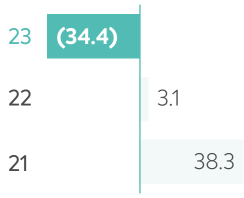


Average net (debt)/funds[3]

(1,209.7)%

£(34.4)m

(2022: £3.1m)

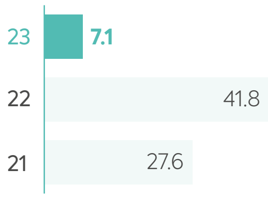


Statutory profit/(loss)before tax

(83.0)%

£7.1m

(2022: £41.8m)

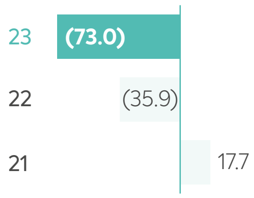


Net (debt)/funds including lease liabilities[4]

(103.3)%

£(73.0)m

(2022: £(35.9)m)



The financial results for 2021 represent continuing operations only and exclude the contribution from the Swiss business, Belcolor AG, in 2021 following its disposal during 2021. Commentary on the Company's use of Alternative Performance Measures ('APMs') alongside International Financial Reporting Standards ('IFRS') Measures is given on pages 206 to 207.

1 To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before non-underlying items. These items are detailed in note 3 and principally comprise amortisation of acquired intangibles and other acquisition-related costs, impairment of intangibles, property, plant and equipment and right-of-use assets, insurance proceeds (following fire), profit on sale of property, plant and equipment and business restructuring and change-related costs.

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

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

4 Net (debt)/funds is as at 31 December, and includes lease liabilities of £43.4 million in 2023 (2022: £37.7 million; 2021: £36.0 million).

OUR BUSINESS AT A GLANCE

Who We Are

Operating for over 30 years, Headlam is the UK's leading floor covering distributor.

The Company works with suppliers across the globe manufacturing the broadest range of products, and gives them a highly effective route to market, selling their products into the large and diverse trade customer base.

The Company has an extensive customer base spanning independent and multiple retailers, small and large contractors, and house builders. It provides its customers with a market-leading service through the largest product range, in-depth knowledge, ecommerce and marketing support, and nationwide next day delivery service.

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

31
Years operating

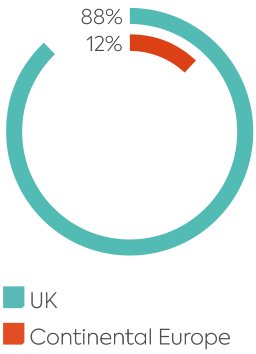
67
Businesses and trade brands

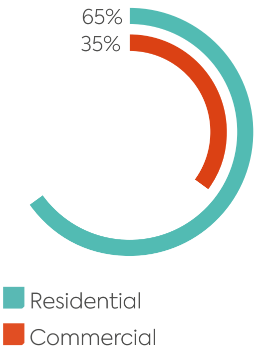
2,338
People

22
Distribution hubs and centres

67
Trade counters

Revenue





Our Customer Segments

Traditional Retailers

A mix of large and small stores, independently owned

Key needs:

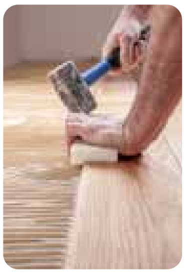
- Product availability
- Next day delivery
- Customer service and strong relationships with fast response to queries
- Reliable quality
- New product launches, sampling and promotions

Major Multiple Retailers

Flooring specialists and generalists with nationwide premises

Key needs:

- Fast and accurate delivery nationwide
- Digital systems, real-time data sharing and automated ordering
- Supply chain management and stockholding
- Sustainability credentials, exclusive products and insight



Tradespeople, Fitters and Small House Builders

Often self-employed with or without a delivery address

Key needs:

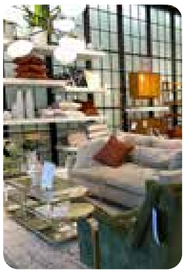
- Nearby trade counter for collection
- Quick, one stop shop
- Product advice and sampling showcase for end-consumer
- Ability to check stock and order out of hours and on the move

Large House Builders and Housing Associations

Nationwide with multiple developments

Key needs:

- Single account management with contracts in place
- Able to supply nationwide at scale and to site
- Product insight, with tailored ranges, point-of-sale materials and showcase options for end-consumer



Progressive/Lifestyle Retailers

Showroom style stores, selling other home decor items

Key needs:

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

Online Retailers

Online business only (with no physical retail premises)

Key needs:

- Delivery to fulfilment centre or DSV
- Well recognised product brands with social media appeal
- Direct to customer sample fulfilment
- Digital systems, real-time data sharing and automated ordering

Contractors

Large scale, with premises and contracts that span sectors

Key needs:

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

CHAIR'S STATEMENT

Keith Edelman, Non-Executive Chair

"Despite 2023 being a difficult year for the industry, we made good progress with the implementation of our strategy to enhance the growth potential of the business, improve customer service and deliver efficiencies"

2023 proved to be a difficult year for the industry as a whole, and for many businesses exposed to consumer discretionary spend. Financial performance was hampered not just by the cost-of-living crisis, but also by high operational cost inflation. These combined to meaningfully reduce industry volumes and put significant pressure on margins.

Despite this backdrop, we made good progress with the implementation of our strategy to enhance the growth potential of the business, improve customer service, and deliver efficiencies. However, due to the roll out and maturity cycles of certain initiatives, coupled with the upfront investment required to deliver them, the impact was more than offset by the economic and industry headwinds. Additionally, the Company's regional distribution business, which is heavily weighted to smaller residential sector orders, was particularly impacted by both the trading environment and competitive pricing.

As a Board, despite the backdrop and considerable pressure on financial performance, we decided to continue investing in the strategy and for the future. This is aligned with our fundamental belief that the long-term success of the business and the expansion of its market-leading position is of most benefit to all stakeholders. Therefore, despite our profit performance in the year, we are pleased with progress and remain committed to our strategy.

As a business, we have achieved a lot over the past few years as we have sought to modernise the business, grow revenue opportunities through broadening our presence in the marketplace, and invested in associated people capacity and infrastructure. However, this has also meant our colleagues having to contend with considerable change, and doing so in a very challenging trading environment. So, on behalf of the Board, I thank them for their commitment and hard work.

During 2024, we will continue with the implementation of our strategy whilst also undertaking particular scrutiny of operational performance, efficiencies, and the cost base. As a Board, we constantly appraise the strategy and its performance. We believe our strategy is the right one, and whilst the short-term outlook for the market is forecast to remain challenging, the business is fundamentally in a much better position. Once volumes improve from the unprecedented current lows, we will be able to restore and build profitability, particularly given the ongoing execution and maturity of our strategy.

I would like to thank all our stakeholders for their support during what has been a difficult year for most.

Keith Edelman,
Non-Executive Chair

5 March 2024

CHIEF EXECUTIVE REVIEW

Chris Payne, Chief Executive

“ Whilst the short-term outlook remains difficult to forecast, the medium-term market recovery, combined with the impact of our current investments to broaden the base of the business, provide opportunity for material profit improvement ”

Headlam is a clear market leader with strong foundations, and through the implementation of our strategy we are broadening the base of the business, providing good growth opportunities by accessing additional areas of the market.

During the year, we successfully serviced an increasingly diverse range of customer types, spanning independent retailers, tradespeople, major multiple retailers, housebuilders, online retailers and contractors.

2023 presented challenging macro and industry-specific headwinds, which hampered financial performance; however, we made good strategic progress and we remain optimistic about our medium-term prospects. Our strategy and the investments we have been making in the business position it well for when the market recovers.

Financial summary and marketplace

During the year, the unprecedented levels of inflation and rising cost of borrowing brought significant headwinds. RMI (repair, maintenance and improvement) spend was projected to have declined 11% in 2023; and residential property transactions declined 20% year-on-year. Consequently, home improvements and DIY was one of worst performing categories of retail spend in 2023, with spend significantly declining year on year, particularly in the latter months. These factors caused volumes to materially decline in the residential sector of the flooring market, which accounts for approximately two-thirds of the value of the market.

The Group's overall UK volumes improved from high single-digit decline at the start of the year to almost flat compared to 2022 in July and August. However, and consistent with observations from similar markets, the market deteriorated significantly in September and this persisted through the rest of the year, albeit we did see an improvement in the Group's trading during our peak residential month of November. Over the year as a whole, the Group's UK volumes declined 5%, in line with the market (according to commissioned external research from MTW Research). Continental Europe revenue declined 7.7%, reflecting weak markets, particularly in the Netherlands.

In addition to the volume weakness in the market, there was £10 million of operational cost inflation, driven by elevated pay and energy costs. Furthermore, the temporary benefit in 2022 from manufacturer-led price increases unwound in 2023, which further impacted profitability. Overall, this resulted in a reduction in underlying profit before tax from £37.1 million in 2022 to £11.0 million in 2023. Further detail on the year-on-year movement in profit is contained in the Financial Review.

Testament to the strength of the business model, operating cash generation was strong, allowing us to continue investing for the future. The Group generated £26.0 million of Underlying Operating Cash Flow, higher than either of the previous two years, reflecting a stabilised working capital position. Additionally, during H2 2023, we agreed a settlement with insurers for the Kidderminster building, which was destroyed by a fire in 2021, and subsequently separately sold the land, resulting in combined cash proceeds, net of fees, of £9.7 million. We invested £18.2 million in capital expenditure, £6.1 million in acquisitions and returned £17.4 million to shareholders in the form of dividends and the share buyback programme, which completed in March 2023. Net debt increased by £31.4 million in the year to £29.6 million, reflecting these investments and shareholder returns.

The Board is recommending a 2023 final ordinary dividend of 6.0 pence per share (2022: 11.2 pence per share), subject to shareholder approval at the forthcoming AGM in May 2024, taking the full year dividend to 10.0 pence per share (2022: 17.4 pence per share). In recommending this final dividend the Board acknowledges that the short-term outlook remains challenging; however, also takes into account that the medium-term prospects remain strong, and that the Group has a strong balance sheet and good operating cash flow generation, supplemented by lower capital expenditure requirements going forward. Furthermore, the Board also recognises the non-underlying cash proceeds received in 2023 in respect of insurance settlement and property disposal, and the intention to release more capital from disposal of surplus property in 2024. Accordingly, and as signalled at the half year results in September 2023, the Group will temporarily lower its dividend cover in respect of the ordinary dividend. The Group intends to retain a lower level of cover through 2024 and then re-evaluate with a view to building back to 2.0x cover over the medium-term as the market and Group earnings improve.

Strategic progress

Despite the macro and industry headwinds, we made good progress in many areas of our strategy, the outputs of which have been masked by the impact of the external headwinds on overall financial performance. We invested in people, in new and enhanced capabilities, and in the network and infrastructure; all supporting growth, efficiency, and customer service. These strategically important investments have strengthened the foundations of the business, and position us well for growth across a broader spectrum of the marketplace. The key strategic growth initiatives delivered good results in the year. Revenue from Larger Customers and Trade Counters in the UK, the two main revenue growth drivers, was up 26% and 8.5%, respectively, compared with 2022, offsetting the 7.0% decline in the Regional Distribution business.

Larger Customers

Revenue grew by 26% in the year to £83.3 million, reflecting the scaling of existing customer relationships, adding further product lines and categories, combined with new customer wins. We successfully grew sales and partnerships with a broader range of customers, including flooring retailers, homeware retailers, builders' merchants, housebuilders and online retailers. Towards the end of the year, we launched trials in a chain of builders' merchants and in a national discount retailer; both involve only a small proportion of their respective estates initially, with the potential for nationwide rollouts over time. Furthermore, at the end of the year, starting with the Boxing Day sale, we significantly increased our share of the flooring category with a nationwide retailer.

We have a dedicated account management team who develop new, and service existing, customer relationships. We increased the size of this team in the year, including sales expertise in particular segments of the market, such as housebuilders, where we look to build upon our initial entry point.

We have a strong pipeline of growth, across both existing and new customers, providing opportunity to grow revenue from Larger Customers to a targeted £200 million over the coming years.

Trade Counters

Revenue for the year was £97.1 million (2022: £89.5 million), an increase of 8.5%, and 2,400 new customer accounts were opened across the trade counter network. Collectively, 'invested' trade counters (new, relocated or refitted) performed in line with the business case, despite the weak market. The key ingredients for a successful trade counter are location and colleagues, supported by a dedicated management team focusing on the rollout and performance management of all sites.

12 new trade counters were opened in the year and a further 11 were refurbished or relocated. This took the total number of trade counters to 67 at the end of the year, of which 47 have been invested in (31 December 2022: 58 total, 24 invested). We closed two sites during the year and also merged two sites.

In 2024, we are targeting to invest in at least 20 sites, around half of which could be new sites, taking our total number of trade counters to around 80.

Our aim is to create a nationwide footprint that services the fitter and general contractor market; a segment of the overall flooring market to which we cannot currently provide nationwide service and, as such, is an important growth opportunity. During the year, we increased our target to a total of 100 invested sites by the end of 2025 (from a previous target of 90), in order to reach 80% of the UK population within a circa 20-minute drive time. We expect this increase in total site numbers to require no increase in the previously expected total capital expenditure due to savings made in the cost of each trade counter investment as we build our expertise and drive efficiencies and economies of scale. Our aim is to grow revenue in Trade Counters to £200 million.

Regional Distribution

Our Regional Distribution business incorporates all our local business brands across the UK and supports operations across the Group through its national network and processing and delivery capabilities. This part of our business, which accounted for 64.2% of total UK revenue in 2023 (2022: 69.0%), was particularly impacted by the trading environment as it predominantly comprises a high volume of smaller individual residential orders, which have been particularly impacted by consumers cutting back their spending on home improvements. Accordingly, revenue declined by 7.0% to £370.8 million (2022: £398.9 million). Competition has also been heightened in this part of the market, with aggressive pricing at times; despite this, our gross margins have been stable and well-controlled.

Despite the industry headwinds, we made considerable progress in upgrading the network to increase the level of service to all customers, whilst also creating operational efficiencies. Investments included new cutting tables and sortation units in three of our largest distribution centres, and the installation of owned solar panels across most of our larger UK sites. The combined capital expenditure in the Regional Distribution business was over £9 million; this was higher than in previous years, reflecting a busy year of upgrade and replenishment, combined with the one-off investment in solar panels, and we expect it to reduce going forwards.

Headlam's scale and reach remains a competitive advantage for its Regional Distribution business, with great service and breadth of product providing compelling reasons to use Headlam.

We have a large portfolio of established Own Product Brands, an important point of differentiation in the marketplace. Revenue from Own Product Brands was up 2.7% in the year and represented 34.5% of the revenue through the Regional Distribution channel. This revenue growth was supported by the successful launch of the Group's newest brand Everyroom in the second half of 2022. Everyroom has quickly won traction and wide recognition, including winning a leading trade award in March 2023.

During 2023, we enhanced the team leading this area of the business, and invested in social media awareness, new B2B2C websites for our leading Crucial Trading and Kersaint Cobb product brands, and new product development to support the increased appeal to a wider cross-section of customers/consumers. Alongside Everyroom, several of our other brands also received prestigious awards during 2023, including Kingsmead Carpets, Kersaint Cobb, Crucial Trading, and Manx Tomkinson.

Digital & IT transformation

34% of revenue in 2023 was through digital channels; this includes electronic ordering from Larger Customers. Digital transformation and ecommerce initiatives serve as an important foundation for all areas of our strategy. We are focused on moving our business to a more digitally-enabled

Q **You are investing for the future. What are your expectations for investment in 2024? And how quickly does the investment provide returns?**

A Capital expenditure during 2023 was £18 million, which will reduce to around £12 million in 2024. During 2023, investment in new cutting tables and associated safety equipment was largely completed, as well as the majority of the total £3 million investment in solar panels. As with 2023, Trade Counters will continue to be the largest area of investment in 2024 as the roll-out continues to a total of around 100 trade counters by the end of 2025. Due to the upfront investment required and modelled sales profile, the Trade Counter business unit diluted the Group's profit by £3.0 million in 2023 and is expected to be slightly year-on-year profit diluting again in 2024, before becoming profit enhancing over 2025/2026. The payback for the solar panels investment is 3 to 4 years and has delivered a positive in-year profit impact in 2023 from the reduction in electricity consumption; this investment is largely complete with a final amount of around £1m expected in the first half of 2024.

and multi-channel model, providing many benefits including: more efficient order-taking processes; quick and effective automated information flows; better supplier and customer engagement; greater product and brand awareness; and a lower cost to serve.

During 2023, we rolled out a drop ship vendor proposition to larger retailers and launched a Headlam brand website (www.headlamgroup.com) to better showcase who we are and our experience, knowledge, products and services.

To support the digital improvements, and to provide a more agile and flexible IT platform to support the future growth of the business, during the year we made the decision to replace the core IT system used in the UK. This will take place over the next three years and will involve modular, cloud-based systems; we will continue to operate the current system and can accommodate a period of dual running until fully ready to switch over, in order to ensure a smooth transition with minimal disruption.

Efficiencies and mitigating actions

Efficiency is a key part of the overall strategy, and further efficiency and mitigating actions were introduced during 2023 to help support margins and better align costs with the weak market backdrop. These included flexing operational headcount, implementing targeted price increases, and ongoing optimisation of transport operations. The latter was centred around the implementation of dynamic route planning, which reduces fuel and other transport costs through the optimisation of journeys.

Efficiency and mitigating actions contributed £10.3 million in 2023, providing a partial offset against the impact of volume decline and operational cost inflation.

During the year we reviewed the size and location of our network and, even after taking account of the volume growth anticipated over the coming years, made the decision to exit our Stockport distribution centre, given an overlapping service presence and stockholding capability in the north of England. In its place we have agreed a lease on a cross-dock facility, which we expect to move into in the coming weeks. Overall, this network optimisation adjustment results in a lower operating cost, whilst still providing capacity for significant growth, and releases capital through the disposal of the Stockport freehold, which we expect to occur over the coming months.

Whilst we have successfully implemented material mitigations in 2023, the flooring distribution business model has an inherent fixed cost element that drives relatively high operating leverage. As volumes decline, this can weigh heavily on profitability. However, as volumes recover, it can also have a significantly positive impact on profit.

Sustainability and our people

We have made good progress on our sustainability agenda during 2023. From an environmental perspective, this has included a reduction in carbon emissions aided by our investment in solar panels; the transition of over 85% of our non-commercial vehicle fleet to low or no emission; and transport efficiencies, which have reduced fuel consumption.

The safety of our colleagues, and any visitors to our sites, is of utmost importance to us. The Board, Executive Team, and site leadership teams widely and regularly communicate safety as Headlam's first behavioural value in order to embed a strong health and safety culture. Every meeting starts with a 'safety moment', and we have seen meaningful improvements in H&S culture and reporting.

Other priorities for our people include having an inclusive and collaborative culture where everyone can succeed. We held a 'Lead the Way' conference in October 2023 for all management colleagues in the UK business, the first time this had been done, with a focus on delivering success together. Building skills to succeed now and in the future is another priority area and is being supported by the comprehensive learning and development programmes being rolled out. During the year we also conducted our first colleague engagement survey, providing valuable insight into what is working well and what we can do better to engage our colleagues.

Outlook

The market weakness observed at the end of 2023 has continued into the first few weeks of 2024. We have seen negative volumes across our UK and Continental European businesses, despite continued growth in Larger Customers and Trade Counters. Group revenue in February 2024 was 6% lower than 2023, albeit ahead of January 2024. External data on housing transactions and consumer spending on home improvements, and latest projections for RMI and flooring spend in 2024, indicate a delayed market recovery.

The medium-term market outlook remains strong; flooring market volumes in 2023 were around 20% lower than in 2019 and we expect volumes to improve significantly over the coming years as the market recovers. The combination of this market recovery and our strategic initiatives to grow revenue to £200m in each of Larger Customers and Trade Counters provides opportunity for material uplift to revenue and profit given the operational leverage within the business. Furthermore, the Group's capital expenditure requirements are expected to decline in 2024 and then again in 2025, providing a boost to cash generation

Summary

The Group is well positioned despite the market backdrop, with ongoing expansion of its market-leading position, broadening of its market presence, and ongoing efficiencies; all of which will support future financial performance as the market improves.

We continue to focus on supporting the needs and requirements of all our stakeholders. We are confident in our strategy and look forward to the positive long-term prospects for the Group, and rebuilding of returns for shareholders. The Board thanks all the Group's colleagues for their continued hard work during this challenging period for the flooring market.

Chris Payne,
Chief Executive

5 March 2024

STRATEGIC REPORT

MARKET OVERVIEW

Our Market at a Glance

£3bn UK market

2023 was a very challenging year for the flooring market, reflecting a number of macroeconomic factors including unprecedented levels of inflation and the rising cost of borrowing.

This led to lower RMI (residential, maintenance and improvement) spend, which was projected to have declined 11% in 2023, and a material decline in residential property transactions, with data for April to November 2023 showing a 20% year-on-year decline. Consequently, home improvements and DIY was one of the worst-performing categories of retail spend in 2023, with spend significantly declining year on year. All of these factors caused volumes to materially decline in the residential sector of the flooring market, which accounts for approximately two-thirds of the value of the market.

Headlam's UK volumes declined by 5% in 2023, which was in line with the market, and was driven by the residential sector.

A further dynamic of the flooring market in 2023 was the lack of manufacturer-led price increases. There were significant increases in 2022, which flowed from manufacturers and through distributors and onto customers, which supported revenues in the market despite high volume decline. This provided a margin boost in 2022 to distributors as selling prices in the market increased, but the distributors had stock at previous prices. However, there were only limited price increases in 2023 and this positive impact was, therefore, not repeated.

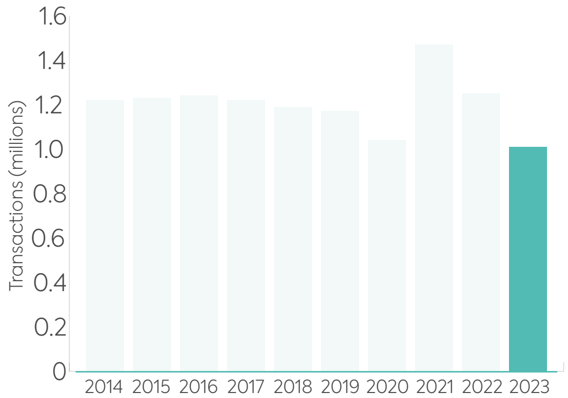
The macroeconomic factors described above, along with the after effects of COVID-19, has caused the traditional seasonality to trading to be less pronounced in the last three years. COVID-19 has been thought to have pulled forward some home improvements works, whilst the cost-of-living crisis is thought to be causing consumers to be deferring work.

Looking ahead to 2024 and beyond, a number of macroeconomic indicators are looking more positive: inflation is dropping rapidly, real pay is returning to growth, and interest rates are projected to have peaked and some are predicting declines during 2024, all of which should support improved consumer confidence.

However, this could take some time before it impacts on the RMI and flooring markets, which are projected, by external research, to remain subdued during 2024.

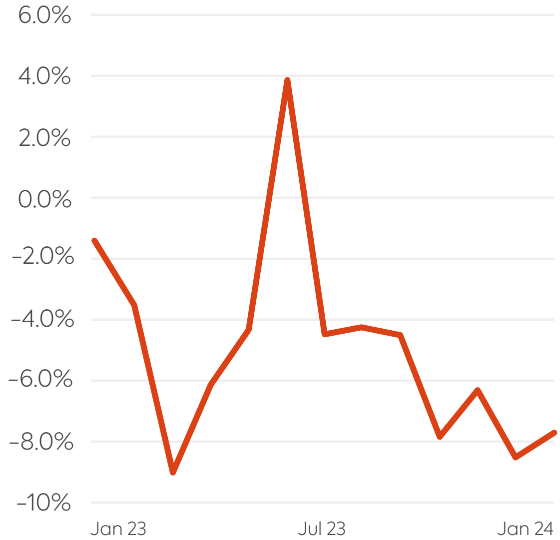
Nonetheless, whilst the short-term outlook remains uncertain for the market, the medium-term prospects look positive. Volumes in the UK flooring market are around 20% lower than in 2019 and we would expect the market to recover back to those levels over time.

UK residential property transactions



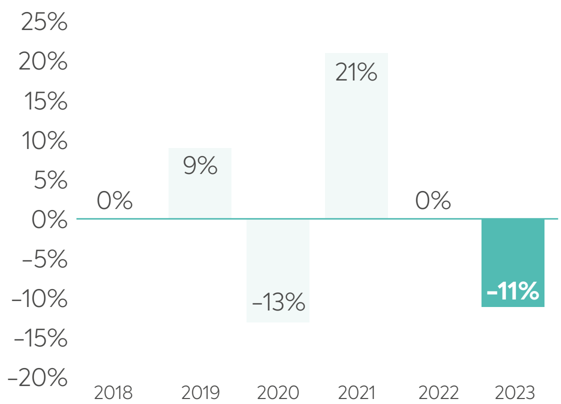
Source: www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above

Home improvements and DIY



Source: www.barclayscorporate.com/insights/industry-expertise/uk-consumer-spending-report

RMI



Source: Construction Products Association, Autumn 2023 update

Our Mitigating Actions

Swift, effective action taken in response to market conditions

In response to the macroeconomic and industry headwinds, we implemented a range of mitigating actions in the year. This included: aligning costs with the market backdrop, through flexing operational headcount; implementing targeted, selected price increases; transport cost savings, through the implementation of dynamic route planning; and network optimisation, whereby we have identified savings through consolidating our Stockport distribution centre. We also concluded on the insurance settlement for the Kidderminster building, and completed the sale of the land, in order to boost cash generation, as well as taking measures to tightly control stock.

Q **What proportion of Headlam's revenue comes from RMI versus new building?**

A In the residential side of our business we are currently much more reliant on people replacing flooring in their existing homes. However, our strategy is to broaden into other areas and customer groups, including housebuilders. By customer group, housebuilders accounted for a very small proportion of our revenue in 2023 and in previous years, and is a targeted new customer group for us. We have invested in a team to engage directly with housebuilders, developed and honed a compelling service offering for them, and targeted a growing revenue contribution from this area in 2024 and beyond.

Q **How important are branded products in the marketplace?**

A Product brands are an important point of differentiation in the marketplace as the majority of flooring product is relatively unbranded. Branded and recognisable brands, particularly those at middle/upper price points, can attract higher margins and be slightly more immune to the inflationary impact on consumer spend. Additionally, an increasing proportion of end-consumers now use social media and websites to search for, or look at, products before purchasing. Having branded products makes them stand out, helps cut through product filtering, and enhances their SEO (search engine optimisation).

Headlam's Market Opportunity

The flooring market is worth around £3 billion[1]. Headlam has previously operated primarily in the traditional retailers and tradespeople/fitters elements of the market. The Group's strategy is to broaden the base of the business to access the areas of the market where Headlam is underweight, such as contractors, multiple retailers or housebuilders. Good progress was made in 2023, with 26% and 8.5% growth in revenue from Larger Customers and Trade Counters, respectively; however, there remains a significant opportunity for further growth as the Group continues to execute its strategy.

High — Existing Headlam Weighting — Low

Traditional Retailers	Tradespeople and Fitters	Progressive Retailers	Contractors (including government)	Multiple Retailers Larger Customers	Larger Housebuilders	Online (pure online)

1 Source: LEK Consulting, 2020.

OUR BUSINESS MODEL

We create value by leveraging our key relationships, supply chain expertise, and innovative approach to deliver products that are both sustainable and fit for purpose.

What we rely on

Our people
Attracting and retaining the best people to provide the highest levels of customer service, and working together to deliver success.

Our culture
A shared group of values, including to ensure a business of integrity with robust controls and ethical conduct.

Our expertise
Ensuring we retain and build upon our market leading expertise through ongoing investment in people and the business.

Our sustainable mindset
Ensuring the long-term success of the business through a focus on a sustainable business model and working closely with all stakeholders.

Our relationships
Actively engaging with all stakeholders, including people, customers and suppliers, to support each other and deliver success together.

Supporting our suppliers

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

What differentiates us

Our customer-led approach
Broadest product offering; next day delivery and collection; industry-leading app; improved B2B website.

Our differentiated offering/routes to market
The broadest offering across the different customer groups, with significant opportunity for future growth by leaveraging our scale and reach.

Our material handling and processing capabilities
Largest inventory holding amongst peers. Able to process a high volume of orders for next day delivery.

What we do

Purchasing
Sourcing and purchasing leading, innovative and exclusive products from a wide range of suppliers/ manufacturers from across the globe.

Customer service
Providing our customer base with the widest range of products and comprehensive service propositions tailored to their specific needs.

Solutions
Offering an array of solutions across the value chain, including stockholding and storage solutions, product insight and knowledge, curated exclusive ranges, and sales support.

Delivery
Providing a truly nationwide delivery service, with next day delivery or trade counter network collection service for all customers.

Supporting our customers

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

Our extensive distribution network
Headlam is the only truly nationwide business in the UK. Next day delivery and an increasing number of collection points are key facts of our offer.

Our product knowledge and ranging
Unrivalled product knwledge and expertise. Able to provide valuable insight to both customers and suppliers.

The Value we Create

Our Colleagues
Providing an inclusive and collaborative working environment where people are supported, and can develop and succeed.

Our Customers
Helping our customers grow their businesses through an outstanding service, and giving them competitive advantages.

Our Suppliers
Providing a highly effective and efficient route to market for their products and access to a large and fragmented customer base.

Our Shareholders
A focus on ensuring the long-term success of the businesses, and improving financial performance to ensure increasing shareholder returns.

Our Communities and the Environment
Supporting local communities through employment and engagement activities, and reducing our impact on the environment through our sustainability strategy.

OUR GROWTH STRATEGY

How we are achieving our vision to deliver success together

Q What is the most exciting aspect of your strategy?

A Being able to deliver great service across the different customer segments, from traditional retailers, to fitters and contractors, to housebuilders and multiple retailers; broadening the base of the business whilst continuing to look after our traditional customers. By doing so, we can grow revenue and add new customers, as well as retaining our long-standing, loyal customers.

Maximising sales through great service, solutions, pricing and range

Description

- Secure and increase share with independent and progressive retailers – through service, price and range offerings
- Remain number 1 for service[1] – following ongoing validation from latest customer survey
- Launch new award-winning products – to gain market share and expand the customer base

Progress made

- Significant investment in cutting tables, sortation units and other equipment.
- Good revenue growth in Own Product Brands, supported by award-winning Everyroom brand, launched in 2022

Link to Risks

1 2 7

See pages 68 to 71

Link to KPIs

1 2 3 4 5

See pages 24 to 27

1 According to internally commissioned customer survey.

Developing new opportunities for future growth

Description

- Tailored propositions for larger commercial customers, contractors and housebuilders – expanding market positioning and share
- Expand and enhance the Trade Counter service-focus on delivery in line with the business case with strong growth metrics
- Increase online brand awareness and engagement – ongoing ecommerce and brand development

Progress made

- 8.5% revenue growth in Trade Counters, with sites increased to 67, of which 47 are new or refurbished
- 2,400 new trade customer accounts opened in Trade Counters
- 26% revenue growth from Larger Customers. from growing existing and winning new accounts
- Investment in dedicated management and account teams for Trade Counters and Larger Customers

Link to Risks

1 2 3 7 10

See pages 68 to 71

Link to KPIs

1 2 3 4 5 6

See pages 24 to 27

Improving our operational capabilities and effectiveness

Description

- Optimise the branch network and transport – to facilitate operating efficiencies and associated cost savings
- Investment in sites and equipment - supporting growth and customer service
- Investing in people and processes - to improve capability, expertise and efficiencies

Progress made

- Transport integration completed and dynamic route planning implemented
- New capability added, including Ecommerce Director and Group Marketing Director

Link to Risks

1 3 4 10

See pages 68 to 71

Link to KPIs

2 3 4 5 7 8 9 11 12

See pages 24 to 27

Leading on sustainability and environmental responsibility

Description

- Updated ESG strategy launched in 2023 - continues to be progressed and developed to remain leader amongst direct peer group
- Notification to SBTi of intention to submit Net Zero and interim emission targets – focus on reducing carbon footprint
- Maintain good and 'low risk' ESG scores - achieved AAA ESG rating with MSCI

Progress made

- Reduction in emissions, driven by solar panel installations, transition of non-commercial fleet to low emission, and transport efficiencies
- Over 85% of non-commercial vehicle fleet now hybrid or full electric
- Achieved ISO 14001 environmental certification at key sites

Link to Risks

2 7 8 9

See pages 68 to 71

Link to KPIs

11 12

See pages 24 to 27

Making Headlam a great place to work for everyone

Description

- Inclusive open two-way engagement - with Employee Forum and CEO town halls on site
- Revised values launched and embedded - 'Headlam Way' with safety as first value
- Build inclusive and collaborative performance culture - to support long term success

Progress made

- Engagement survey conducted for the first time
- New training and development materials, including online induction
- Developed our first Inclusion & Wellbeing strategy

Link to Risks

5 6

See pages 68 to 71

Link to KPIs

9 10

See pages 24 to 27

OUR STRATEGY IN ACTION

Maximising sales through great service, solutions, pricing and range

Regional Distribution

Overview

Headlam's Regional Distribution business is the mainstay of the group and supports all the businesses and projects across the group through its national network and processing and delivery capabilities. We continue to invest in the network and people to increase the level of service to all customers, whilst also creating operational efficiencies.

Key fact

Revenue -7.0% in 2023 to

£371 million

Highlights in 2023

- Material investment in cutting tables, sortation units and MHE (material handling equipment).
- Machine guarding and other safety features introduced in the warehouses.
- Transport integration completed, and ongoing optimisation of transport with resulting efficiencies.
- Installation of owned solar panels across all larger UK sites.

Q How can you build your position in your Regional Distribution business given your already market-leading position?

A Despite our market-leading position, Headlam has relatively low market share in certain geographical areas; added to which, there are opportunities in certain product categories where the Group is underweight, and good growth opportunities in the commercial sector of the marketplace. We invested meaningfully in our network during 2023, including in cutting tables and other machinery and equipment to enhance the service proposition; we also added new people and capability.

Maximising sales through great service, solutions, pricing and range

Own Product Brands

Overview

This is about leveraging Headlam's established large portfolio of Own Product Brands to increase sales, and investing in social media awareness, marketing and new product development to appeal to a wider cross-section of customers/end-consumers. Furthermore, we can launch new brands in underweight product or pricing categories to capture further sales. The goal is to have the brand of choice for customers and end-consumers in each product category.

A key fact

34%

Own Product Brands as a proportion of UK revenue in 2023[1]

Highlights in 2023

- Grown revenue despite brands being mainly residential focused
- Strong revenue contribution in 2023 from newest brand Everyroom, launched in 2022
- Enlarged and enhanced team
- Number of industry awards across the brand portfolio
- New B2B2C websites launched for two of our brands

Q How has demand for different flooring categories altered over time, and what do you think it will do in the future?

A The most notable trend in recent years is the increase in demand for hard flooring as people have shifted from having mostly soft flooring downstairs to more hard flooring like Luxury Vinyl Tiles (LVT), laminates, woods and ceramics. As a consequence, carpet now accounts for a lower proportion of the overall market. For example, carpet as a proportion of our overall revenue has moved from circa 41% in 2010 to 33% in 2023. LVT has been a notable growth area, becoming increasingly popular since 2016, supported by advances in technology, which mean it is incredibly durable and can look just like real wood or stone, for example, but at a more affordable price.

1 Excludes revenue from Larger Customers, Trade Counters and revenue from our ceramics specification businesses.

Developing new opportunities for future growth

Trade Counters

Overview

We are accelerating the roll-out of new and improved trade counter sites across the UK, creating a nationwide footprint that also appeals to a wider range of customers, thereby capturing further market share. We have increased the target to a total of 100 invested[1] sites by the end of 2025 (previous target 90) with a total capital expenditure of £26 million.

Key facts

Revenue +8.5% in 2023 to

£97 million

Long-term revenue target

£200 million

Highlights in 2023

- Creation of a central management team
- 23 site investments completed during 2023
- Total of 67 sites at 31 December 2023, of which 47 invested in (total of 53 sites in 2021, all uninvested)
- Invested sites collectively performing in line with business case
- 2,400 new customer accounts opened
- Lowered capital investment requirements per site

Q How does the Trade Counter business model work? And what are your aspirations for this area of your business?

A The aim is to create a nationwide footprint of trade counters that appeals to a wide range of trade customers, outside of solely flooring specialists. The counters offer a collection service (from any site), a walk-in service, expert advice, and exclusive products, accessories and workwear all on offer on site. Given the positive performance of the invested sites to date, along with further modelling of the optimal geographic footprint, we have increased our original target of a total of 90 invested sites to around 100 by the end of 2025. This can be achieved with the same anticipated total capital investment of, approximately, £26 million due to us having been able to reduce the investment required to open a typical new site by around 15%. Upon maturity, these 100 sites are anticipated to generate £2 million per annum.

[1] 'Invested', means either a new site or the refurbishment or relocation of an existing site.

Developing new opportunities for future growth

Larger Customers

Overview

Headlam is underweight in the Larger Customers segment of the market, having just £83 million in 2023 of an estimated £1 billion market. There is opportunity to grow this by offering a fully comprehensive service tailored to their specific requirements, and growing sales and partnerships with a broad spectrum of new and existing customers, including: flooring retailers; homeware retailers; builders merchants; DIY; housebuilders; and online retailers.

Key facts

Revenue +26% in 2023 to

£83 million

Long-term revenue target

£200 million

Highlights in 2023

- Revenue growth in existing accounts combined with new customer wins
- First sales secured with a top 10 UK housebuilder
- Dedicated team expanded, including new housebuilder team
- Expanded DSV capability to include palletised goods

Q **Why would a multiple/larger retailer use Headlam? And how do you work alongside the manufacturer in servicing and supporting them?**

A We are able to offer larger customers a compelling and comprehensive service proposition tailored to their specific needs through: product insight and exclusive products; competitive purchasing; supply chain management; stockholding and storage solutions; processing and national distribution to any number of locations and frequency. All this serves to reduce complexity, cost and working capital for customers. We work in tandem with suppliers who manufacture the products, and have joint business plans creating further efficiencies and margin enhancements.

KEY PERFORMANCE INDICATORS (‘KPIs’)

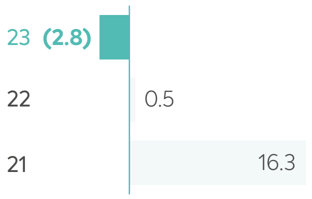
The Board believes these Key Performance Indicators (‘KPIs’) provide a comprehensive and relevant list of measurements with which to assess the Group’s financial, operational, and social performance towards the achievement of its strategy. Commentary on the Group’s use of Alternative Performance Measures (‘APMs’) alongside International Financial Reporting Standards (‘IFRS’) Measures is given within the Financial Review on pages 32 to 39, and below.

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

Financial KPIs

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

APM



Measurement

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

Why it’s important and relevant

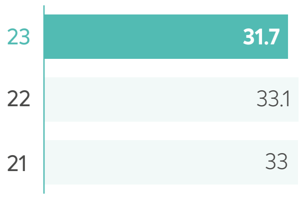
Allows a consistent measure of year-on-year performance.

Initiatives and actions for improvement

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

Link to Strategy

2 Gross profit margin (%)



Measurement

Measured as a % of revenue.

Why it’s important and relevant

Shows the effectiveness of gross profit generation from revenue.

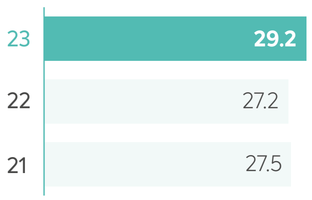
Initiatives and actions for improvement

Ongoing pricing discipline, and product ranging.

Link to Strategy

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

APM



Measurement

Measured as a % of revenue.

Why it’s important and relevant

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

Initiatives and actions for improvement

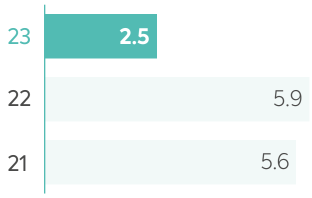
Focus on operating efficiencies and headcount control to ensure cost increases remain below revenue growth.

Link to Strategy

1 Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2023 and the comparator year(s), and is adjusted for any variances in working days.

2 To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before non-underlying items. These items are detailed in note 3 and, principally, comprise amortisation of acquired intangibles and other acquisition-related costs, impairment of intangibles, property, plant and equipment and right-of-use assets, insurance proceeds (following fire), profit on sale of property, plant and equipment and business restructuring, and change-related costs.

4 Underlying[2] operating profit margin (%)
APM



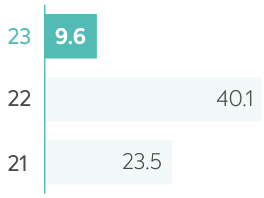
Measurement
Measured as a % of revenue.

Why it's important and relevant
Shows the effectiveness of sustainable operating profit generation from revenue. Underlying[2] is used to show the underlying performance of the business prior to exceptional costs/items.

Initiatives and actions for improvement
Strategy to improve operating and financial performance including revenue growth on a partially fixed cost base (see Chief Executive's Review on page 08).

Link to Strategy

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



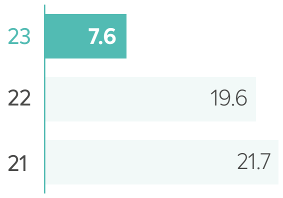
Measurement
Profit after tax divided by average basic weighted number of shares.

Why it's important and relevant
Shows the level of profit per share attributable to shareholders.

Initiatives and actions for improvement
In line with statutory profit performance.

Link to Strategy

6 Underlying return on capital employed ('ROCE') (%)
APM



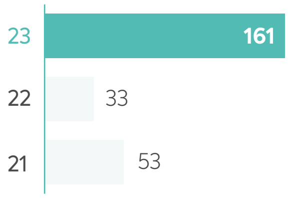
Measurement
Measured as underlying[2] operating profit as a % of capital employed.

Why it's important and relevant
Demonstrates the relative level of underlying profit generated by the capital employed. Underlying[2] is used to show the underlying performance of the business without exceptional costs/items.

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

Link to Strategy

7 Cash conversion (%)[4]
APM



Measurement
Measured as underlying operating cash flow as a % of underlying operating profit.

Why it's important and relevant
Cash conversion measures the success of the Group in converting operating profit to cash, which underpins the quality of the earnings and reflects the effectiveness of working capital management.

Initiatives and actions for improvement
Target of 90% and above to ensure profit growth is cash generative.
It is anticipated that the focus on improved inventory management and, hence inventory turn, will also lead to improvements in cash conversion.

Link to Strategy

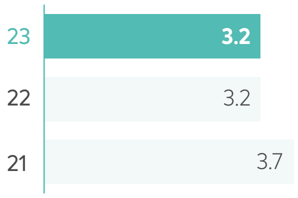
3 To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before non-underlying items. These items are detailed in note 3 and principally comprise amortisation of acquired intangibles and other acquisition-related costs, impairment of intangibles, property, plant and equipment and right of use assets, insurance proceeds (following fire), profit on sale of property, plant and equipment and business restructuring and change-related costs.

4 Restated to calculate using underlying operating cash flow and underlying operating profit as this provides a more relevant metric for investors.

KEY PERFORMANCE INDICATORS (‘KPIs’)
CONTINUED

Non-Financial KPIs

8 Inventory turn



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

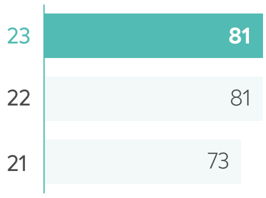
Why it’s important and relevant
A higher inventory turn is an indicator of efficient revenue generation, and more effective utilisation of distribution centre capacity.

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

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

Link to Strategy

9 Employee retention (%)



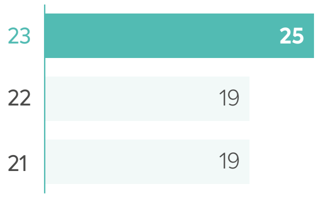
Measurement
Retention measures the ability to retain employees in the current year compared with previous years. It is measured as a percentage of employees retained in the Company between 1 January and 31 December.

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

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

Link to Strategy

10 **Reportable incidents ('RIDDOR Reports')**



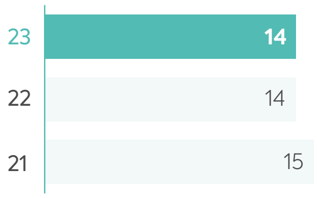
Measurement
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDORs'). These regulations require employers, the self-employed and those in control of premises to report specified workplace incidents.

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

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

Link to Strategy

11 **Deliveries per commercial vehicle**



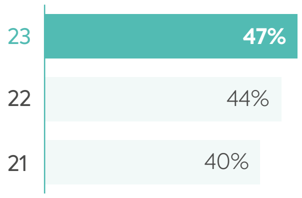
Measurement
Average deliveries per commercial vehicle per day in area following Transport Integration (delivery consolidation) project. Prior to the project, in 2019 it was 12.

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

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

Link to Strategy

12 **UK Scope 1 and 2 emission reduction**[1]

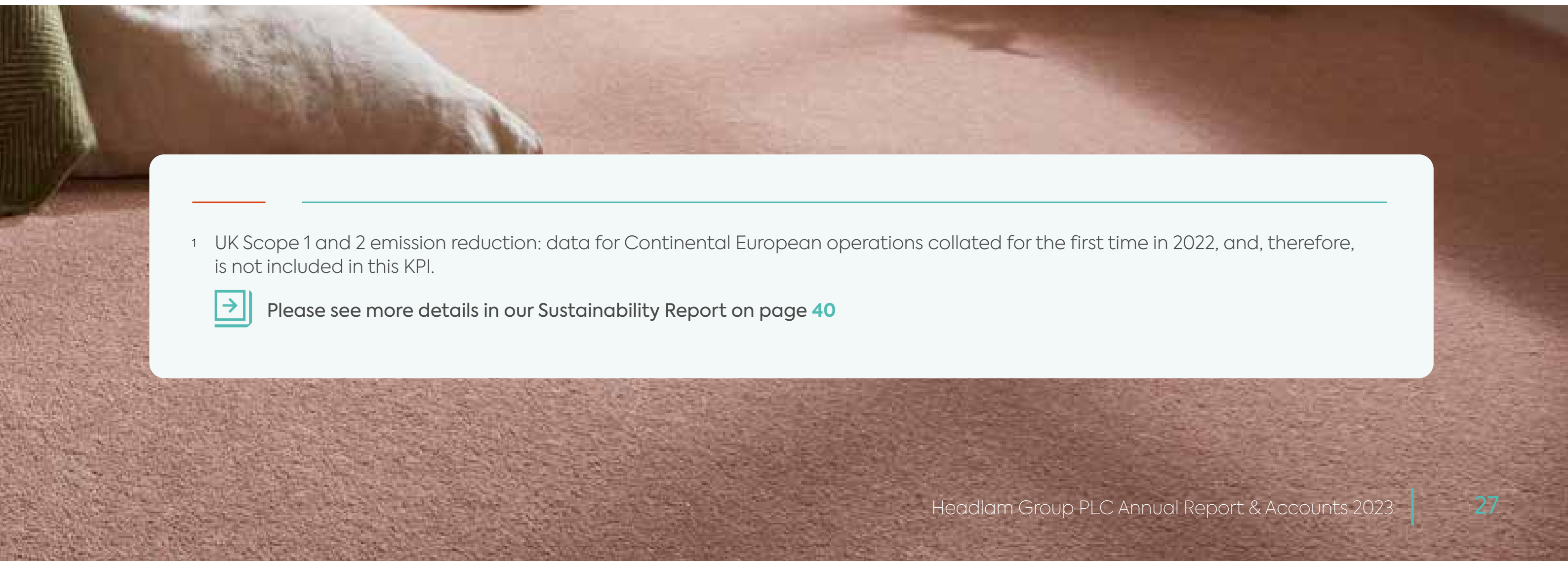


Measurement
Percentage reduction in UK Scope 1 and 2 emissions (tCO_2e) against a baseline year set at 2019 on a location basis.

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

Initiatives and actions for improvement
Actively engaged in transition planning, with the main decarbonisation actions currently being pursued detailed in the Sustainability Report page 40.

Link to Strategy



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

Please see more details in our Sustainability Report on page 40

STAKEHOLDER ENGAGEMENT

Acting in the interests of stakeholders is vital in delivering our purpose

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

Our Colleagues

Relationship to Headlam

Colleagues are at the heart of our business, and are our greatest asset. There are over 2,300 colleagues at Headlam within a variety of departments, including warehousing, transport, sales, and administration.

How we support

We continue to focus on making Headlam a great place to work, and ensure colleagues share in the Group's long-term success

How we engage

The Chief Executive, Chief Financial Officer, Executive Team, and Non-executive members of the Board all have frequent interaction with colleagues, including site visits and both formal and informal meetings and forums (inclusive of the Employee Forum).

Effect on decision making, outcome, and benefits to stakeholder

We decided to continue investing in the strategy, and for the future, despite the difficult economic backdrop. This is aligned with our fundamental belief that the long-term success of the business and the expansion of its market-leading position is of most benefit to all stakeholders.

Investing in and embedding a strong health and safety culture, seeing meaningful improvements in H&S culture and reporting.

Comprehensive learning and development programmes rolled out.

Conducted a first colleague engagement survey, providing valuable insight into what is working well and what can be done to better engage our colleagues.

Took the decision to again tier our cost-of-living increases to ensure lowest-paid colleagues got the greatest increase.

Our Customers

Relationship to Headlam

Imperative to our success and the growth of the Company.

We have an extensive customer base spanning independent and multiple retailers, small and large contractors, and house builders.

How we support

We provide our customers with a market-leading service through the largest product range, in-depth knowledge ecommerce and marketing support, and nationwide next day delivery service

We help our customers grow their businesses through providing them with competitive advantages.

How we engage

Frequent interaction through sales representatives, dedicated service teams, and communications channels.

Six monthly customer surveys, and feedback mechanisms Focus groups, including on new product launches.

Effect on decision making, outcome, and benefits to stakeholder

We decided to continue investing in the strategy, and for the future, despite the difficult economic backdrop. This is aligned with our fundamental belief that the long-term success of the business and the expansion of its market-leading position is of most benefit to all stakeholders.

Considerable investment and progress in upgrading the network to increase the level of service to all customers

Continue to improve the service propositions for all customer segments, including: i) rolling out the trade counter network to create a nationwide footprint that services both the fitter and general contractor market; and ii) rolling out a DSV proposition to larger retailers.

Our Suppliers

Relationship to Headlam
Key to ensuring we can supply the best product at a competitive price in a timely manner to customers / end-consumers.

We work with suppliers across the globe manufacturing the broadest range of products, and give them a highly effective route to market into the fragmented customer base

How we support
Helping and supporting manufacturers with selling their products into our large and diverse trade customer base.

How we engage
Frequent visits to suppliers' sites and premises. Second Supplier Conference held to share our insights and strategy with them, and how we can more effectively work together.

Sharing of sales data, and insight into customer and end-consumer buying

Effect on decision making, outcome, and benefits to stakeholder
We decided to continue investing in the strategy, and for the future, despite the difficult economic backdrop. This is aligned with our fundamental belief that the long-term success of the business and the expansion of its market-leading position is of most benefit to all stakeholders.

Further digital transformation and ecommerce initiatives focused on moving the business to a more digitally-enabled and multi-channel model. Providing many benefits for suppliers including: more efficient order-taking processes; quick and effective automated information flows; better supplier and customer engagement; and greater product and brand awareness.

Continued to work closely on sharing data, and ensuring an efficient and ethical supply chain.

Our Shareholders

Relationship to Headlam
The owners of the Company. Highly important that the Board is aware of and solicits their views, and then evaluates these views in relation to the strategic and corporate objectives of the Company.

Key joint focus on the long term success and sustainability of the Company.

How we support
Focus on delivering a long-term sustainable business that operates with the highest level of governance.

How we engage
Frequent regulatory announcements with high levels of disclosure

In-person presentations and meetings, including offering meetings at the Company's sites. Use of webinars and recordings to allow all shareholders to hear and view materials.

Solicitation and consideration of feedback, including on strategy and its oversight.

Effect on decision making, outcome, and benefits to stakeholder
We decided to continue investing in the strategy, and for the future, despite the difficult economic backdrop. This is aligned with our fundamental belief that the long-term success of the business and the expansion of its market-leading position is of most benefit to all stakeholders.

Further efficiency and mitigating actions introduced during 2023 to help support margins and better align costs with the weak market backdrop. Ongoing scrutiny of operational performance, efficiencies, and the cost base.

Lowering the dividend cover ratio from the Group's long-term average targeted cover ratio of 2.0x. With this reflecting the Board's confidence in the medium-term prospects.

Our Communities and the Environment

Relationship to Headlam

Key to supporting the success of the Company's regional and national businesses.

We actively recruit people from local communities, so very important to the ongoing success of the Company by attracting great people.

Minimising environmental impact is critical to managing climate change, and the knock-on impact on communities.

How we support

Support communities through employment and engagement activities, and also by reducing our impact on the environment through our sustainability strategy

How we engage

Engagement with colleagues to ensure aware of local causes and events

Actively advertise job vacancies through word of mouth and locally.

Locally focused Communities Programme which gives colleagues the opportunity to both volunteer and donate to projects and charities in their local community.

Effect on decision making, outcome, and benefits to stakeholder

We decided to continue investing in the strategy, and for the future, despite the difficult economic backdrop. This is aligned with our fundamental belief that the long-term success of the business and the expansion of its market-leading position is of most benefit to all stakeholders.

Building on the Headlam Communities Programme launched in 2022, including working with Business In the Community (BITC) to trial a community needs analysis.

Implemented some key actions to reduce our greenhouse gas emissions, predominantly focussed on improving transport efficiencies and the installation of owned solar panels.

Launched four sustainable product ranges across three of our own brands, reducing waste to landfill.

Our s.172 statement

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

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

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

The Board acknowledges that situations may arise where stakeholder groups have conflicting priorities of achieving its strategic objectives and the long-term sustainable success of the business.

Following consideration of the information contained within Stakeholders and Engagement, and all other activities and undertakings detailed in this Annual Report, the Board considers it has fulfilled its duty in respect of Section 172, both individually and collectively, and that it has acted in the way it considers would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a) to (f) of the Act) in the decisions taken during the year ended 31 December 2023.

Chris Payne,
Chief Executive

Signed on behalf of the Board

5 March 2024

Adam Phillips, Chief Financial Officer

“We worked hard to mitigate the headwinds faced in the year; costs were well controlled and Underlying Operating Cash Flow was significantly up on the previous two years”

Summary income statement

	Underlying[1] result 2023 £m	Non-Underlying items 2023 £m	Total 2023 £m	Underlying[1] result 2022 £m	Non-Underlying items 2022 £m	Total 2022 £m
Revenue	656.5	—	656.5	663.6	–	663.6
Cost of sales	(448.7)	—	(448.7)	(444.1)	–	(444.1)
Gross profit	207.8	—	207.8	219.5	–	219.5
Operating costs	(191.7)	(3.9)	(195.6)	(180.3)	4.7	(175.6)
Operating profit/(loss)	16.1	(3.9)	12.2	39.2	4.7	43.9
Net finance costs	(5.1)	—	(5.1)	(2.1)	–	(2.1)
Profit/(loss) before tax	11.0	(3.9)	7.1	37.1	4.7	41.8
Tax	(2.2)	2.8	0.6	(7.4)	(0.8)	(8.2)
Profit/(loss) after tax	8.8	(1.1)	7.7	29.7	3.9	33.6

1 To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before non-underlying items. These items are detailed in note 3 and principally comprise: amortisation of acquired intangibles and other acquisition-related costs; impairment of intangibles, property, plant and equipment and right-of-use assets; insurance proceeds (following fire); profit on sale of property, plant and equipment; and business restructuring and change-related costs

Revenue

Total revenue in the year was £656.5 million (2022: £663.6 million), a 1.1% decrease reflecting flat year-on-year revenue in the UK offset by 7.7% decline in Continental Europe (France and the Netherlands). The UK and Continental Europe accounted for 87.9% and 12.1% of total revenue, respectively, in the year (2022: UK 87.1%; Continental Europe 12.9%).

The table below shows the breakdown in revenue across the different customer channels in the UK. Revenue from Larger Customers grew by 26% in the year, reflecting growth with existing customers as well as new customer wins. Trade Counters revenue increased by 8.5% as we continued the investment programme; 12 new sites opened, and 11 existing sites refurbished or relocated during the year. The combination of growth in these two channels offset the decline in Regional Distribution, where revenue declined by 7.0%, particularly reflecting the weak residential market, with the commercial sector more resilient. Other UK revenue comprises our two ceramics specification businesses, where revenue growth was strong at 13.0%.

	2023 £m	2022 £m	Year-on-year %
Larger Customers	83.3	66.3	25.6%
Trade Counters	97.1	89.5	8.5%
Regional Distribution	370.8	398.9	(7.0)%
Other	26.1	23.1	13.0%
UK	577.3	577.8	(0.1)%
Continental Europe	79.2	85.8	(7.7)%
Group	656.5	663.6	(1.1)%

For the Group, as set out in the table below, residential sector revenue declined 2.4% in the year and accounted for 64.7% of total revenue (2022: 65.6%), with commercial sector revenue increasing 1.5% and accounting for 35.3% of total revenue (2022: 34.4%).

	2023 £m	2022 £m	Year-on-year %
Residential	424.7	435.3	(2.4)%
Commercial	231.8	228.3	1.5%
Group	656.5	663.6	(1.1)%

During the year, the Group made three small acquisitions: two in the UK and one in the Netherlands. These acquisitions added £9.0 million of revenue in the year.

Gross margin

Gross margin of 31.7% (2022: 33.1%) represented a return to long-term historic average gross margin levels in the range of 31% to 32%, after the temporary uplift in gross margin in 2022 from the unprecedented proliferation of manufacturer-led price increases. During 2023 there were only limited manufacturer-led price increases and the Group had already sold through, in the previous year, the stock it was holding at the pre-increase prices. This led to a year-on-year reduction in gross margin in the first nine months of 2023 whilst the temporary uplift unwound. Excluding this impact, the underlying gross margin was stable and well-controlled despite aggressive competitor pricing in some elements of the market.

Operating costs

Underlying operating costs increased by 6.3% (£11.4 million) to £191.7 million (2022: £180.3 million). £4.6 million of this related to acquisitions; excluding these, like-for-like underlying operating costs increased by 3.8% (£6.8 million). This reflected a combination of inflationary pressures and strategic investments, partially offset by cost efficiencies. Cost inflation totalled £10.2 million of which £5.3 million was payroll-related with pay inflation averaging 6.7% for the year. Energy costs increased by £2.0 million, reflecting the end of the previous fixed-rate contract in the UK in September 2022 in which prices had been fixed prior to the Ukraine war and, hence, were much lower than spot rates. Other cost inflation included business rates following the review in April 2023; the previous review having been in 2017.

The Group also made strategic investments, including the roll-out of trade counters along with investments in capability and resource to deliver on the other strategic growth areas.

All of the above cost increases were partially offset by cost savings. These included flexing down the operational headcount to account for the lower year-on-year volumes; cost savings from transport consolidation; the implementation of dynamic planning in the transport network (which was phased in during H2); and lower bonus accruals. In the second half, the Group also benefitted from renegotiated electricity pricing (albeit still at elevated levels compared to 2022) and a reduction in electricity consumption as a result of the solar panel investments.

Furthermore, operating costs benefited from a £2.3 million reduction (2022: £2.5 million reduction) in the loss allowance for trade receivables due to an improved receivables profile and an update of the expected loss rates, based on latest experience.

Profit

Underlying Operating Profit of £16.1 million (2022: £39.2 million) was a reduction of £23.1 million and reflected the decline in volumes, normalisation in gross margin, cost inflation, and strategic investments, as explained above. Consequently, underlying operating profit margin was 2.5% in 2023 (2022: 5.9%). The table below breaks down the year-on-year movement:

	Underlying Operating Profit £m
2022	**39.2**
Volume	(11.1)
Unwind of prior year impact of manufacturer-led price increases	(5.1)
Strategic investments	(3.9)
Cost inflation	(10.2)
Continental Europe	(3.1)
Mitigating actions	10.3
2023	**16.1**

Volume decline, in the UK, contributed to a £11.1 million reduction in profit; volumes were 5.0% lower year-on-year in the UK business (residential and commercial combined) and even lower in Continental Europe. This was net of volume growth from Larger Customers and Trade Counters.

As explained above, the lack of manufacturer-led price increases resulted in a return in gross margin back to pre-2021 levels; this equated to an adverse £5.1 million profit impact.

Strategic investments also contributed to a £3.9 million reduction in profit. These investments comprised the initial operating losses on newly invested trade counters; a new dedicated management team for the Trade Counter business; and incremental investments in people and capability to deliver on other elements of the strategy (including digital, brand and customer enhancements).

Cost inflation was a £10.2 million headwind as explained above. The operating profit generated by our French and Dutch businesses declined by £3.1 million, of which £2.4 million related to the Netherlands where the flooring market has been particularly weak, with suppliers reporting volume reductions of over 20%.

Mitigating actions provided £10.3 million of offsetting benefit. These actions included cost savings, efficiency programmes and targeted price increases on certain ranges.

Interest costs of £5.1 million (2022: £2.1 million) were £3.0 million higher year-on-year reflecting higher average borrowings, principally due to the deployment of capital in the previous year by way of a special dividend and share buybacks, combined with the base interest rate increases.

Reflecting the movement in Underlying Operating Profit, and the increase in interest costs, Underlying Profit Before Tax reduced to £11.0 million (2022: £37.1 million).

The statutory profit before tax for the year was £7.1 million (2022: £41.8 million), after a net non-underlying expense before tax of £3.9 million (2022: net non-underlying income of £4.7 million before tax).

Non-underlying items

Total non-underlying items before tax reflected a net expense of £3.9 million in the year as set out below. The cash impact of non-underlying items in 2023 was a net cash inflow of £6.5 million.

	2023 Cash £m	**2023 Non-cash £m**	**2023 Total £m**	2022 Cash £m	2022 Non-cash £m	2022 Total £m
Amortisation of acquired intangibles & other acquisition-related costs	**(0.5)**	**(1.8)**	**(2.3)**	–	(1.5)	(1.5)
Insurance proceeds (following fire)	**8.6**	**–**	**8.6**	6.2	–	6.2
Property disposal	**1.8**	**(0.7)**	**1.1**	–	–	–
Business restructuring and change-related costs (including impairment)	**(3.4)**	**(7.9)**	**(11.3)**	–	–	–
Non-underlying income / (expense) before tax	**6.5**	**(10.4)**	**(3.9)**	6.2	(1.5)	4.7

Amortisation of acquired intangibles and other acquisition-related expenses of £2.3 million (2022: £1.5 million) comprised £1.4 million (2022: £1.5 million) of amortisation of acquired intangibles and £0.9 million (2022: £nil) of other acquisition-related expenses, comprising professional fees and the amortisation of the fair value adjustment to acquired inventories.

£8.6 million income, all of which was received in cash in the year, was recognised in respect of the final settlement of the buildings and contents insurance claim on the Kidderminster building, which was destroyed by fire in 2021. In the previous year £6.2 million income was recognised in respect of claims on contents and inventory insurance, also in relation to the Kidderminster building.

Following the settlement of the insurance claim, the Group then disposed of the land on which the Kidderminster building had been sited, generating a £1.1 million profit.

Business restructuring and change-related costs totalled £11.3 million and comprised: £5.6 million in respect of the write-off of previously capitalised software development costs and termination payments owing to the software developer, following the decision to replace the existing ERP; £2.3 million of restructuring costs in relation to network optimisation (which are expected to be non-recurring), principally representing stock and fixed asset impairments at the Stockport site; £2.2 million of headcount reduction costs; and £1.2 million of change-related costs, including the cost of terminating vehicle leases as a result of lower vehicle requirements arising from the dynamic route planning project and consultancy fees.

In addition to the non-underlying insurance item, £0.4 million (2022: £0.5 million) has been recognised as underlying other operating income, relating to compensation for business interruption, which offsets lost revenue and related costs recognised through underlying profit.

Tax

The Group's consolidated underlying effective tax rate for the year was 20.0% (2022: 20.1%). This is lower than the standard rate of corporation tax in the UK, primarily due to the recognition of previously unrecognised tax losses. The Group's underlying effective tax rate in 2024 is expected to be around 26%, broadly in line with the standard rate of corporation tax in the UK. The Group's statutory effective tax rate for the year was 8.5% (credit) (2022: 19.6% (charge)).

The Company is committed to being fully compliant with the relevant tax laws and compliance obligations regarding the filing of tax returns, payment and collection of tax. The Company maintains an open relationship with HM Revenue & Customs and currently operates within a level of tax compliance risk that is rated as 'low' (2022: 'low').

Earnings per share ('EPS')

Basic earnings per share on an underlying basis decreased from 35.5 pence per share in the prior year to 11.0 pence per share, reflecting the factors set out above. The share buyback programme, which completed in March 2023, reduced the weighted average number of shares for 2023 compared to the prior year, as detailed in note 9. Statutory basic earnings per share was 9.6 pence (2022: 40.1 pence); the decrease of 76.1% also reflected the factors set out above, combined with a net non-underlying expense after tax of £1.1 million in 2023 compared to a net non-underlying income after tax of £3.9 million in 2022.

Cash flow and net debt

	2023 £m	2022 £m
Underlying operating profit	**16.1**	39.2
Depreciation and other non-cash items	**20.6**	18.7
EBITDA	**36.7**	57.9
Change in inventories	**10.0**	(8.3)
Change in receivables	**2.7**	(3.5)
Change in payables	**(24.0)**	(34.2)
Other	**0.6**	0.9
Underlying Operating Cash Flow	**26.0**	12.8
Interest and Tax	**(9.1)**	(6.4)
Lease payments	**(13.0)**	(14.0)
Capital expenditure	**(18.2)**	(13.8)
Property disposal and insurance settlement	**10.4**	6.2
Other non-underlying items	**(3.9)**	–
Acquisitions	**(6.1)**	–
Dividends	**(12.2)**	(27.3)
Payments to acquire own shares (share buyback programme)	**(5.2)**	(9.8)
Other	**–**	0.2
Net cash flow before movement in borrowings	**(31.3)**	(52.1)
Movement in borrowings	**49.7**	(7.3)
Net cash flows	**18.4**	(59.4)

Underlying Operating Cash Flow in the Period was £26.0 million compared to £12.8 million in 2022. This is despite the profit headwinds from lower volumes, cost inflation and strategic investments, and reflects good underlying cash generation plus a stabilisation in the working capital requirements after the impact of unprecedented levels of inflation on inventory costs in the previous two years.

Inventories and receivables were well controlled and reduced by £10.0 million and £2.7 million, respectively. Payables declined by £24.0 million, partially reflecting the reduction in stock and partially reflecting timing of supplier payments; the latter is expected to reverse in 2024, with a consequential cash flow benefit. Overall, working capital movements generated a £11.3 million outflow, driven by the timing difference on payables; excluding this timing difference, working capital would have been broadly flat.

Capital expenditure was £18.2 million (2022: £13.8 million) in what was a busy year for replenishment capital expenditure, combined with growth investment. The investments included £6.3 million in cutting tables, sortation units and other warehouse and transport equipment; £5.7 million in trade counters; and £2.5 million in solar panels. Capital expenditure for 2024 is expected to be around £12 million. Investment of around £3 million is also expected in the Group's new IT system; however, as the new systems are likely to be cloud-based, software-as-a-service, the accounting treatment is such that the development costs will need to be expensed. We therefore expect to expense around £3 million of development costs, which will be recorded as a non-underlying item.

The settlement of the Kidderminster insurance claim and the subsequent sale of the land generated cash proceeds of £10.4 million; in the previous year the insurance claim proceeds totalled £6.2 million. There was a £3.9 million cash outflow in respect of other non-underlying items, comprising acquisition-related expenses and restructuring and business change costs.

£6.1 million, net of cash acquired, was invested in the acquisitions of Melrose Interiors (UK, January 2023), Het Stoffen Gilde (Netherlands, July 2023) and PD Patterns (UK, September 2023). There were no acquisitions in the previous year.

£17.4 million of shareholder returns were made in the year, comprising £5.2 million of payments to acquire own shares under the share buyback programme (2022: £9.8 million) and £12.2 million of ordinary dividend payments (2022: £27.3 million, comprising £12.4 million ordinary and £14.9 million special dividends). The share buyback programme completed on 2 March 2023, with a total of 4,689,343 ordinary shares purchased and all held in treasury.

Net Debt excluding lease liabilities was £29.6 million at the end of the year, an increase of £31.4 million from 31 December 2022. This equates to Leverage of 1.3x, being the ratio of Net Debt excluding leases to EBITDA (pre-IFRS16 basis). The Group targets a long-term average Leverage range of 0.5x to 1.0x. We expect Net Debt to reduce during 2024, with ongoing operating cash generation boosted by the timing difference on payables and the disposal of one or two surplus freehold properties.

Net Debt including lease liabilities was £73.0 million at 31 December 2023 (2022: £35.9 million).

At the end of the year, the Group had total banking facilities available of £100.6 million (31 December 2022: £100.3 million), of which £81.5 million (31 December 2022: £81.5 million) were committed. These facilities expire in October 2027. The Group had £71.0 million of cash and undrawn facilities at 31 December 2023 (31 December 2022: £102.1 million). The Group's banking facilities are subject to two covenants: interest cover (defined as the ratio of EBITDA to net interest expense) and leverage (defined as Net Debt as a ratio of EBITDA). Both covenants are on a pre IFRS 16 basis and are tested at 30 June and 31 December each year. The interest cover ratio was amended from an EBIT to an EBITDA basis going forward in February 2024.

Dividends

As detailed in the Chief Executive Review, the Board has proposed a final ordinary dividend of 6.0 pence per share (2022: final ordinary dividend 11.2 pence per share). If approved by shareholders at the 2024 AGM to be held on 23 May 2024, it will be payable on 7 June 2024 to shareholders on the register as at 10 May 2024 and is expected to be a cash outflow of £4.8 million.

Capital allocation priorities

The Board regularly reviews and follows a clear capital allocation framework, which is set out below. During the year, and as previously published in September 2023, this was modified slightly as follows:

- the introduction of a long-term average target Leverage range of 0.5-1.0x Net Debt to EBITDA (on a pre-IFRS16 basis, i.e. excluding capitalised leases); and
- equal prioritisation given to share buybacks, M&A, and special dividends, with the choice at any given time dependent on both market conditions and available opportunities.

The target Leverage range is considered prudent by the Board and has been set with reference to the balance sheet underpin provided by the Group's substantial freehold property portfolio (with an independent market valuation of £148.8 million at January 2023) plus its inventory position (£131.5 million at 31 December 2023), and the strong cash generation characteristics of the business, whilst also recognising the increased cost of debt compared to recent years. The target range is a long-term average and, as such, the Board is comfortable with the Group's Leverage being below or above the target range over the short-term (for example, as a consequence of an acquisition or disposal), with the intention of reverting back to within the range in a reasonable timescale.

Priority		Rationale
1	**Maintain a strong balance sheet**	Ensures the financial stability and long-term sustainability of the Group. Long-term average Leverage target range of 0.5 to 1.0x.
2	**Investment in the business**	Investment to optimise performance and support growth, in turn leading to improved financial performance. Key areas would be in support of delivering on the strategy to drive new revenue, and ESG actions to enhance the sustainability of the Group. 2023 investments included trade counters, network (sites and equipment) and solar panels.
3	**Ordinary dividend income for shareholders**	Recognising shareholders' expectation of dividend income due to the cash generative nature of the Company, market-leading position, and relatively modest investment required to deliver on the strategy. A targeted bi-annual distribution (paid out of cash) and long-term average cover ratio of around 2x earnings for the total annual pay-out (higher weighting to final dividend). The Board proposes a temporary relaxation of the cover ratio, during the period of market weakness, on the basis of the Group's strong balance sheet and cash generative characteristics, combined with the positive medium-term prospects.
4	**Acquisitions and/or return of surplus capital**	After all of the above priorities have been fulfilled, the Board would consider M&A or a return of surplus capital to shareholders. The two options have equal priority, with the selection being determined by whichever the Board assesses would provide the best long-term value at the relevant time, taking into account factors such as the prevailing share price. Potential investment in acquisition opportunities would be aimed at growing the Group's position and market share, including in new/underweight product categories and customer segments. An example would be the acquisition of Melrose Interiors, which adds new, larger customers to the Group's customer base, and meaningful entry into the rugs and sampling market. Surplus cash would be considered after considering all anticipated cash requirements as well as the prevailing factors at the time, including the economic environment and market backdrop.

Pensions

The accounting valuation for the legacy defined benefit pension scheme showed a surplus of £4.4 million as at 31 December 2023 (31 December 2022: £2.1 million surplus). However, as the Company does not have an unconditional right to a surplus refund, the pension scheme is recorded as a deficit of £2.3 million as at 31 December 2023 (31 December 2022: £3.2 million deficit) reflecting the level of deficit recovery plan payments that the Company committed to following the last actuarial valuation as at 31 March 2020.

Viability and going concern

The Board reviewed the Group's resilience to principal risks and uncertainties by considering stress testing forecasts through a downside scenario, which involves modelling a significant reduction in market demand, on top of the significant market decline observed in 2023. The impact of inflation on the results for the year and the inflationary impact on consumer spending, which could contribute to the occurrence of these scenarios, has been considered as part of the assessment. The testing indicated that the Group would be able to operate within its current facilities and meet its financial covenants.

Mitigating actions, which are within the Board and management's control, are included in the downside modelling and include a reduction in the cost base to better align it with market demand and revenue performance, suspension of ordinary dividend(s), and a freeze on non-critical capital spend.

As above, as at 31 December 2023 the Group had a Net Debt position excluding lease liabilities of £29.6 million and had total banking facilities available of £100.6 million, including £81.5 million of committed facilities. The Group had cash and undrawn facilities of £71.0 million at 31 December 2023. Having reviewed the financial projections and the downside modelling, and having considered the available mitigating actions, the Board has 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. Furthermore, the Board believes there are reasonable grounds for stating that the Group 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 Group's Financial Statements.

Principal risks and uncertainties

The Group is exposed to a number of principal risks which may affect its business model, future performance, solvency or liquidity. The group has a well-established framework for reviewing and assessing these risks on a regular basis; and has put in place appropriate processes, procedures and actions to mitigate against them. However, no system of control or series of mitigations can completely eliminate all risks. The principal risks and uncertainties that may affect the group were last reported on within the 2022 Annual Report and Accounts and have been considered and updated for the 2023 Annual Report and Accounts.

No new principal risks have been identified. The risk ratings of a number of the principal risks have been amended slightly; however, the scope of the principal risks remain broadly unchanged since last reported.

Adam Phillips
Chief Financial Officer

5 March 2024

Q Why did you review and refresh your capital allocation framework and policy in 2023?

A The review and refresh was done with the intent of providing clarity over the Board's view on Leverage and more effectively utilising, whilst also maintaining, our strong balance sheet. We have set out an average target Leverage range of 0.5-1.0x Net Debt to EBITDA. This is a long-term average target and the Board is comfortable with the Group's Leverage being slightly above or below that over a short-term period. Looking ahead, the Group's strong cash generation characteristics provide opportunities for surplus capital. Where there is surplus capital available, we would seek to deploy it using our capital allocation priorities. After satisfying the Group's capital expenditure requirements and the payment of the ordinary dividend, we would appraise further growth investment opportunities (for example, acquisitions) and returns to shareholders (for example launching another share buyback programme) equally based on whatever the Board considered created the best shareholder value.

SUSTAINABILITY REPORT

Chris Payne, Chief Executive

"I am proud of the emphasis placed upon driving our sustainability agenda at Headlam in 2023"

I am proud of the emphasis placed upon continuing to drive our sustainability agenda at Headlam during 2023. From our work on safety culture to carbon reduction initiatives, engagement with our supply chain, sustainable products, investments in the skills and capabilities of our colleagues, and our work in our local communities, we continue to drive positive change.

This year, we have invested in Health and Safety industry capability, appointing a Health and Safety Director who reports directly to me. We have also further strengthened our ESG inhouse expertise having employed specialists in diversity and inclusion, ethical sourcing, human rights, and waste management. This, as well as the work completed by our teams across the business, has meant that we have achieved many of our targets for 2023 and set additional ones for 2024.

Our work with DSS+, an independent consultancy, on testing and developing our safety culture at Headlam, has seen significant improvements in near miss reporting and has raised safety awareness and focus in our business.

We look forward to submitting our Scope 1, 2 and 3 targets to SBTi for validation in 2024 and adding Scope 3 actions and deliverables to our existing Net Zero Scope 1 and 2 strategy. We have implemented some key actions to reduce our Scope 1 and 2 emissions this year, predominantly focussed on improving transport efficiencies and the installation of solar panels. We look forward to seeing a full-year benefit from these initiatives in 2024.

Our strategies for learning and development, inclusion, wellbeing and our community engagement provide us with focused actions and clear targets. We have made further improvements to our overall reward offering for our colleagues, which has seen better support for colleagues nearing retirement and more of our colleagues becoming shareholders in Headlam. Our new engagement survey has allowed us to measure the impact we are having with these initiatives and our ability to inspire and motivate colleagues.

Governance continues to be enhanced with investments in systems and technology making the oversight of compliance activity more robust. We are pleased to have been awarded ISO 14001 certification in six of our key sites as well as achieving two additional successful SMETA audit outcomes against the SEDEX ethical audit standard and FORS Bronze certification across our UK transport network. Refreshed policies and guidance underpin these standards and many of these are publicly disclosed, providing full transparency and clarity.

Our ESG Committee is focused on delivering clear, measurable, specific, industry-relevant and scalable actions, which are proportionate to our size, areas of operation, and which are beneficial to Headlam and its stakeholders.

ESG STRATEGY

In 2023 we commissioned an independent review of our ESG practices, particularly to focus on our progress against our peer group. Using this output, and engaging with advisors, industry bodies and stakeholders, we have set our targets for 2024.

Environmental

- Set strategy and targets for Scope 3, send Scope 1, 2 and 3 to SBTi for validation and meet or exceed 2024 Scope 1 & 2 emissions reduction pathway target vs 2019 baseline
- Identify process for operational waste monitoring and reporting in UK distribution sites

Social

- Roll out leadership/management development – every eligible manager to attend See it, Say it Safety training and at least one other module
- 3% improvement in engagement score YOY (baseline October 2023)
- Community needs analysis conducted and partnerships developed in one site as pilot

Governance

- At least 80% of major factories producing own brand products to have a confirmed ethical audit by the end of 2024
- Ability to track and monitor origin of timber in own brand products by the end of 2024
- Deliver an improvement on existing customer feedback scores related to quality and service

Q **What aspect of Sustainability and the ESG strategy is most important to you?**

A A well-developed ESG Strategy means that, critically, not only are you doing the right thing, but it also gives a business a clear competitive advantage through being a business that people want to join, and that customers and suppliers want to do business with. We make sure that we work with a range of third parties for advice, and monitor our ESG rating agency scores, to validate that we are taking a holistic, concerted and successful approach to all the areas that ESG encompasses, which is broad. We engage with all our stakeholders on ESG, including employee and customer surveys, and held our second supplier conference in September 2023, which featured sustainability as a key part of the agenda.

Our ESG Team

John Grant, Head of ESG

Passionate about doing business responsibly with over 30 years of experience, working to improve the supply chain for both people and the planet.

With a diverse skillset developed across the distribution and retail sectors, having worked at the highest levels in quality, ethical trading and sustainability for Philips, Travis Perkins plc and Wickes.

Focusing on developing and delivering the Headlam ESG Strategy and reducing our impact on the environment, ensuring suppliers continue to meet our values, delivering safe, compliant and sustainable products.

Danielle Cairns, Responsible sourcing

Extensive experience as Human Rights Manager with Asda focusing on Modern Slavery prevention and working across industry to combat risks associated with forced and bonded labour, child exploitation, unsafe working conditions, violence, harassment and discriminatory behaviour.

Danielle continuously develops our supplier due diligence programme and ensures our products are produced ethically and responsibly.

Chloe Barnicoat, Environment & Sustainability

Associate member of the Institute of Environmental Management and Assessment with previous experience in the waste management industry, regulatory environmental compliance, ISO 14001 system management, carbon and sustainability reporting.

Chloe reduces our impact on the environment through waste reduction, ensures we operate best practice, and helps us to develop actions to achieve our ambition to have a circular supply chain.

Neil Whitehead, Quality & Product Compliance

An accomplished Quality manager with a rich history across a number of technically challenging industries, including food, cosmetics and home improvement. Experienced in quality management, product development, safety and performance testing in order to ensure customers' expectations are delivered against.

Neil supports our own brand development ensuring we remain compliant; quality standards are maintained; suppliers deliver against our standards; and customers are satisfied.

Rebekah Smallwood, Inclusion and Wellbeing

With many years of experience in the Diversity, Inclusion, Wellbeing and community field from her roles at The Midcounties Cooperative as Head of Diversity and Inclusion, Rebekah leads the development and delivery of the Diversity, Inclusion and Wellbeing strategy.

Rebekah has worked closely with Business in the Community for a number of years to develop strategic objectives and as part of their West Midlands Leadership board. She has now joined their East Midlands Leadership board representing Headlam.

ENVIRONMENT

Key achievements in 2023:

- Completion of dynamic route planning and roll out of telematics in the commercial fleet
- Solar panel roll out
- 4 sustainable product ranges launched across 3 own product brands
- Over 85% of the non-commercial fleet now hybrid or electric

Targets and KPIs for 2024:

- Set strategy and targets for Scope 3 emissions reduction
- Submit Scope 1, 2 and 3 targets to SBTi for validation
- Achieve Scope 1 and 2 emissions reduction pathway target vs 2019 baseline
- Improve waste monitoring and reporting processes across UK sites
- Launch EV salary sacrifice scheme

We have made progress against our long-term carbon reduction target, as well as our broader environmental actions in 2023. Certification in ISO 14001 in six of our key sites (collectively responsible for 73% of UK purchases), FORS accreditation across our UK transport network and satisfying two of our multiple retail customers that we are meeting the SEDEX ethical audit standard in Coleshill (incorporating our Head Office) and Tamworth in 2023, all provide us with confidence that we are making sustainable improvements.

Reducing our Carbon Emissions

In 2023, we continued to deliver against our carbon reduction target timeline. The Company will follow a 'true' Net Zero strategy whereby it will focus on actual decarbonisation in achieving these targets and only consider offsetting actions for the residual 10%. This is in line with our previously published commitment to achieve an interim, location based, target aligned with the Science Based Targets Initiative ('SBTi') of a 46% reduction by 2030 against a baseline year of 2019 for Scope 1 and 2 emissions. This is being achieved through transport efficiencies, solar panel installation, ongoing progress with the non-commercial fleet and educating colleagues on good energy behaviours. We have progressed in line with our Net Zero Emissions Timeline, have exceeded our 2023 target and remain on track for our 2030 interim target.

Transport Efficiencies

The optimised route planning for our UK customer delivery fleet, known as Dynamic Planning, was rolled out in 2023. As a combination of this new way of working, and the transport network consolidation that was delivered in the preceding years, mileage is estimated to have reduced by circa 20% per annum equating to an estimated saving of c.irca1300 tonnes of carbon emissions each year. A further investment of over £1m has been made to equip our HGV fleet with industry-leading vehicle telematics and cameras. This enables our Transport Managers to track vehicle speed, idling, driving events and fuel consumption and provide ongoing feedback to our drivers to improve driving behaviours. This will positively impact safety on the road, the performance and longevity of our HGV fleet and the impact of our fleet on the environment.

We continue to explore options for a commercially viable sustainable commercial fleet and, in 2024, we will continue to trial low emission and/or electric HGVs. We have progressed our transition to hybrid or fully electric vehicles; these now comprise over 85% of our non-commercial fleet. Having recently changed company car provider we have developed a joint strategy to encourage more drivers into EV and the remainder of our fleet drivers into PHEV as a minimum as current leases expire.

We have also been awarded The Fleet Operator Recognition Scheme (FORS) Bronze accreditation for our full UK transport fleet as well as maintaining FORS Silver in our Rochester site. The FORS is a voluntary accreditation scheme for fleet operators, which aims to raise the level of quality within fleet operations, and to demonstrate which operators are achieving exemplary levels of best practice in safety, efficiency, and environmental protection.

Solar panel installation

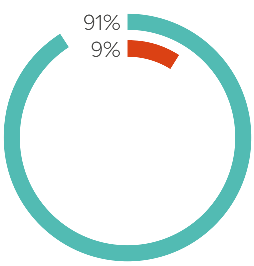
In 2023 we commissioned the installation of owned solar panels at a number of our sites resulting in 11 of our 13 distribution sites now having solar panels installed at a cost of £2.5 million.

We have one further large site installation taking place in the first half of 2024, which will conclude the programme. By the end of 2023, we had seen a reduction in electricity consumption of over 25%.

Sustainable Products, Waste and Water

This year, as well as continuing to survey our customers about their sustainability requirements, we also conducted qualitative and quantitative consumer analysis to understand their needs and requirements. Some interesting demographic data, for example, highlighted that Gen Z have an expectation that our customers will sell sustainable products from businesses with responsible practices. This requires a collaborative effort across the floorcovering industry as flooring products are made up of several-layered materials, with plastic used in most of the manufacturing processes. By working with industry bodies, such as Carpets Recycling UK, we are working alongside suppliers and waste contractors to create sustainable products, which make it easy for consumers to access take back schemes.

UK and Continental Europe Scope 1 and 2 emissions



Scope 1: 91% (14.0ktCO_{2e})

Scope 2: 9% (1.6ktCO_{2e})

Net Zero Emissions Timeline

Key Achievements and Targets

2023

Solar panels installed across 11 of our 13 largest sites

Achieved ISO 14001 environmental certification at key sites

Over 85% of UK non-commercial fleet electric/low emission

Good Energy and Recycling Behaviours workshops held at 11 of our largest sites

Continued trailing of electric/low emission commercial vehicles

Transport integration completed

2024

Use telematics to improve driver behaviours resulting in emissions reductions

Review waste management across UK distribution sites in order to implement best practice, reduce waste and set targets

Scope 3 strategy and targets to be developed

Scope 1, 2 and 3 targets to be submitted to SBTi for validation

Continued trial of low emission commercial fleet vehicles

Phase 2 of Good Energy and Recycling Workshops to take place and impact measured

2025

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

Scope 3 targets introduced

2030

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

Roll-out of low carbon commercial vehicles

Potential heating electrification to reduce gas consumption

2035

Net Zero emissions target (Scope 1 and 2)

≤ 2050

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

Ongoing trialling and introduction of electric / low carbon commercial vehicles

ENVIRONMENT
CONTINUED

Sustainable product development

This year we have launched four sustainable product ranges across three of our own brands. It is early days for these ranges and we look forward to seeing how they are performing over the coming year:

ECONYL® ENDLESS POSSIBILITIES

Kingsmead – Thinking Beyond
Launched April 2023

Econyl Yarn

- Regeneration Solution Dyed Nylon Yarn – this is nylon taken back from fishing nets, carpet tiles and nylon fabrics that can be regenerated to a new yarn
- Regeneration – meaning the material can be reused time and time again. The carpet can be sheared after use to be regenerated into another product
- 90% reduction in emissions compared to virgin material
- 70,000 barrels of crude oil saved per 10,000 tons of Econyl
- Provides a continued second life of the material
- Avoids going direct to landfill

manx Tomkinson

Tomkinson – Breathing Space
Launched June 2023

ResilonX Yarn

- Recycled plastic bottles – rPET
- Taking virgin polyester plastic bottles and turning them into yarn
- This sits between regeneration and recycled. There is potential to regenerate the yarn as per Econyl, just no one is at that stage yet. Recycled means we are turning the product back into the same form. Therefore, this range is creating a secondary use for a material rather than sending it to landfill
- Plastic bottle collection is verified by Global Recycled Standard, to follow the supply chain and ensure there is no child labour in the collection of the material

Fells

Fells – Georgetown Elite and Georgetown Supreme

A plain product with a recycled fleece backing along with recycled yarn made from plastic bottles

Runswick Bay

The first Recycled Wilton, again using plastic bottles (approximately 120 large plastic bottles per metre square. This product won the **best man-made carpet** category at the Harrogate Flooring show 2023

Take back schemes

We continue to take part in the Recofloor vinyl flooring take-back scheme, which has resulted in over 50 tonnes of waste returned in 2023. We have also partnered with suppliers in two of our major sites to create a laminate flooring take-back scheme. In 2024, we will build upon the discussions we have been having with several stakeholders along the supply chain for a complete flooring take-back scheme in one of our regions, which will be trialled in the first half of 2024.

Waste

In 2023, we diverted 81% of our operational waste from landfill of which we have recycled 21% from our UK Distribution Centres. We continue to work with our waste management provider to review our current arrangements and will work with them to implement best practice and set targets in 2024. We are also working within the Group to repurpose and reuse offcuts and make them into rugs through our Melrose Interiors business.

The Group continues to review the use of its customer packaging and, where possible, eliminate its use. However, packaging is, typically, key to protecting product during transit. Where packaging cannot be removed, we look to use the most sustainable materials available whilst maintaining the products' integrity. We are also working with our suppliers to reduce transit packaging and promoting the use of sustainable and recycled materials. We continue to encourage all our businesses to recover and reuse poles and pallets wherever possible.

All packaging that cannot be reused is recycled through our waste management partners.

Water

The Company is not a large consumer of water, which is primarily used for cleaning its commercial vehicles, and continues to engage in limiting usage whenever possible. Water consumption in 2023 was circa 17,500 cubic metres (2022: circa 18,722 cubic metres).

Scope 3 Emissions

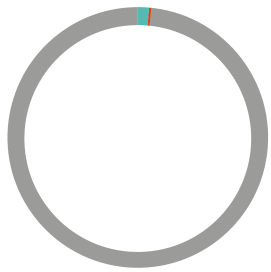
In 2023, we have focused on engaging more closely with suppliers on Scope 3 emissions, obtaining enhanced baseline data on which to set Scope 3 targets aligned with the SBTi criteria. We have highlighted the importance of our Net Zero plans through ongoing conversations, our Supplier Sustainability Charter and at our Supplier Conference.

In 2024, we will set our targets and carbon reduction roadmap for Scope 3. We will also submit our Scope 1, 2 and 3 targets to SBTi for validation with a view to publishing our mid and long-term targets and reaching Net Zero (Scope 1, 2 and 3) by 2050 at the latest.

Scope 3 Emissions

- Purchased goods and services 80.6% (695,278 ktCO_2e)
- Capital goods 0.5% (4,493 ktCO_2e)
- Fuel-related Emissions 0.4% (3,762 ktCO_2e)
- Upstream Transportation and Distribution 0.4% (3,118 ktCO_2e)
- Waste Generated in Operations 0.1% (683 ktCO_2e)
- Business Travel 0.1% (445 ktCO_2e)
- Employee Commuting 0.3% (2,415 ktCO_2e)
- End-of-life treatment of sold product 15.9% (137,184 ktCO_2e)

Total Scope 1, 2 and 3 Emissions: 863, 003 tCO_2e



- Scope 1 1.6% (13,983 ktCO_2e)
- Scope 2 (location-based) 0.2% (1,642 ktCO_2e)
- Scope 3 98.2% (847,378 ktCO_2e)

Q

How do you attract, retain and support your colleagues?

A

One of our Key Strategic Pillars is 'Making Headlam a great place to work for everyone' and this is underpinned by a number of items, including the 'Headlam Way', which comprises key shared values that we immerse and embed across the business. We have improved many areas of financial and non-financial support and development for our people over the last couple of years, including communication, learning and training programmes, so people can progress, and Inclusion and Wellbeing strategies. We actively engage and listen to our colleagues through a variety of channels.

Clare Moore, Chief People and Sustainability Officer

Key achievements in 2023:

- Significant improvement in Near Miss reporting
- Roll out of Headlam Way strategy and values
- Created Inclusion and Wellbeing strategy and values
- Developed induction, leadership and sales training
- Improved Employee Forum and conducted engagement survey
- Created consistent expected standards of performance across UK sites

Targets and KPIs for 2024:

- Further embedding safety culture resulting in a reduction in RIDDOR and Lost Time Accidents against 2023
- Improving colleague engagement score by at least 3ppts
- Roll out leadership/ management development, with every eligible manager to attend See it, Say it Safety training, and at least one other leadership module
- Community needs analysis conducted and partnerships developed in one site as a pilot

Our Colleagues

Keeping each other safe and well, every day

Safety is our number one value at Headlam and, this year, we focused on improving the safety culture across our business. Working in partnership with DSS+ we commenced the roll out of mandatory safety culture training for all of our leaders to equip them to make safety the priority in the day-to-day operation of our business. Our meetings now start with a 'safety moment'; our managers have been trained to have constructive, in the moment, conversations when they see something that should be done better or differently. Our Health and Safety Director now reports directly into the CEO so that he has direct visibility of the progress of the safety plan.

Whilst we have, disappointingly, seen an increase in RIDDORs this year, we have been encouraged by a vast improvement in near miss reporting. Over the full year, we recorded near misses at a rate of 1.17 per person per annum, which is more than double the rate reported by colleagues in 2022.

RIDDOR Table

Type of Incident	2023	2022
Handling	2	7
Struck by Moving Vehicle	6	3
Slip, Trip, Fall	9	4
Fall From Height	3	1
Other	5	4
Total	25	19

It was with great sadness that during the prior year we reported that there was an accident at the one of the Group's sites during which a much-valued and long serving colleague died. Headlam's priority has been support for the family and colleagues, as well as to continue to strive to provide the safest working environment possible. As at the date of this Annual Report, the local authority's investigation is ongoing.

To provide a safer environment for colleagues, we have invested in our buildings, manual handling equipment and CCTV this year. Additionally, Telematics and WEBFLEET™ has provided transport safety measures with each of our drivers given an OPTIDRIVE™ score based on a set of parameters, including; speeding, idling, fuel consumption and driving events. This, coupled with the installation of MANTIS™ cameras on all of our vehicles will continue to improve the safety of our drivers and other road users.

As the Webfleet software and the Mantis cameras are linked, when a driving event is triggered, it sends an alert to the driver and to the Transport office who can upload the video footage of the event. With this data to hand, Transport Managers can now engage with drivers at point of de-brief to work on improving their overall OPTIDRIVE score. This will have a positive impact on their safety on the road, the safety of other road users, the performance and longevity of our HGV fleet, and also improve our impact on our environment.

We continue to support colleagues to access mental health support and have partnered with Everymind at Work who are providing ongoing development, support and resources to our Mental Health First Aiders and webinars for our colleagues. This is further supported by the provision of an Employee Assistance Programme.

In 2023, the company maintained their ISO45001 HS Management status following the assessment of four key locations.

Making Headlam a great place to work for everyone

Listening to our colleagues has been a key focus for us this year. We have refreshed our Employee Forum to ensure that colleague representatives drive the agenda, can provide feedback and challenge directly to senior leaders, and have direct communication with the CEO and a Non-Executive Director four times a year. This year, we have covered a range of topics, including; systems, processes, pricing, reward and pay principles headlam.com/media/myzld0jz/headlam-reward-pay-principles-jan-24-v2.pdf, executive remuneration, colleague engagement, and our strategy and values cascade.

We worked with an external provider to conduct an employee engagement survey, which has provided us with a wealth of information and great ideas about ways in which we can make Headlam an even better place to work. 60% of our UK Distribution colleagues completed the survey and, encouragingly, our engagement score was only 6ppts below our industry benchmark. Considering the degree of change that our colleagues have experienced this year, particularly driven by the introduction of more efficient ways of working, we are satisfied that this result is an honest reflection of the engagement of the workforce. Insight from the survey suggests that our key strengths are that colleagues understand our purpose and values (82% agreed or strongly agreed) and colleagues know the wellbeing support available to them and how to access it (73% positive). Key areas for us to improve include improving local communications, colleagues feeling their opinions count, and personal development.

Learning and development

This year, we have defined our learning philosophy as accessible, engaging, personalised and scalable, with a clear focus on enabling our colleagues at Headlam to perform at their best.

Personal and career development is a priority with investments at all levels from the induction of new colleagues through to our 'Insights into Action' development for our Executive team.

We have invested in an online 'Welcome to Headlam' induction for all new colleagues this year, along with role-specific training for new managers and our salesforce, the focus being on accelerating both their knowledge of our business and their performance as they settle into their new roles.

Working with an external provider, we will launch our bespoke 'Lead the Way' training in 2024, with modules created for all levels of leadership that support our commitment to equip them with strong people management skills and develop the skills necessary to lead a workforce that embraces change and transformation.

To further support our line managers, we have introduced Manager Toolkits using a blended approach of animated videos and 'what good looks like' video examples, along with easy-to-follow summaries and guides, all providing advice and support to help Managers with all those moments that matter, from hiring to retiring and everything in between.

Following our successful driver apprenticeship programme in Leeds and Bristol, we intend to build upon this further to utilise the levy and focus on the attraction of new talent and the development of existing talent across a range of apprenticeship options from entry level through to leadership.

Over the next year, we will look to extend our learning opportunities with the introduction of a new learning platform, which will improve accessibility of learning across the Headlam Group and offer a broader range of blended learning opportunities across our key roles.

Reward (financial and non-financial)

This year we have refreshed and published our reward and pay principles headlam.com/media/myzld0jz/headlam-reward-pay-principles-jan-24-v2.pdf, with input from our Employee Forum, the Board, and the Executive. Using these as a guide, we took the decision to tier our cost-of-living increases again in January 2024 to ensure that our lowest-paid colleagues get the greatest increase, we maintain the differentials between colleagues and first line managers wherever possible, and we can award exceptional increases on an individual basis where it is justified based on market data and competition. We have also reviewed our bonus schemes across the business to ensure that the measures are appropriate and will drive group performance, teams who outperform are rewarded appropriately, and our senior colleagues have a sufficient focus on overall Group profitability as well as local performance.

Following on from a transformational year in 2022 with most colleagues seeing increases in holiday pay, sickness pay, an aligned pension and financial wellbeing support, we have continued to add to the many reward and recognition options available at Headlam. In 2023, we have focused on reward that provides a greater number of colleagues with the opportunity to become shareholders or grow their existing shareholding. We have a well-established Save As You Earn Scheme and, this year, we have added share-based long-service awards and a market value management long-term incentive plan, which has increased the proportion of colleagues who are shareholders or in a share scheme by 10ppts to 33%.

Colleagues remain engaged with our existing benefits, such as retail discounts and a vast array of wellbeing tools and support. This year, we have also improved retirement planning support for our colleagues by providing 'aspire to retire' workshops and improving the information available on our colleague communications hub (myHub). Our revamped Headlam Heroes Recognition programme has been well utilised this year with over 600 colleagues receiving at least one instance of recognition via the myHub portal. At our first ever leadership conference in October 2023, a selection of colleagues who demonstrated our values were awarded public recognition for their great work.

Diversity, inclusion and wellbeing

In 2023 we developed our first Inclusion and Wellbeing Strategy, which includes actions to improve the diversity, equity and inclusion of our workforce. This strategy was developed with support from Business in the Community (BITC), the Executive, and input from colleagues across the business. A number of actions have already been delivered, including a comparison of our demographic make up with the communities we work in, a full review of our recruitment practices and the agencies we work with, Executive training from BITC, the appointment of an Inclusion and Wellbeing Executive Sponsor, the publishing of colleague stories, and inclusion training being included across our newly launched Leadership and Management Programmes (Lead the Way).

The results from our engagement survey demonstrate that colleagues feel able to be themselves at work (81% positive response) and perceive that Headlam creates an environment of which people feel included (71% positive result). However, we have an ambition for our workforce to better reflect the communities we serve. In some parts of the business we have work to do to get there, and, with a relatively low labour turnover, this will take time.

Our gender pay gap report shows that our pay gap has reduced year on year and full details of the action we have taken to achieve this can be found in our published report.

https://www.headlam.com/environmental-social-and-governance-esg/gender-pay-gap-report/

To ensure that we remain focused on inclusion and wellbeing, we have set ourselves both long- and short-term targets and will be ensuring that colleagues know how they can get involved and contribute to improving diversity and inclusion. We will also support our colleagues to set up two active colleague inclusion groups to recommend practical improvements to drive inclusion across Headlam in the next five years.

Of the colleagues who have chosen to disclose their ethnicity, 7% have declared themselves ethnically diverse. We have set ourselves the target of 10% by 2028.

Female colleagues represent 22.4% of our global workforce.

Case Study 1

Our Team in Stoke-on-Trent have been fundraising for several years for the following charities:

Macmillan - Macmillan Cancer Support is one of the largest British charities and provides specialist health care, information and financial support to people affected by cancer.

The Albion Foundation – A not-for-profit organisation that uses the power of football to deliver excellence in Wellbeing, Behaviour Change and Active Lifestyles.

Golden Wishes - Golden Wishes is a West Midlands-based charity. Their main priority is to support disadvantaged people within the local community.

Over the years, the team has raised in excess of £190,000, which has been done through auctions, raffles, Golf tournaments, parachute jumps, walking the Great Wall of China and even the three peaks of Morocco!

As a recognition for the team's fundraising efforts, they were awarded with Headlam's 'Act sustainably, use less, waste less and give back' values award at the annual conference.

Our Communities

Local communities

In 2022, we launched our Headlam Communities programme, which gives colleagues the opportunity to both volunteer and donate to projects and charities in their local community.

In addition to this programme, and in order to take a more strategic approach to improving the sustainability of our local communities, we have worked with Business In the Community (BITC) to trial a community needs analysis for our Cheshires site in Nottingham. BITC's approach to community needs analysis involves utilising open-source data to identify key characteristics of the relevant communities and assess and identify a range of prevalent social issues, challenges and unmet needs across key focus areas. Carrying out this analysis allowed us to identify which groups in the local community most need support. This provided us with insight into Bulwell, which is local to our site.

Following this review, we have built relationships with a local school, Bulwell Academy, and a local volunteering group, Bulwell Forest Gardens.

Our colleagues from our Cheshires' site have delivered a session with a cohort of Year 10 Business Students from Bulwell Academy in Nottingham. The session helped build the business knowledge of the students as part of their curriculum. The session was well received by the students who were engaged throughout. We will continue to run workshops and employability support throughout 2024.

Based in Bulwell, the vision for the Bulwell Forest Gardens community project is to develop a garden to include food growing, general wildlife areas, and community space to create a stronger sense of community responsibility and ownership. The local community can take the produce

grown in the gardens as well as volunteer to develop and tend the garden. Members of our Cheshires' and Head Office teams visited the site in November to support with clearing out storage facilities and preparing the site for the winter.

Measuring our impact will be critical to ensuring that our efforts are adding value in Bulwell and we will work with our partners in 2024 to align our targets with their ambitions. Following overwhelmingly positive feedback from the Cheshires' team, we are now conducting a community needs analysis at our Mercado site in Leeds to test the model in a new location with a view to a continued roll out across several of our distribution centres.

Case Study 2

Our team in Leeds have been supporting a charity called Acts 435 with the supply of flooring. Acts 435 is a giving website that allows people to give directly to others, and 100% of what is donated via Acts 435 goes directly to those in need.

When so many people need so much help, giving to charities and good causes can sometimes feel overwhelming and hard. Acts 435 puts people who want to help in touch with people who are in need, through a network of churches and local charities.

Below is some feedback from clients that were asked the question 'How did you feel when you first saw your new carpets?'

'Really happy and full of joy. I couldn't afford carpets for my new flat and the vinyl floors and carpets that were fitted have made it look so homely and really nice. It's now the best place I've ever lived so thank you!'

'A massive relief, I've had flooring but it's not been suitable and it's been like this for the past 10 months; it's a massive relief coming home to a safe environment'.

'I would like to thank you all for making a massive difference in mine and my family's life; if it wasn't for this project, me and my children would have been without flooring for maybe years due to cost of living and not being able to afford it. We really do appreciate everything'.

Connecting our communities with the flooring industry

As leaders in flooring distribution, we want to assure the long term sustainability of the flooring industry. Headlam, through its customers, is reliant on access to qualified flooring fitters to achieve this. So we are actively working with our suppliers and the Contracts Flooring Association to help increase the number of flooring fitters available to our customers, by helping to address the growing shortage of floor fitting skills in the UK.

With our multi-site, national reach, growing relationships with local schools, and our broad supplier base, we are perfectly placed to encourage more people to train as fitters and help them to find employment with our customers. We have commenced work to facilitate this training with the support of our suppliers. We will then work with our customers to find employment for trainees, which will benefit our customers, and the UK industry as a whole.

ESG Committee

We have an established ESG Committee at Headlam to assist the Board of Directors of the Company in providing oversight with respect to the ongoing development and delivery of the Company ESG strategy. The Committee is chaired by the Chief Executive and has one of the Non-Executive Directors in attendance along with the Chief People and Sustainability Officer, the Chief Customer Officer and a number of senior leaders, including Head of ESG (Operations). A copy of the ESG Committee Terms of Reference can be found on the corporate website, headlam.com/environmental-social-and-governance-esg/executive-esg-committee/.

In 2023, the Committee met on four occasions and discussed every aspect of the ESG strategy including Health & Safety, transport integration, solar panel installation, non-commercial fleet transition to PHEV, Scope 3 engagement with suppliers, progress of own brand sustainable product launches, waste management, take back schemes, Good Energy Behaviour workshops, colleague engagement, training, diversity and inclusion, community engagement, reward and wellbeing support, consumer insight, IT security, supplier audits, the Sustainability Charter, SMETA audits, ISO 14001 progress,
ESG policy changes, improved reporting, risk modelling, industry ESG developments and the external assessment of progress via a third party.

Sourcing

We have further strengthened the supplier review and onboarding process by taking a risk-based approach based on supplier assessment. Existing suppliers have all been assessed and all new suppliers are required to go through onboarding due diligence, which includes an agreement to comply with our Sustainability Charter, headlam.com/environmental-social-and-governance-esg/supplier-sustainability-charter/.

Our investment in ESG expertise has included the recruitment of an Ethical Sourcing specialist, who has a depth of expertise in human rights and modern slavery. As a result, we are confident that, in 2024, we will ethically audit 80% of the major factories producing own brand products using the SMETA formula and, more importantly, will develop action plans with our suppliers to drive continuous improvement where required.

We continue to ensure our timber supply chain meets the UK Timber requirements through our partnership with Track Record Global. In 2024, we will use similar methodology to track other key commodities in the supply chain, such as recycled plastics and wool.

Executive Accountability

To ensure appropriate Executive focus on ESG, the Board ensures that ESG targets are included in both the Annual Bonus Scheme and the Performance Share Plan for Executive Directors and members of the Executive Team. Details of the Annual Bonus Scheme objectives for 2023 and the Performance Share Plan targets for all in-flight schemes can be found the in the Remuneration Report, page 116.

Stakeholder engagement

In 2023, we continued to maintain engagement on ESG with the broader industry through Carpets Recycling UK, our suppliers, and industry bodies. During our supplier conference in September, we invited Carpets Recycling UK, Inspired Energy (carbon reduction consultants), our Head of Learning and Development and our new Head of ESG for Operations to present to our suppliers, share the work we are doing across our ESG strategy, and explain how they can help us.

We also put an emphasis on engaging our colleagues through our Employee Forums, where we discussed sharing best practice on Health & Safety, energy efficiencies, and discussed our proposed reward and pay principles.

We have completed Good Energy Behaviour workshops at 11 of our sites, during which colleagues are helped to become more energy aware by learning about how and why we measure consumption, group and local consumption, the cost of energy usage, case studies from businesses who have optimised their energy usage, and details of usage trends in their operation. They are then invited to complete a site assessment before generating practical ideas about how to optimise energy usage in their roles and actions the business can take to support. These workshops will be followed up in 2024 to monitor the implementation of agreed actions.

Policies and Process

A full review and refresh of policies, principles and processes have taken place in 2023, including our reward and pay principles, headlam.com/media/myzld0jz/headlam-reward-pay-principles-jan-24-v2.pdf, the Inclusion and Respect at Work Policy, headlam.com/media/yerfcvkl/inclusion-and-respect-at-work-policy-oct23.pdf, our Environmental Policy, headlam.com/media/gb0n4ma4/environmental-policy-dec-23.pdf and our Grievance policy, headlam.com/media/5zoku1qe/grievance-policy.pdf, all of which are publicly available through our Headlam Group Corporate website alongside other workplace policies.

To ensure that we always keep ESG front of mind, we have added a section to our business case request documentation to enable leaders to think through the impacts their project or initiative have on our sustainability strategy.

IT System

Further work has taken place in 2023 to enhance our IT systems security processes and training to maintain resilient and scalable IT systems. In line with National Cyber Security Centre (NCSC) Guidelines, we strengthened our password setting processes, VPN user access and email access. We have also delivered, approximately, 150 hours of Security Training to our colleagues on 12 separate topics.

Business Integrity and Robust Controls

In 2023, we have continued to test our processes and practices against external standards. This has included the aforementioned assessment against ISO14001, ISO45001, SEDEX audit framework, and FORS certification. Our CDP scores for climate change improved from a D to a C (discloure awareness) in 2023. We use a network of external advisors and consultants to test our thinking and help us to develop clear, measurable, specific and scalable targets for improvement, and, this year, have benchmarked our progress to date with a third party. This, as well as our ESG agency ratings, have suggested that we are continuing to improve our ESG strategy and delivery, remain low risk and are outperforming our sector benchmark.

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

The table below, and continuing on pages 56 to 60 details the Group's responses consistent with the TCFD recommendations and pillars, with the exception of a Scope 3 emissions target, which will be introduced. The Group has progressed its disclosures which, for 2023, include quantitative scenario analysis.

The Group has considered and taken into account the TCFD all-sector guidance and supplemental guidance for financial and non-financial companies and believes it to be consistent with the exception of a Scope 3 emissions target.

This TCFD disclosure forms part of the Group's overall Sustainability Report on pages 40 to 64. It should be read as part of the full report which includes the Group's key decarbonisation actions to reach Net Zero and reduce its contribution to climate change, together with KPIs and targets to measure progress.

Governance	Disclosure
The Board's oversight of climate-related risks and opportunities	The Board has primary oversight and ultimate responsibility for ESG strategy and performance, which includes the approach and actions in relation to climate-related issues. ESG is considered regularly as part of the Board programme of business, with ESG policy and strategy considered in depth on an annual basis. An Executive ESG Committee assists the Board with the more detailed aspects of its ESG agenda and holds management to account on the implementation of the ESG strategy approved by the Board. The Committee's Terms of Reference are publicly available on the Group's website, with the Chief Executive the Chair of the Committee. Whilst ultimate responsibility for risk governance sits with the Board, the Audit Committee assists in risk oversight (as described within Risk Management on page 65). The Group's most material ESG issues are included in the Group's Risk Register. During 2023, these material issues were reported to the Audit Committee by the Executive Risk Committee (detailed below) and discussed at each of their quarterly meetings, with management's approach to mitigating risk and capturing opportunity challenged appropriately.
Management's role in assessing and managing climate-related risks and opportunities	As above, the Group has an Executive ESG Committee, which, as part of its remit, focuses on decarbonisation actions and reducing the Group's contribution to climate change. The Group also has an established Executive Risk Committee, which meets quarterly and comprises the Chief Financial Officer, members of the Executive Team, senior managers and heads of department (including from operations and finance). Its role is to review identified risks, including the likelihood and potential impact of each risk, establishing and monitoring the effectiveness of mitigating and opportunistic actions, and considering emerging risk. The Group's most material ESG issues per the Materiality Assessment Map published on the Group's website are included in the Group's Risk Register, which forms the basis for Committee discussions. Materiality for climate-related risks and opportunities is assessed with reference to that used for mainstream reporting but also considers the key risks being assessed by management to inform current and future strategy along with internal feedback. The Group also operates an ESG Working Group, which meets monthly and is comprised of members of the Executive Team, senior managers and department heads, with representatives reporting to the Chief Executive on outputs. Its principal activity is the day-to-day management and delivery of projects in relation to the Group's ESG strategy, with projects to both mitigate climate risk and capture opportunity. The projects related to decarbonisation and reducing contribution to climate change are given on page 44 of the Sustainability Report.

<table>
<tr><th>Strategy and Risk Management</th><th>Disclosure</th></tr>
<tr><td>The organisation's processes for identifying and assessing climate-related risks</td><td>The Group's risk governance and management processes are detailed within Risk Management on page 65 of the Annual Report and Accounts. Its preparation includes a qualitative assessment of ESG risks, inclusive of climate-related, on the composite bases of likelihood and potential impact of 'raw' risk. Risks considered include Transition Risks, such as market, policy and legal (both existing and emerging), technology, and reputation, and Physical Risks (both acute and chronic). In 2023, a quantitative scenario analysis of climate-related risks was also performed, as described on pages 58 to 59. This process has allowed the Group to both identify climate-related risks and opportunities and determine their relative significance to the business.</td></tr>
<tr><td>How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management</td><td>Climate-related risks are considered as part of the ESG Strategy and 'Environmental' Principal Risk and, therefore, integrated into the Group's overall risk management process. Additionally, through preparation of the Group's annually reviewed and publicly disclosed Environmental Policy and TCFD disclosure, the Group gives full consideration and commentary on climate-related factors.</td></tr>
<tr><td>The climate-related risks and opportunities the organisation has identified over the short, medium and long term
The impact of climate-related risks and opportunities on the organisation's business(es), strategy and financial planning
The organisation's processes for managing climate-related risks</td><td>The Group has identified its climate-related risks and opportunities, and assessed strategy resilience, through quantitative scenario analysis. The range of possible risks and opportunities were analysed under two future climate forecasts. Both Physical and Transition Risks were considered, modelled around the widely recognised Representative Concentration Pathways (RCPs) and Shared Socio-economic Pathways (SSPs). The scenarios chosen were: global warming of 2°C (RCP 3.4), considered the most likely scenario; and global warming of 4°C (RCP 8.5), considered a resilience scenario.
Time horizons have been chosen that best reflect the Group's business plan, strategy, and various financial accounting policies. The total time horizon considered is up to 2050, split into short term (three years, 2024–2026), medium term (2027–2035) and long term (2036–2050). The assumptions used in the scenario analysis, with reference to Extended Producer Responsibility impact and the transition to a more sustainable fleet, are also discussed in note 11 to the Financial Statements.
<table>
<tr><th>Factors</th><th>Middle of the road</th><th>Fossil-fuelled growth</th></tr>
<tr><td>RCP</td><td>3.4</td><td>8.5</td></tr>
<tr><td>SSP</td><td>2</td><td>5</td></tr>
<tr><td>Temperature rise</td><td>2°C</td><td>4°C</td></tr>
<tr><td>Likelihood</td><td>High</td><td>Moderate</td></tr>
<tr><td>Societal response</td><td>Proactive, Disorderly</td><td>Reactive</td></tr>
</table>
</td></tr>
</table>

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

CONTINUED

The quantitative assessment below considered the likelihood and estimated financial impact of each climate-related risk, before the impact of mitigating actions.

Category	Risk	Key assumptions
Scenario 1 (Transition): Average global temperatures rising by 2°C above pre-industrial levels by 2100		
Policy and Legal: Financial impact of potential new legislation/ regulation (including product legislation)	**Risk:** Increased operating costs through Extended Producer Responsibility (EPR) for bulky waste (carpets and underlay)	The EPR (bulky waste) consultation is assumed to happen over the next three years resulting in the legislation coming into effect in 2027, which essentially introduces an extra tax on the sale of carpets and underlay for companies considered to be manufacturer or first point of contact in the UK for imported items. The rates used in the scenario modelling are consistent with industry best estimates, which are uncertain due to the timing of the consultation. The scenario modelling assumes that none of these costs are passed on to customers; this is considered very prudent given the pass-through to customers of product cost inflation observed during 2022. It is also assumed that all products would be captured by the regulations, i.e. there is no sustainability threshold.
Market: Transitioning to more sustainable business and operating practices	**Risk:** Increased costs of operating a sustainable fleet with low-carbon technologies	The technology for zero-emission long-haul, heavy goods vehicles (HGVs) is less developed than for non-commercial (including company cars) and short-haul commercial vehicles. The Group operates over 300 HGVs. It currently appears that hydrogen may be the solution for HGVs rather than electric, but this will continue to be monitored closely. There are also challenges installing the required infrastructure once the best alternative is developed. There is a high degree of uncertainty in the cost estimates for a zero emission HGV fleet. It has been assumed, for this scenario modelling, that the cost of operating a zero emission HGV fleet is broadly comparable to that of operating a diesel fleet. This assumption is on the basis that there is a very large global market for HGVs, which provides commercial incentive for companies to develop a viable, cost-effective zero emission solution for HGVs. There could also be subsidies provided by governments to incentivise the transition to zero emission HGVs.
Market: Transitioning to more sustainable business and operating practices	**Opportunity:** Greater efficiency leading to lower operating costs as a direct result of solar panel installation	Cost savings are assumed to continue in line with the business case, offset by the annual depreciation charge. The solar panels are assumed to have a useful economic life of 25 years in line with manufacturer guidance.
Market: Changing consumer preferences	**Risk:** Reduced demand for current product offering	The scenario modelling assumes a shift away from non-sustainable to more sustainable flooring at a rate of 0.5% of mix per year, settling in the medium term, with an associated gross profit reduction.
Scenario 2 (Physical): Average global temperatures rising by 4°C above pre-industrial levels by 2100		
Acute: Asset damage	**Risk:** Business interruption and loss of revenue following damage to distribution network as a result of extreme weather event; consequential impairment of assets and increased insurance premiums	A weather event, likely to be a flooding event, is assumed to occur in the long term. Only a small number of the geographically dispersed sites are considered to have a high risk of flooding and so it is assumed that one main distribution centre is affected. The scenario modelling assumes that the event will cause disruption for 20 days whereby no gross margin is generated, but overheads continue, before continuity plans allow trade to return to normal levels. The event is assumed to destroy 20% of inventory in the distribution centre. Modelling assumes that property damage and business interruption insurance cover in place offsets the loss above the excess level, but that this triggers a 10% increase in the future insurance premiums.
Chronic and Acute: Supply chain disruption	**Risk:** Potential raw material shortages and knock-on impact on product availability from supply chain disruption leading to loss of revenue	The scenario modelling assumes there is no loss of revenue from this risk due to the comprehensive inventory and homogeneous products held and sold by the Group.

Average potential financial impact on annual profit before mitigating actions £M			
Short Term (2024–2026)	Medium Term (2027–2035)	Long Term (2036–2050)	Strategic response and resilience
–	(6.4)	(6.4)	Collaborate with suppliers on new sustainable product launches. Market preferences and the Group's product offering likely to become more weighted towards sustainable products as they become available, which could help limit the EPR cost to the Group, subject to a sustainability threshold in any potential legislation. Design and deliver take-back schemes to maximise recycling opportunities and increasingly avoid materials entering into the waste stream with a view to making them exempt from EPR. It is likely that all, or significantly all, of any residual additional costs could be indirectly passed on to customers, reducing the potential financial impact to an immaterial amount.
–	–	–	Implementation of dynamic planning and telematics will increase transport efficiency. Ongoing trials of electric commercial vehicles.
0.7	0.7	0.7	The planned solar panel installation is almost complete and is already generating cost savings.
(0.5)	(2.6)	(2.6)	Due to leading position, the Group is well placed to develop its range of flooring solutions to quickly adapt its offering to reflect consumer preferences and, therefore, mitigate all or significantly all of this risk, reducing the potential financial impact to an immaterial amount.
–	–	(0.4)	The Group's assets are not expected to be exposed to high physical climate-related risk due to the geographies in which it operates. Operations are disaggregated with business continuity plans in place if specific sites are affected by isolated events.
–	–	–	Market-leading position and strategic partnerships with suppliers should enable the Group to preserve levels of availability. Comprehensive inventory levels, typically, maintained at any one time providing strong availability.

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

CONTINUED

Strategy and Risk Management	Disclosure
Resilience of the organisation's strategy, taking into consideration different climate-related scenarios	The analysis suggests that EPR and reduced demand for current product offering could have the most significant impact on the Group's profits in the transition scenario, albeit skewed towards the medium and long term. EPR would only have a significant impact if such costs were not passed on to customers, which is considered unlikely. However, there is a high degree of uncertainty around the cost of transitioning to a zero emission HGV fleet. There could be further market opportunities for the Group to increase revenue with its peer-leading sustainable practices helping to attract new larger customers and by capturing market share by responding to a shift towards sustainable products more quickly than competitors. These opportunities are not included in the quantitative scenario modelling. In the physical scenario, the analysis suggests that asset damage from an extreme weather event could have the most significant impact on the Group's profits, likely to be in the longer term. There are a number of strategic responses that the Group could and is already taking against these risks, as noted above. When taking into account the judged severity of the potential risks, time horizons and mitigating actions, the Group is currently considered to remain a resilient business in both scenarios modelled above. Overall, the business model is deemed fit for purpose, with strategic aims in place to leverage the opportunities from its ESG strategy.

Metrics and Targets	Disclosure
Metrics used by the organisation to assess climate-related risks and opportunities	The Group uses the below KPIs and targets to both assess the risks and opportunities as well as its progress in relation to its overall ESG Strategy. **KPI** • Energy usage (per SECR disclosure) • Scope 1 and 2 emissions (year on year) • Achieving reduction pathway required for Scope 1 and 2 emissions to achieve interim target • Number of sustainable own brand product launches • ESG-related capital investment • ESG rating agency scores • Physical asset damaged related insurance claims/premiums **Target** • 100% of non-commercial fleet electric/low emission by 2025 • Interim emissions target (Scope 1 and 2) • Net Zero emissions target (Scope 1 and 2) An intensity metric is additionally given within the Group's SECR Disclosure on page 62. An ESG metric has been introduced into Executive Director and Executive Team performance-related variable remuneration from 2023. **Link to Risks** 9 **Link to KPIs** 6 11 12
Scope 1, Scope 2 and Scope 3 greenhouse ('GHG') emissions, and the related risks	The Group's Scope 1, 2 and 3 emissions are summarised on page 62 of the Sustainability Report, giving comparative years where available.
Targets used by the organisation to manage climate-related risks and opportunities and performance against targets	The targets introduced by the Group to date are detailed above, with further targets to be introduced in subsequent Sustainability Reports. In 2022, the Group introduced a Net Zero emissions target (Scope 1 and 2). The Group also has an interim target of a 46% reduction against 2019 (Scope 1 and 2) by 2030. The interim target will be submitted for SBTi validation in H1 2024. The Group anticipates introducing Scope 3 targets in 2025, subject to SBTi validation timescales, with an aim to reach Net Zero (Scope 1, 2 and 3) by 2050 at the very latest.

STREAMLINED ENERGY AND CARBON REPORTING ('SECR')

This SECR disclosure forms part of the Company's overall Sustainability Report on pages 40 to 64, and should be read as part of the full report.

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

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

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

The following figures demonstrate year-on-year changes in consumption and resulting emissions for Headlam Group PLC for 2023 and 2022. Headlam Group PLC has chosen to disclose its consumption and emissions data for its global operations, in addition to mandatory UK consumption and emissions data.

Definitions of the Scopes used in this disclosure:

- Scope 1 consumption and emissions include direct combustion of natural gas, and fuels utilised for transportation, for example, company vehicle fleets.
- Scope 2 consumption and emissions cover indirect emissions related to the consumption of purchased electricity in day-to-day business operations, and electricity consumed in vehicles such as EVs and PHEVs.
- Scope 3 consumption and emissions cover emissions resulting from sources not directly owned by Headlam Group PLC, which relates to grey fleet business travel undertaken in employee-owned vehicles only.

UK Overview

Overall UK Carbon Intensity

25.25 tCO_2e per £m turnover YOY -5.63%	13,233.79 tCO_2e tCO_2e YOY -6.74%

UK Carbon and Consumption £m = £m Revenue

Natural Gas	Electricity	Transport
5,054,342 kWh	6,501,459	51,794,796
924.59 tCO_2e	1,346.28 tCO_2e	12,309.20 tCO_2e
tCO_2e YOY: +10.27%	tCO_2e YOY: +6.64%	tCO_2e YOY: -7.80%

UK Carbon Intensity Metric £m = £m Revenue

1.60 tCO_2e per £m	2.33 tCO_2e per £m	21.32 tCO_2e per £m
YOY: +10.29%	YOY: +6.66%	YOY: -7.79%

STREAMLINED ENERGY AND CARBON REPORTING ('SECR')

CONTINUED

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

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

Scope 1 consumption and emissions include direct combustion of natural gas, and fuels utilised for transportation, for example, company vehicle fleets.

Scope 2 consumption and emissions cover indirect emissions related to the consumption of purchased electricity in day-to-day business operations, and electricity consumed in vehicles such as EVs and PHEVs.

Scope 3 consumption and emissions cover emissions resulting from sources not directly owned by Headlam Group PLC, which relates to grey fleet business travel undertaken in employee-owned vehicles only.

UK Totals

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

Utility and Scope	2023 Consumption kWh	2022 Consumption kWh
Grid-Supplied Electricity (Scope 2)	**6,501,459**	6,528,411
Gaseous and other fuels (Scope 1)	**5,054,342**	4,593,411
Transportation (Scope 1)	**50,755,600**	54,729,552
Transportation (Scope 2)[1]	**886,117**	679,880
Transportation (Scope 3)	**153,078**	255,328
Total	**63,350,597**	66,786,582

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

Utility and Scope	2023 Consumption tCO_2e	2022 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	**1,346.28**	1,262.46
Gaseous and other fuels (Scope 1)	**924.59**	838.48
Transportation (Scope 1)	**12,066.80**	13,160.80
Transportation (Scope 2)[1]	**207.98**	131.48
Transportation (Scope 3)	**34.43**	58.89
Total	**14,580.07**	15,452.12

UK Intensity Metric

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

Intensity Metric	2023 Intensity Metric	2022 Intensity Metric
tCO_2e/£m UK Revenue	**25.25**	26.76

1 Transportation methodological improvements have been backdated to 2022 and the 2022 transport figures have been restated for better YoY comparisons.

Continental European Totals

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

France Totals

Utility and Scope	2023 Consumption kWh	2023 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	418,532	18.86
Gaseous and other fuels (Scope 1)	615,584	112.61
Transportation (Scope 1)	1,311,283	294.91
Total	**2,345,399**	**426.39**

Netherlands Totals

Utility and Scope	2023 Consumption kWh	2023 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	272,745	68.67
Gaseous and other fuels (Scope 1)	257,297	47.38
Transportation (Scope 1)	2,298,046	537.18
Total	**2,828,088**	**653.23**

UK and European Totals

Utility and Scope	2023 Consumption kWh	2023 Consumption tCO_2e
Grid-Supplied Electricity (Scope 2)	7,192,736	1,433.82
Gaseous and other fuels (Scope 1)	5,927,223	1,084.57
Transportation (Scope 1)	54,364,929	12,898.89
Transportation (Scope 2)[1]	886,117	207.98
Transportation (Scope 3)	153,078	34.43
Total	**68,524,083**	**15,659.69**

UK and European Intensity Metric

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

Intensity Metric	2022 Intensity Metric
tCO_2e / £m Group Revenue	23.85

[1] Transportation methodological improvements have been backdated to 2022 and the 2022 transport figures have been restated for better year on year comparisons.

STREAMLINED ENERGY AND CARBON REPORTING ('SECR')

CONTINUED

Energy efficiency actions

The main energy efficiency and decarbonisation actions that the Company is currently pursuing are detailed on page 44.

Reporting methodology

Scope 1, 2 and 3 consumption and CO_2e emissions data have been calculated in line with the 2019 UK Government environmental reporting guidance. Emissions Factor Database 2023 has been used, utilising the published kWh gross calorific value (CV) and $kgCO_2e$ emissions factors relevant for reporting period 01/01/2023 – 31/12/2023.

Estimations were undertaken to cover missing billing periods for properties directly invoiced to Headlam Group PLC.

These were calculated on a kWh/day pro-rata basis at the meter level.

- For properties where Headlam Group PLC is indirectly responsible for utilities (i.e. via a landlord or service charge) or no data is available for the meter, the median consumption for properties, with similar operations was calculated at meter level and applied to the properties with no available data.

These full-year estimations were applied to 8 electricity supplies and 5 gas supplies. All estimations equated to 4.54% of reported consumption.

Market-based carbon emissions were calculated using supplier-specific emissions factors where possible and residual grid factors where this was not possible, such as in the European divisions.

Scope 2 transport figures for 2022 were restated to align with the updated methodology used in 2023. This improved the accounting of the kWh consumption and associated emissions of PHEVs. This changed the UK scope 2 transport emissions figures from 3.01 tCO_2e to 131.48 tCO_2e.

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

Total Group Revenue (£m)	**£656.5m**
Total UK Revenue (£m)	**£577.3m**
Total Continental Europe Revenue (£m)	**£79.2m**

RISK MANAGEMENT

Overview

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

The table on pages 68 to 71 summarises the Principal Risks (in no particular order), which the Board considers could have a material impact on the Group's reputation, operations or financial performance. No new Principal Risks have been identified.

The Risk Heat Map on page 67 shows the Board's assessment of the level of risk for each of these Principal Risks as of the date of this Annual Report and Accounts. The assessment of the level of risk is first conducted by the Executive Risk Committee and then reviewed and approved, following any changes, by the Board.

Risk governance

Risk is encountered as part of the ordinary course of business as well as through the implementation of the Group's strategy as detailed on pages 18 to 19, which has been established to increase the sustainability of the Group and create long-term value for all its stakeholders.

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

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

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

The Audit Committee, on behalf of the Board, also monitors the Group's system of risk management and internal control, and conducts a review of its effectiveness at least once a year.

Risk appetite

The Board has considered the maxium level of risk the Group is willing to take in pursuit of its strategic objectives.

The Executive Risk Committee conducted an exercise to determine risk appetite for each principal risk across a five-point scale : Averse, Cautious, Neutral, Open, High. The outcome of this was then presented to, and discussed with, and challenged by, the Audit Committee, and subsequently ratified by the Board.

Risk monitoring structure

Independent assurance[1]

Board		
The Board has overall responsibility for the Group's system of risk management and internal control.		
Committees	**Risk Identification**	**Risk Management**
Audit Committee **Nomination Committee** **Remuneration Committee**	Assesses strategic risks identified by management capable of threatening the business model, future performance, solvency or liquidity in the context of the Company's strategy and the interests of stakeholders and market context.	Overall responsibility for corporate governance, internal control and risk management and for setting risk appetite taking into account the expectations of stakeholders and feedback received from engagement activities. Audit Committee receives updates from Executive Risk Committee on key risks and assesses adequacy of controls and risk classification and identification processes. Other Committees consider risk management as it relates to their role and priorities.
Executive Risk Committee	Assesses risks and mitigating controls using a specified scoring system, based on likelihood and impact, and reports into the Audit Committee.	Reviews operation and design of internal controls to ensure risks remain within appetite.
Senior Leadership Team		
Group functions	Use knowledge of best practice, business and the market in which we operate to assess changes in key risks.	Responsible for ensuring that risk management is embedded within the business and appropriate actions are taken to manage risk.
Business management	Applies local knowledge to identify and assess operational risk.	Applies local knowledge to identify and assess operational risk.

A Head of Internal Audit was appointed in 2022 and commenced independent assurance on the Group's risk management processes in 2023.

Our principal risks (introduction)

The Group has identified ten principal risks. There have been no changes to these during the year. However, following the appointment of a new Chief Financial Officer during 2023 and new Non-Executive Directors in 2022, as well as refreshed membership of the Executive Risk Committee, a detailed review of the risk ratings was conducted, taking into account the events of the year, both macro and micro, and any specific relevant circumstances for the Group, along with the mitigating actions. This resulted in some changes, which are explained below:

Risk 1 – market (economy and competition): the risk rating has been increased, reflecting the scale of impact that a weak market has had in 2023 and the uncertain macroeconomic and geopolitical environment.

Risk 4 – IT (cyber security): the risk rating has reduced slightly. There is no change to the inherent risk, but numerous additional controls have been implemented during the year, which slightly reduce the residual risk.

Risk 5 – People: the risk rating has increased following management's updated assessment of the inherent risk; good progress has been made in implementing, mitigating measures.

Risk 7 – supply chain: following review, and management's judgement, the 'likelihood' rating was increased, whilst leaving 'impact' unchanged. This reflects management's view of the inherent risk taking into account the potential impact of geopolitical events on global supply chain; good progress has been made with mitigating controls, which may reduce the residual risk rating over time.

Risk 9 – environmental and decarbonisation: the risk rating was revised downwards slightly, reflecting actions taken to date and the plans in place for the medium-to-long term.

Risk 10 – change and decision making: the 'impact' element of the risk rating was revised downwards slightly following progress made during the year on implementing strategic initiatives.

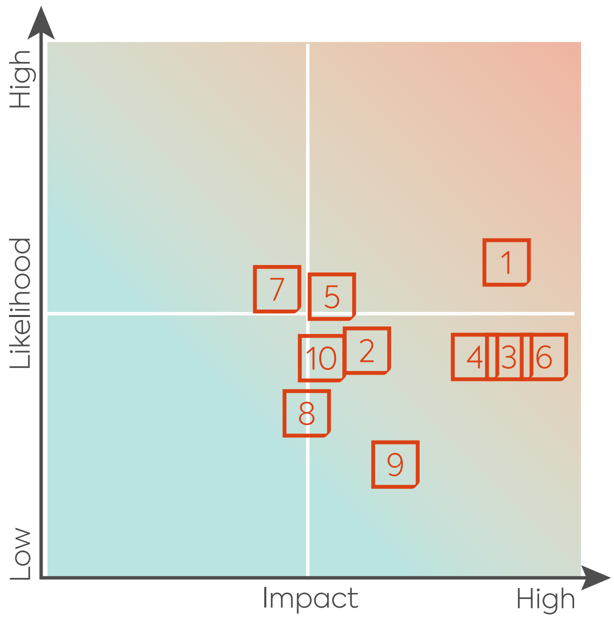
Emerging risks

Identification and review of emerging risks are integrated into our risk review process. Emerging risks are risks that are rapidly evolving, or arriving at pace, for which the impact and likelihood have not yet been fully understood and for which the appropriate mitigations have not yet been fully identified.

We continue to monitor the uncertain macroeconomic and geopolitical environment, including the impact of events in the Middle East and the Red Sea, to assess impacts on customers, suppliers and colleagues. Currently we monitor this through the lens of our existing principal risks, but with a view to separating out any elements if it were considered to be a principal risk of its own.

Other than the above there are no other emerging risks assessed as being of significance to disclose currently.

Risk heat map



Key

- **1** Market (economy and competition)
- **2** Market (strategy)
- **3** IT (systems and infrastructure)
- **4** IT (cyber security)
- **5** People
- **6** Health and Safety
- **7** Supply chain
- **8** Legislation, regulation and reporting
- **9** Environmental and decarbonisation
- **10** Change and decision making

PRINCIPAL RISKS

Risk and description	Mitigating actions	Link to Strategy	Risk change
1 Market (economy and competition)			
Failure to sustain revenue and profit performance as a result of economic backdrop, market demand, service levels or competitive dynamics	The Group closely monitors market activity on a daily basis at both an individual business and Group level. This visibility allows the Group to take prompt action in response, including enhanced sales activity, operational efficiency, managing inventory levels, and cash management. The Group seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base, and continually improving its customer service propositions. The Group maintains customer engagement and feedback activities to gain insight into customer preferences to ensure its service proposition and offering remains competitive. The Group's strategy (pages 18 to 19) of driving new revenue to gain market share from a more efficient operating base helped provide a countermeasure against the weakness in the residential market in 2023.		
2 Market (strategy)			
Failure to develop and deliver on new revenue growth opportunities	Investments were made in multiple areas to support delivery of the revenue growth strategy during 2023, including: • £5.7 million capital expenditure on new and refurbished trade counters, taking the total number of invested sites from 24 to 47. • The appointment in early 2023 of a Chief Customer Officer with the remit of leading customer and digital strategy, encompassing all aspects of customer communications, brand development, marketing and ecommerce, as well as leading the Larger Customers team. • Additional functional expert roles, including an Ecommerce Director and Group Marketing Director. • Improving the existing network and equipment to support revenue growth and efficiencies, including £5.6 million invested in cutting tables, sortation units and associated equipment. The Board has direct oversight of the Group's strategy, and its effective implementation, with the performance of each project team monitored against clear targets and objectives.		
3 IT (systems and infrastructure)			
Failure to develop and maintain IT systems and infrastructure that is resilient, scalable, and able to support the strategy	A new Chief Information Officer was appointed in July 2023, with significant experience of ERP implementations. A review of the IT systems was completed during the year, utilising external expertise on a targeted basis, with a multi-year plan developed, including an ERP change. Other developments in the year included investment in the core operating system, and further systems integration to support suppliers and customers.		

Risk and description	Mitigating actions	Link to Strategy	Risk change
4 IT (cyber security)			
Failure to develop and maintain adequate or effective security and cyber controls	Targeted use of specialist external advice and support, including a vCISO (virtual Chief Information Security Officer). Monthly employee cyber engagement programme through a refresher email requiring all colleagues to watch a short video and answer questions. Numerous control improvements during the year, which have slightly reduced the residual risk. These improvements include the introduction of multi-factor authentication for email and remote access to network, enhancement of password retention policies, and development of incident response plans.		
5 People			
Failure to recruit and retain the right people with relevant skills, values and behaviours	The Board continues to focus on making the Group a great place to work, and ensure colleagues share in the Group's long-term success. For details on the developments in 2023, see pages 48 to 53. Amongst other initiatives, during 2023, the Group conducted its first colleague engagement survey in the UK, providing rich insight and feedback from colleagues.		
6 Health and safety			
Failure to provide a safe place to work for our people	Health and safety is a standing agenda item at all Board Meetings. The Group has a dedicated in-house health and safety team, which was expanded in 2022 and complemented in 2023 with the addition of a dedicated Group Health & Safety Director. The Group also commissions independent audit, and engages external support, and is focused on having a strong and embedded health and safety culture across the group. Improved metrics have been developed for monitoring performance, including the number of near miss reports, which are actively encouraged to aid learning. As part of the Group's ongoing certification, ISO 45001 audits have been undertaken across all the UK's main sites.		

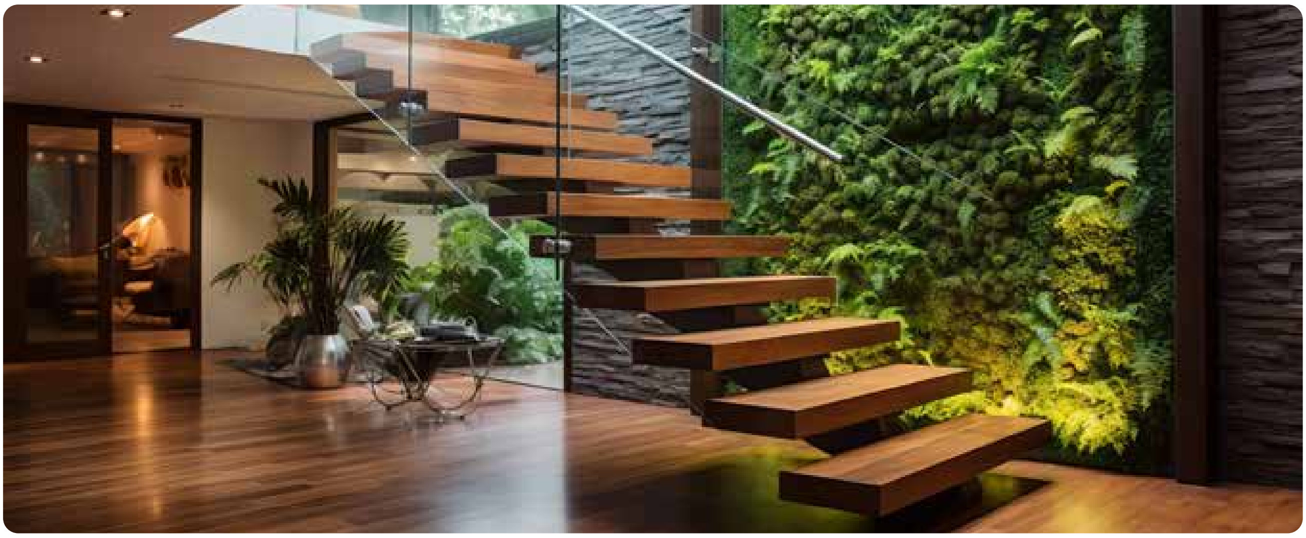
Key

Increased

Unchanged

Decreased

Risk and description	Mitigating actions	Link to Strategy	Risk change
7 Supply chain			
Failure to maintain a supply chain that provides innovative, competitively priced, environmentally sound and legally compliant products on a reliable and ethical basis	Increased engagement with suppliers to help mitigate against any supply chain risk. Including on: Sustainability Charter; Ethical Code of Conduct; and Self-Assessment Questionnaire (delivered by a third-party leading social audit business). Working closely with certain suppliers to launch new competitive and sustainable ranges. In 2023, we launched four sustainable product ranges. Following the success of the Group's first Supplier Conference in 2022, this was repeated in 2023, where the Group presented its strategy and discussed the areas that present a significant opportunity to strengthen supplier partnerships and efficiencies. During the year, the new role of Head of ESG was created and recruited for in the buying team.		
8 Legislation, regulation and reporting			
Failure to operate with high standards of governance supported by a sound system of internal control that ensures compliance with laws and regulations, including disclosure and reporting requirements	The Group manages its obligations through a framework of policies and procedures and, where appropriate, engages the services of specialist third-party advisers, which help to support the assurance process. The Group has an online compliance training portal with courses related to Anti-Bribery, Modern Slavery and Human Trafficking, Cyber Security and Social Media Awareness being rolled out to appropriate staff members. The Group has implemented a Code of Conduct, setting out clear standards and expectations for all employees (also see Supplier Ethical Code of Conduct above). All senior leaders are required to complete a twice-yearly standards and controls attestation certificate.		



Risk and description	Mitigating actions	Link to Strategy	Risk change
9 Environmental and decarbonisation			
Failure to reduce environmental impact, including failure to deliver GHG reductions in line with Net Zero commitments and contribution to climate change	The Group continues to develop and progress its overall ESG Strategy. For full details on environmental-related actions, see the Sustainability Report on pages 40 to 64, which includes the Group's TCFD disclosure. This disclosure details the climate-related risks the Group has identified, and how it is specifically assessing and addressing them. The Group has previously committed to a Net Zero emissions target (Scope 1 and 2) by 2035 and is actively engaged in transition planning. To strengthen and ensure progress towards this commitment, the Group introduced, in November 2022, an interim target of a 46% reduction by 2030 against a baseline year set at 2019. This included setting milestones for 2023, which the Group has achieved, as set out in the Sustainability Report. The Group established an Executive ESG Committee during 2022, reporting to the Board and assisting the Board in the fulfilling of its oversight responsibilities with respect to the implementation and development of the ESG Strategy. This was supported, in 2023, by an external assessment. There is transparent and regular external reporting to allow scrutiny by all stakeholders on environmental performance.		
10 Change and decision making			
Failure to successfully drive the cultural and operating model changes necessary to deliver the strategy	The Group's strategy and strategic objectives continue to be embedded through regular group-wide communications and engagement. Senior Leadership conferences are held regularly to discuss overall progress and focus on specific elements of the strategy. Feedback is sought from all participants, including on support needed. The HR team was expanded in early 2023 to provide further support to senior managers across the group responsible for teams of people and delivery of the strategy. As above, the Board has direct oversight of strategy and its progress, and investment has been made in multiple areas in support of the strategy. The strategy is well resourced in terms of monetary investment and people, with good governance in place through regular reviews by both the Board and the Executive Team. There is a dedicated project manager in place to support the Executive Team in the delivery and prioritisation of the strategic initiatives.		

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.

Consistent with previous years, a period of three years, to 31 December 2026, was chosen for the purpose of the viability assessment. This period best aligns with:

- the Group's strategy, as outlined on pages 18 to 19, including the timeline for the Trade Counter investment programme and the maturity of revenue growth with Larger Customers; and
- the Group's financing, with the revolving credit facility expiring in 2027 and, therefore, a renewal process commencing in 2026.

This longer-term assessment also supports the going concern assessment over a period no shorter than 12 months from the date of approval of the financial statements.

Sensitivity analysis

Reporting on the Group's and Company's viability and assessing going concern requires the Board to consider those principal risks that could impair the solvency and liquidity of the Group and Company. In order to determine those risks, the Board considered the Group-wide principal risks as set out in the Risk Management and Principal Risks sections on pages 65 to 71.

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

The identified principal risks include environmental and decarbonisation risk. It is the Board's opinion that environmental risks are unlikely to compromise the Group's viability over the assessment period, including transition risks, which are considered the most likely to occur. In particular, the timing of any new potential legislation, regarding extended producer responsibility for bulky household waste items, is unlikely to fall within the assessment period. Whilst the trialling of electric and other commercial vehicles is underway, technological advancements are required before moving the whole fleet to an alternative. As there is a high degree of uncertainty in the cost estimates for a sustainable HGV fleet, it has been assumed that such costs are broadly comparable to those of operating a diesel fleet. The Board considers that any potential changes in consumer preferences towards more sustainable products can be supported by the Group reflecting these changes in its product offering. Climate-change risks are discussed further in the TCFD quantitative analysis on page 58, including consideration of the impact of the risks over time horizons longer than this assessment period.

The Board considered the impact of a new 'black swan' event, whereby, for example, a brand new pandemic surfaces with little-to-no notice and for which there is no vaccine. However it was concluded not to specifically model this for viability purposes on the basis of probability and also in acknowledgement that the Covid-19 pandemic proved that the Group was able to withstand such a shock.

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

The Board considers that there are two severe but plausible scenarios that have the potential to threaten the viability of the Group: an economic crisis with a sharp

decline in demand before a recovery; and a sustained recessionary environment, characterised by a long period of underperformance throughout the assessment period.

Market backdrop

2023, has been challenging for the flooring market due to a number of macroeconomic indicators, including lower RMI (residential maintenance and improvement) spend, a reduction in housing transactions, and a decline in residential consumer spending. The Group's profitability has been significantly impacted by the industry headwinds of volume decline and cost inflation, partially offset by mitigating actions, including reducing operational headcount and other cost savings, and targeted price increases on certain products. Volumes in the UK market in 2023 were around 20% lower than in 2019, which indicates a good recovery opportunity over the medium term as the market improves, albeit the short-term outlook remains uncertain.

In setting the two scenarios to be modelled, the Board recognises that, as the Group exited 2023, it had already experienced reduced volumes as a result of significantly reduced consumer and business confidence due to the economic conditions. Therefore, the scenarios have been adjusted to take account of this and to estimate the further additional severe-but-plausible downside that could occur.

The inflationary environment over the last two years has created a situation where revenue has not been materially impacted, despite the reduction in volumes. However, gross margin in 2023 has not benefitted from the proliferation of manufacturer-led price increases seen in the prior year, and this has been compounded by high operating cost inflation.

The Board has considered the impact of inflation in determining the additional severe but plausible revenue downside that could occur over and above the current macroeconomic headwinds.

Banking Facilities

As at 31 December 2023, the Group had a net debt position excluding lease liabilities of £29.6 million, and had total banking facilities available of £100.6 million, including £81.5 million of committed facilities. At 31 December 2023, the Group had cash and undrawn facilities of £71.0 million.

The committed facilities comprise a revolving credit facility with a syndicate of three banks. This facility matures in October 2027, which is outside the assessment period, albeit the renewal process would commence in 2026.

The Group is subject to financial covenants in relation to its £81.5 million revolving credit facility agreement, which are tested and reported every half year and year end. These comprise an interest cover ratio and a leverage ratio. Interest Cover is the ratio of EBITDA, adjusted to exclude the impact of IFRS 16 and share-based payments ('Covenant EBITDA') to Finance Charges. Leverage is the ratio of borrowings and cash and cash equivalents, excluding IFRS 16 lease liabilities to Covenant EBITDA. In February 2024 the interest cover covenant was amended to be based on EBITDA rather than EBIT; this change applies prospectively.

Confirmation of longer-term Viability and Going Concern

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

Scenario A – Economic Crisis

Scenario A is modelled on the basis of a U-shaped economic crisis and then recovery. The overall impact, including the current macroeconomic headwinds being experienced, is similar to that observed following COVID-19, such that revenue levels decrease overall by 15% before recovering. This translates into a year-on-year revenue decrease in 2024 of 5%, after factoring in the volume decline observed so far in the economic cycle.

In this scenario, including the impact of mitigating actions that could be deployed, the Group and Company continue to operate within their current banking facilities, as detailed below, and the covenant tests set out therein. The mitigating actions include a reduction in the cost base, a suspension of the ordinary dividend, a freeze on non-critical capital spend, and the disposal of freehold properties.

Scenario B – Sustained Recessionary Environment

Scenario B is modelled on the basis that there is a sustained recessionary environment in both the UK and Continental Europe, similar to that experienced in 2008-2009.

The headwinds experienced in 2023 from the macroeconomic environment, being worse than that usually modelled for this scenario, are assumed to continue over the assessment period, with revenue and profit levels held flat over 2024-26.

In this scenario, and in the absence of any mitigating actions, the Group and Company continue to operate within their current banking facilities, as detailed below, and the covenant tests set out therein.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

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

Reporting Requirement	Relevant policies	Additional Information
Matters		
Environmental matters	ESG Policy Supplier Code of Conduct	Sustainability Report – pages 40 to 55 SECR Disclosure – pages 61 to 64 Corporate Governance Report – pages 77 to 145
People	Code of Ethics	Stakeholder Engagement and Section 172 Statement – pages 28 to 31 Sustainability Report – pages 40 to 55 Corporate Governance Report – pages 77 to 145
Social matters	Equal Opportunities and diversity policy Flexible working policy	Stakeholder Engagement and Section 172 Statement – pages 28 to 31 Sustainability Report – pages 40 to 55 Corporate Governance Report – pages 77 to 145
Respect for Human Rights	Health and Safety Policy Modern Slavery Statement	Health and Safety – pages 48 to 49 Modern Slavery – page 143 Other Statutory Disclosures – pages 140 to 144
Anti-Corruption and Anti-Bribery matters	Anti-Corruption and Bribery Policy Speak Up Policy Expenses Policy	Corporate Governance Report – pages 77 to 145 Audit Committee Report – pages 102 to 109 Other Statutory Disclosures – pages 140 to 144
Information disclosed in support of the matters		
Business model		Business Model – pages 16 to 17
Principal risks, impact and mitigation		Risk Management, and Principal Risks and Uncertainties – pages 65 to 71
Non-financial key performance indicators		Key Performance Indicators – pages 24 to 27 Sustainability Report – pages 40 to 55

This Strategic Report was approved by the Board on 5 March 2024 and signed on its behalf by

Chris Payne
Chief Executive

GOVERNANCE

CHAIR'S INTRODUCTION

Keith Edelman, Non-Executive Chair

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

On behalf of the Board, I am pleased to present the Governance report for the financial year ended 31 December 2023.

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

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

Board changes and succession planning

Following a formal and comprehensive recruitment process, and the recommendation of the Nomination Committee, Adam Phillips joined the Company as our Chief Financial Officer in March 2023.

Adam's appointment, along with that of and other senior management appointments into key areas of the business, ensures that we have a strong set of complementary skills and breadth of experience across the Board, Executive Directors and the Executive Team to support the delivery of the strategic objectives of the Group.

Full details of the external search process undertaken for Adam's appointment can be found in the report of the Nomination Committee on page 110.

Strategy and Culture

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

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

Following the launch of our new supplier code of conduct in 2022, we held a further supplier conference in the year, which was attended by 30 of our key suppliers. A revised colleague code of conduct was also rolled out in 2023 .

Our on-going engagement work with all our stakeholders will help shape how the Board takes their views into consideration to support our decision making and ensure the culture of the business is developing in line with our stated purpose and values. Information of our engagement with stakeholders can be found on pages 28 to 29 and throughout this Governance report.

This commitment to guiding and promoting a healthy culture is underpinned by a significant ongoing work programme to develop a strong safety culture. The building blocks have been put in place, existing practices assessed as required and key objectives identified to promote and drive forward this work, we have also appointed a Head of Health & Safety who reports directly to the Chief Executive to continue to drive a strong safety culture.

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

Environmental, Social and Governance (ESG) Responsibilities

Our ESG strategy and work to deliver this has continued throughout 2023 as a key work stream and embedded into the business through the established ESG Committee which is attended by Non-Executive Director Karen Hubbard. ESG updates have regularly been given to our stakeholders. The highlights from the year and our progress in key areas are outlined in our Sustainability report on pages 40 to 64.

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

Diversity

The Board recognises that diversity both on the Board and in the wider organisation leads to healthy debate, which in turn leads to better decisions and helps support the Company to become more adaptable to the changing environment. The Board reviews its diversity policy annually and it was a key consideration throughout the process of recruiting for the vacant Board positions. In making our appointments we have aimed to cultivate a broad spectrum of attributes and characteristics in the boardroom and we will continue to keep the position under review as we move forward in all our succession planning activity. Diversity across the organisation will is a key pillar of the People Strategy and more information is on page 51. Further information on Board diversity can be found in the report of the Nomination Committee on pages 110 to 115.

Board evaluation

An externally supported evaluation was carried out towards the end of the year, and the results were pleasing and confirmed that the Board is working well together with overall improvements made since the prior year. There is already a high level of constructive challenge and this will improve over the coming year as the Board works together to oversee and support the implementation of the strategy. More information on the Board evaluation can be found on page 100.

Our colleagues

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

During the year, there have been some changes to the Executive Committee with Adam Phillips joining, and both Catherine Miles and Adrian Harris leaving the Company this month, and I'd like to take this opportunity to thank both Catherine and Adrian for all their hard work and contributions to the Company.

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

Keith Edelman,
Non-Executive Chair

5 March 2024

COMPLIANCE STATEMENT

It is the Board's view that, throughout the financial year ended 31 December 2023, and as at the date of this report, the Company complied with the relevant principles and provisions set out in the UK Corporate Governance Code 2018 (the 'Code').

This Report complies with Rule 7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority, with the information required to be disclosed by sub-section 2.6 of Rule 7 being shown on pages 161 to 214. The Company has also complied with the relevant requirements of the Disclosure Guidance and Transparency Rules, the Listing Rules, Directors' Remuneration Reporting regulations and narrative reporting requirements.

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

Implementation of the Principles of the Code

Board leadership and company purpose	
The Board is responsible for: Promoting the long-term sustainable success of the Company and establishing the Company's purpose, values and strategy (ensuring that its culture is aligned). Ensuring the necessary resources are in place to meet objectives and measure performance against them within a framework of effective controls. Engaging with stakeholders to inform decisions and ensuring that workforce policies and practices are consistent with the Company's values and support long-term success.	Board of Directors – pages 82 to 83 Leadership and purpose – page 86 Board activities during the year – page 97 Considering stakeholders in decision making – pages 28 to 30 and 87

Division of responsibilities	
The Chair leads the Board and is responsible for its overall effectiveness in driving the Company. There is clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The Non-Executive Directors dedicate sufficient time to meet their responsibilities and provide constructive challenge, strategic guidance, specialist advice and hold management to account. Board policies and processes are in place to ensure that the Board functions effectively.	Board Roles – page 93 Division of responsibilities – pages 92 to 99 Nomination Committee report – page 110 Dealing with Directors' conflicts of interest – page 91

Composition, succession and evaluation	
Formal, rigorous and transparent procedures are in place to support Board appointments, led by the Nomination Committee, which considers the importance of diversity in decision making. The Nomination Committee regularly reviews composition of the Board and Committees to ensure appropriate combination of skills, experience and knowledge and to plan for the progressive refreshing of the Board. Annual evaluation of the Board's composition, diversity and effectiveness.	Nomination Committee report – page 110 Appointments to the Board – page 110 Board Diversity Policy – page 112 Board composition – pages 115 Board evaluation – page 100

Audit, risk and internal control	
The Board has established formal and transparent policies and procedures to ensure the integrity of the independence of the Group's external audit, and to satisfy itself of the integrity of the Group's financial statements and to confirm that they represent a fair, balanced and understandable assessment of the Company's position and prospects. Procedures have been established to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.	Audit Committee report – pages 102 to 109 Fair, Balanced and Understandable statement – page 145 Risk Management and Principal Risks – pages 65 to 71

Remuneration	
The Board, through its Remuneration Committee, determines Director and senior management remuneration policies and practices and ensures they align to the Company's purpose, values, and promote the successful delivery of the Company's long-term strategy. Each element of performance-related pay allows for the independent exercise of judgement and discretion when authorising remuneration outcomes. Controls have been implemented to ensure that no Director is involved in deciding their own remuneration.	Remuneration Overview – page 117 Directors' Remuneration Policy – page 119 Directors' Annual Report on Remuneration – page 128

BOARD OF DIRECTORS

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

Committee Membership key

A Audit Committee	N Nomination Committee	E ESG Committee
R Remuneration Committee	D Disclosure Committee	Committee Chair
Ri Risk Committee	F Employee Forum	

N

Keith Edelman

Non-Executive Chair

Keith was appointed a Non-Executive Director in 2018, and Non-Executive Chair in 2022. Keith is currently Non-Executive Chair of Revolution Bars Group plc, a Non-Executive Director of Grupo Murano and a previous Non-Executive Director of the London Legacy Development Corporation. His last executive appointment was Managing Director of Arsenal Holdings plc, where he was responsible for the move from Highbury to Emirates Stadium.

Keith has held a number of public company Non-Executive roles, including Superdry plc, Safestore plc, Goals Soccer Centres plc, JE Beale plc, Thorntons plc, Pennpetro Energy plc and Altitude Group plc.

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

E F D

Chris Payne

Chief Executive

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

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

A N R

Stephen Bird

Senior Independent Non-Executive Director

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

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

Ri D

Adam Phillips

Chief Financial Officer

On 20 March 2023, Adam Phillips joined the Board as Chief Financial Officer.

Adam was previously Group Financial Controller at Mobico Group plc, (formerly National Express Group plc), the FTSE 250 leading international transport provider, where he was responsible for all group finance functions and investor relations. Prior to this Adam was at Halfords Group plc, the UK's leading provider of motoring and cycling products and services, where latterly he was Corporate Finance Director and Group Strategy Director.

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

A N R E F

Karen Hubbard

Independent Non-Executive Director

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

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

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

A N R

Robin Williams

Independent Non-Executive Director

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

Robin is a qualified Chartered Accountant and brings experience of chairing audit committees as well as insights from a wide range of sectors as an executive and Non-Executive Board member of public and private companies.

A N R

Jemima Bird

Independent Non-Executive Director

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

Jemima is the Senior Trustee for the Football Foundation, the UK's largest sports charity. Jemima is also a Non-Executive Director of two privately held companies, BatFast and The Greater Good Brewing Company.

EXECUTIVE TEAM

E Ri

Clare Moore

Chief People and Sustainability Officer

Clare was appointed in 2022 having previously worked as the Chief HR Officer at Midcounties Cooperative Ltd, the UK's largest independent consumer cooperative made up of Food Retail, Travel, Childcare, Utilities, and Healthcare. Prior to that she held a number of roles at Halfords Group plc spanning ten years where she was eventually promoted to the role of Group People Director.

Clare has also worked in HR in businesses such as Barclaycard, Aston Martin Lagonda Ltd and Rolls Royce plc. Clare brings experience of colleague attraction, engagement, development and reward across a broad range of colleagues.

Clare is responsible for the day-to-day oversight of the ESG strategy, activity and reporting and Clare is a member of the ESG Committee, the Risk Committee, and the Employee Forum.

E Ri

Toni Wood

Chief Customer Officer

Toni joined in 2023, into the new role of Chief Customer Officer with the remit of leading customer and digital strategy. Toni was previously Chief Marketing and Growth Officer at ufurnish.com, the UK's market leading search and discovery website for home furniture and furnishings. Prior to that, she was Chief Commercial and Marketing Officer for DFS Furniture PLC, where she was instrumental in developing the brand, responsible for merchandising and design, and ran the stand-alone manufacturing division. Toni was also an Associate Marketing Director at Procter & Gamble during her ten years there and a category manager at Sainsburys.

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

E Ri D

Alison Hughes

General Counsel & Company Secretary

Alison was appointed in December 2023 and has over 18 years' experience across several business sectors, including retail and hospitality and extensive experience in corporate and commercial legal matters, corporate governance and compliance matters. Most recently she was the Director of Group Legal & Company Secretariat at Mitchells & Butlers plc, a FTSE 250 company within the hospitality industry. Prior to that she worked at Boots plc, and trained and qualified as a solicitor with Wragge & Co LLP (now Gowling WLG).

Alison is a qualified solicitor with over 18 years' post qualification experience. She is a member of the Disclosure Committee, ESG Committee and the Risk Committee.

BOARD LEADERSHIP AND COMPANY PURPOSE

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

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

This responsibility includes: setting the Company's purpose, values and strategy; reviewing and promoting the desired organisational culture; ensuring the necessary resources are available to meet agreed objectives; and ensuring that all of these elements are aligned. The Company's business model and strategy is detailed on pages 16 to 23.

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

Culture

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

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

Karen Hubbard is the Independent Non-Executive Director accountable for representing the voice of our colleagues in Board meetings. Karen attended four Employee Forum meetings during 2023. Further information on how the Board hears the employee voice can be found on page 49 and 89.

Work continues to enhance communication to ensure that staff across the business, especially those more remotely situated and any new colleagues in the Group's businesses, do not feel isolated. The Group-wide intranet continues to be developed as a place for colleagues to access all communication and information about benefits and personal and financial well-being. In addition to this, the following improvements have been during the year, refreshed Employee Forum, the first ever leadership conference (an off-site two day conference where our leadership team attended to facilitate alignment across our business leaders on the Company's People strategy and focus to deliver the Company's strategy), the launch of the leadership development programme and ongoing regular manager and leadership weekly calls, as well as the employee engagement survey (the results of which were presented to the Board in December 2023).

The revised Speak Up Policy (which now includes an externally managed helpline) was launched in 2022 and continued to be in place during the year and this, together with a well established grievance policy, provides a mechanism for colleagues to raise matters of concern more formally. In addition, the Headlam Code of Ethics has been issued to all new employees and is part of the new induction programme . As well as reviewing People KPIs at the Board and the outputs from the listening channels, the Board has continued to influence and monitor Group culture in a number of additional ways:

- Increasing the focus on the health, safety and working practices of our colleagues and reviewing key health and safety performance indicators, please see page 46.
- Reviewing and revising remuneration structures for senior management.
- Reviewing the progress of the implementation of the People Strategy.
- Regular meetings with management and inviting presentations at the Board and Committee meetings from relevant managers and colleagues.
- Assessing other cultural indicators such as the attitude to risk, the implementation and compliance with Group-wide policies such as Anti-Corruption and Bribery, Fraud and Money Laundering.

Board Engagement with Stakeholders

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

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

The Board continued to develop its methods of engagement during the year and this work will be continued during 2024.

Our Colleagues

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

See pages 49 and 89 for employee engagement.

Our Customers

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

See page 5 for customer segments

Our Suppliers

Supplier relationships provide valuable insights through engagement with operations teams and through the Chief Executive and Chief Operating Officer.

See page 28 for supplier engagement.

Our Shareholders

There is regular dialogue with our shareholders.

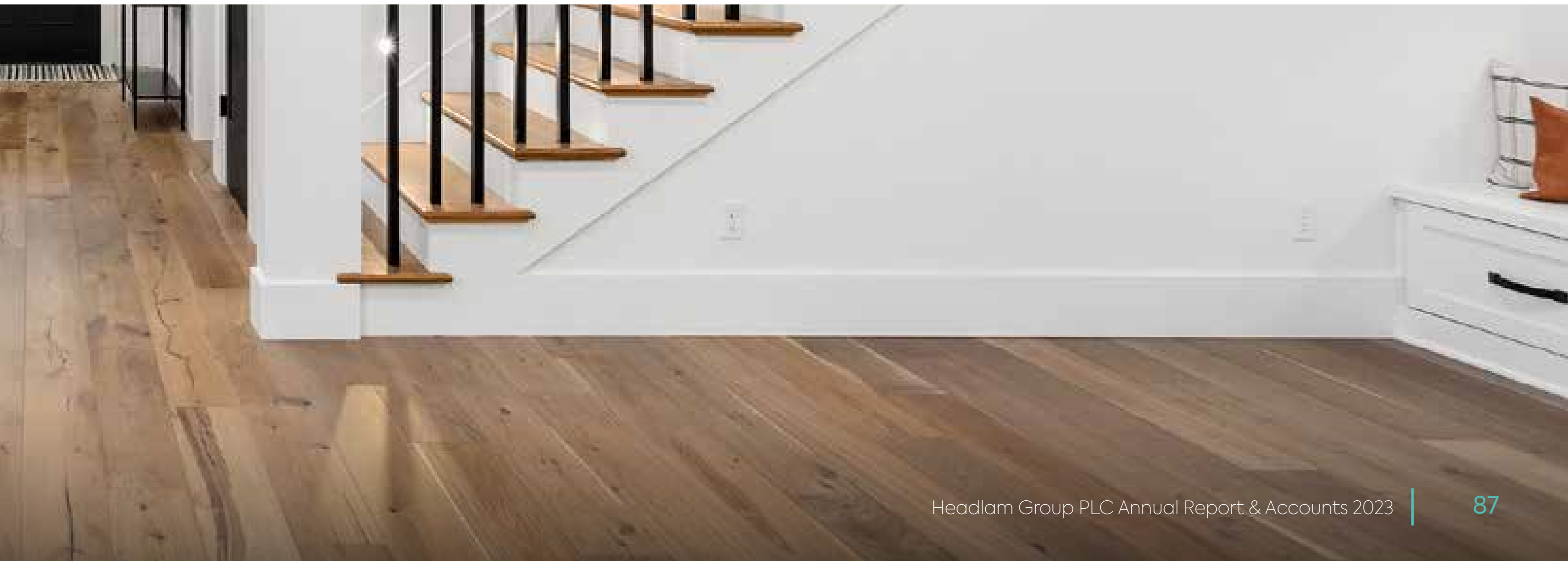
See page 30 for shareholder engagement.

Our Communities and the Environment

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

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

Further information can be found in our Sustainability Report on pages 40 to 55.



BOARD LEADERSHIP AND COMPANY PURPOSE
CONTINUED

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

Payment of Dividends

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

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

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

For further information on dividends see page 195.

Kidderminster Insurance Claim

The Board considered the settlement of the insurance claim (as opposed to rebuilding the property)

The Board considered the interests of all stakeholders when it decided to settle the insurance claim (as opposed to rebuilding the property) and are in the process of selling the site which the Board considered was the better option for stakeholders, (as opposed to waiting and potentially generating more value in the future).

Acquisition of PD Pattern Books, ('PD Pattern')

On 30 August 2023, the Group acquired the trade and assets of PD Patterns, one of the UK's largest manufacturers of pattern books, sampling and other presentation material based in Bradford.

PD Patterns is a leader in the industry, with promotional materials being important to the successful launch and sale of flooring product ranges.

The Board considered a wide range of stakeholders through the detailed paper from the Chief Financial Officer including employees, suppliers and customers.

The acquisition will enable the Group to more effectively manage its lead times in relation to new launches and associated materials, whilst also realising savings through bringing some of its requirements in-house. PD Patterns' highly established customer base includes businesses within the Headlam Group and leading suppliers.

PD Patterns has moved into the premises of Melrose Interiors and trades under the umbrella of Melrose Interiors with the customers of both of these companies benefitting from the two businesses being brought together and operating under one roof. In addition, investment is being made in new machinery and people to increase product capacity and further improve the service for our customers.

Melrose Interiors and PD Patterns will continue to support our sustainability strategic goals through its upcycling of surplus carpet from across the industry into samples and pattern books.

For further information on our strategic aim to deliver new opportunities for future growth, see page 18.

Q&A WITH KAREN HUBBARD

Q Describe your role as designated Non-Executive Director, workforce engagement and how it adds value to the Group

A My role is to act as the nominated Non-Executive Director to represent the employee voice at Board level. I attend quarterly employee forums and seek feedback on all issues and concerns. I specifically seek feedback on matters around remuneration, values, culture and behaviours, employee development and upskilling.

All feedback raised, irrespective of the issue is acted upon where appropriate.

I actively spend time with the employees without management present to give employees the opportunity to provide feedback directly to the Board.

As part of my role, I use the insights I gain to provide the Board with an employee perspective across a range of issues. The Board considers this perspective to be very valuable specifically in relation to employee engagement and culture.

I liaise with the Chief People and Sustainability Officer and support the Group in how it can better communicate and engage with employees. In addition, as a member of the Remuneration Committee my insight is also very helpful in the context of Executive pay.

Q What have been your highlights this year?

A I enjoy this active role in the Employee Forum and have been especially impressed by the willingness of the forum members to raise issues and confidently challenge business processes and provide constructive insights. These inputs have enabled both executive management and the Board to receive instant and relevant feedback on key issues. This year the forums insight into the ‘Headlam Way’ strategy and values as well as the employee engagement survey have been particularly insightful.

In establishing the forum, local management has ensured that the right people attend to ensure we achieve a wide range of input to enable the forum to be effective in its role. The Employee Forum has enabled the facilitating of constructive dialogue improving the Company for all of our colleagues, customers and all stakeholders, and I look forward to hearing the insights from the forum this year given the ongoing change program.

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

As described above, Karen holds the role of dedicated Non-Executive Director responsible for ensuring employee views are represented in the Board room and she attends the employee forum, which provides a platform to colleagues to express their views, suggestions and concerns to ensure they are heard and acted upon where possible, (the 'Employee Forum').

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

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

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

Following each meeting, an update is provided to the Board by the Non-Executive Director who attends the Forum, in this case by Karen Hubbard who attended all of the Employee Forums during the year. Please also see page 89.

The Board has received presentations from management and undertaken site visits. For further information see page 98.

In 2023, an employee engagement survey was carried out and the results presented to the Board. Further information about the employee survey is included on page 49.

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

Since his appointment as Chief Executive Officer, Chris Payne has undertaken additional visits to each site to present the strategy of the Company and at these visits he engaged with a wide range of employees. Information on these visits was fed back to the Board through his regular Chief Executive's report.

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

The Board also considers annually if the current framework continues to be effective. Feedback from 2023 concluded that engagement had started to establish meaningful and genuine dialogue with employees and this would be enhanced through the addition of the virtual check-in sessions.

Shareholders

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

The Chair of the Remuneration Committee undertook an investor consultation during 2022 and these consultations covered the proposals in relation to remuneration policy and a proposed revised remuneration policy was submitted to shareholders at the 2023 AGM and was approved. Further information is contained in the Remuneration Committee Report starting on page 116.

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

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

Any appropriate webcasts and presentational materials are made available to view by all on the Company's website. During 2023, the Company also participated in events and presentations aimed specifically at private investors.

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

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

Annual report

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

Corporate website

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

Annual general meeting

In 2023, the Company held an in person Annual General Meeting ('AGM') and provided the opportunity for all shareholders to submit questions by email in advance of the AGM and receive a written answer in respect of frequently asked questions.

The Company is looking forward to welcoming shareholders to its 2024 AGM. The Chair of the Board and the Chair of each Board Committee will be available at the meeting to answer shareholders' questions, which can be asked either in person or submitted in advance of the meeting. The Company has reviewed the use and cost of the remote facility and will not be providing it on this occasion. This will be reviewed on an annual basis. Voting on all resolutions will be conducted by poll.

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

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

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

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

Conflicts of interest

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

- Directors are required to disclose professional commitments outside the Company prior to appointment and on an ongoing basis where there are any changes. Details of those professional commitments are included in the biographies on pages 80 and 81. The Board is satisfied that these do not interfere or conflict with the performance of their duties for the Company.
- Conflicts are considered prior to any Director taking on an external appointment. Details of changes to the Board during the year are outlined starting on page 126. For each appointment it was agreed that no potential conflict existed and that the interests of each candidate would allow sufficient time to be dedicated to their role with the Company.
- Actual and potential conflicts of interest are both included on a register which is maintained by the General Counsel & Company Secretary and reviewed annually.
- Conflicts of interest are considered as the first item at every Board meeting.

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

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

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

DIVISION OF RESPONSIBILITIES

Board balance

As at 31 December 2023 the Board consisted of the Non-Executive Chair, the Chief Executive, the Chief Financial Officer and four Non-Executive Directors (one of whom was the Senior Independent Director).

As such, at least half the Board, excluding the Chair, were Non-Executive Directors in accordance with the Code during the year (both before and after Adam Phillips joined the Board as our Chief Financial Officer). Prior to Adam Phillips' appointment as Chief Financial Officer in March 2023, Chris Payne was supported by an interim Chief Financial Officer.

The Board undertook a review of the size and balance of the Board and confirmed that it was appropriate to meet the business and operational objectives. Further information on the changes to the Board during the year can be found in the Nomination Committee Report on page 110.

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

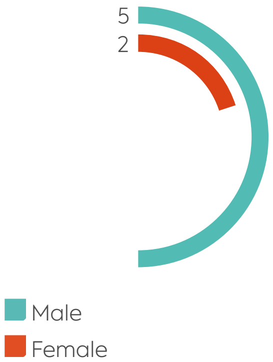
The Board operates within a corporate governance framework designed to support the achievement of long-term sustainable success. The Board has overall responsibility for setting the Group's strategy and setting objectives for the business while taking into account the risk appetite of the business. The Board has a formal schedule of matters reserved for its approval and then delegates responsibilities to its committees and management. The list of the key matters considered by the Board in 2023 can be found on page 97.

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

The Statement of the Responsibilities of the Chair, Chief Executive and Senior Independent Director has been reviewed and is also available on the Company's website.

Board at a glance

Gender representation as at 31 December 2023



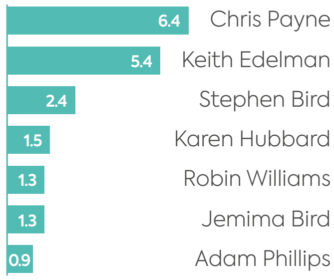
Board independence

as at 31 December 2023

Chair	1
Executive Directors	2
Independent Non-Executive Directors (including the Senior Independent Director)	4

Board Director tenure

as at 31 December 2023



Board and Committee Structure as at 31 December 2023

Non-Executive Chair

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

Chief Executive

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

Chief Financial Officer

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

Senior Independent Director

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

Independent Non-Executive Directors

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

General Counsel & Company Secretary

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

DIVISION OF RESPONSIBILITIES
CONTINUED

Group Board

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

See page 110 to read more

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

See page 102 to read more

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

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

See page 116 to read more

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

Committee attendance

Membership of the Board and its Committees and attendance at meetings held during the year ended 31 December 2023.

	Board	Nomination Committee	Audit Committee	Remuneration Committee
Keith Edelman (Chair)	10 (10)	5 (5)	–	4 (4)
Chris Payne	10 (10)	–	–	–
Stephen Bird	10 (10)	5 (5)	4 (4)	4 (4)
Jemima Bird	10 (10)	5 (5)	4 (4)	4 (4)
Karen Hubbard	10 (10)	5 (5)	4 (4)	4 (4)
Robin Williams	10 (10)	5 (5)	4 (4)	4 (4)
Adam Philips[1]	8 (8)	–	–	–

1 Adam Phillips was appointed on 23 March 2023 and attended all Board meetings following his appointment

The numbers in brackets in the table above confirm how many meetings each Director was eligible to attend during the year, there were no Disclosure Committee meeting during the year.

Group Chief Executive

ESG Committee

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

For more information on the Sustainability strategy see page 40

Group Executive Team

The Executive Team meets every month to develop and monitor strategy, operational plans and procedures and to ensure financial performance against the budget is monitored. The Executive Committee assesses and controls risk and prioritises and allocated resources to deliver the strategy. Group Health and Safety is now monitored during each Executive Team monthly meeting.

For more information on Group Strategy see page 18

For more information on Health and Safety see page 47

Employee Forum

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

For more information on Employee Forum see pages 49 and 89

Board roles and responsibilities

All Directors share collective responsibility for the activities of the Board; the long-term success of the business and its impact on stakeholders and the wider society. The Board roles are constructed to ensure a clear distinction between leadership of the Board and the executive leadership of the business. Specific Board roles are outlined in the table on page 93.

Board Committees and delegation

Various operational matters and decisions have been delegated to Board or management committees.

The Company has long-established Audit, Disclosure, 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 the Audit, Nomination and Remuneration Committee have been reviewed during the year and are available on the Governance section of the Company's website.

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

Independence

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

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

DIVISION OF RESPONSIBILITIES
CONTINUED

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

In line with the Code, all Board members stand for re-election by shareholders annually and will do so at the 2024 AGM (with Adam Phillips standing for election).

Board activity in 2023

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

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

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

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

A separate strategy day is held during the year, which in 2023 was held in September and is attended by the Executive team and other key management. This allows detailed consideration of the strategic plan and key focus areas, which then forms the basis of the budget, which is approved at the end of the year. This provided the Board with another opportunity to meet senior leaders in a more formal way and constructively challenge the detailed direction of strategy implementation.

For further detail on strategy see page 18

The Board receives an update from the General Counsel & Company Secretary on a quarterly basis including updates on matters of corporate governance. Matters requiring attention between these quarterly updates are shared at the next meeting, or between meetings as required. The Board performs deep dives into areas of importance such as sales, buying, e-commerce and digital, and conducts post implementation reviews of key capital projects.

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

Strategy and management

- Review of Group strategy and priorities
- Review of organisation structure to deliver the strategy and the resources required
- Consideration of the operational strategy to deliver the strategic goals
- Deep dives into strategic areas, including IT strategy view
- Sustainability strategy and projects
- Consideration of the PD Patterns acquisition opportunity
- Considered the impact of Company culture on initiatives and projects.

See page 18 for more on strategy

Financial and performance reporting

- Review of the trading performance and the approval of the Company's annual and half-year results
- Approval of the Company's dividend policy
- Reviewed the Company's capital allocation priorities
- Reviewed and approved the Company's 2024 budget, forecasts and key performance targets
- Considered the progress and completion of the share buy back programme.
- Long term viability statement and time frame over which it should be considered
- Approved the UK Tax strategy

See page 72 for long term viability statement

People

- Review of purpose and culture
- Approval of the appointment of Adam Phillips (Chief Financial Officer)
- Senior management succession planning
- Consideration of Health and Safety leadership
- Consideration of the external review of Group diversity
- Gender pay gap reporting
- Modern slavery reporting
- Employee share grants and long service awards
- Agreed a tiered pay award

See page 49 for employee voice and page 51 for diversity

Internal controls and risk management

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

See page 65 for information on risk management

ESG and stakeholder engagement

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

See page 40 for Sustainability report

Governance and culture

- Participated in and reviewed the results of an externally facilitated Board and Committee self-evaluation exercise and agreed areas of focus for 2024
- Approved the terms of reference of each Board Committee
- Reviewed and approved the Board's principal policies
- Reviewed the Company's Register of Conflicts
- Approved the Company's Anti-Corruption and Bribery policy, procedures on gifts and hospitality, Fraud and Anti-Money Laundering policy and Speak Up policy
- Received and considered reports on compliance with financial, regulatory, corporate responsibility and environmental commitments

DIVISION OF RESPONSIBILITIES
CONTINUED

Outside the boardroom

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

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

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

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

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

The Chair is kept up to date about emerging issues through regular interaction with the Chief Executive, Chief Financial Officer and other members of the Executive Committee.

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

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

Risk management

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

Emerging risks are considered by the Board at least annually. Further information on the Company's approach to risk management is available in the strategic report on page 13 and in the Audit Committee report on page 102.

A description of the risks identified, together with details of how they are managed or mitigated, is set out on pages 65 to 71.

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

Board induction and training

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

Induction

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

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

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

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

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

Training and development

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

The Directors keep their knowledge and skills up to date and have the opportunity to discuss areas for development with the Chair. Virtual seminars and on-line courses run by professional bodies on various commercial, operational and regulatory matters were attended by the Directors as part of their ongoing development . As required, professional advisers are invited to the Board meetings to provide in-depth updates and the Board also receives updates on environmental, employee and governance issues as appropriate. The General Counsel & Company Secretary provides regular updates on regulatory matters.

Presentations at the Board during 2023 have covered ESG updates, branding, culture, cyber security, investor views and market remuneration and policy trends. In addition, the General Counsel & Company Secretary provides regular updates on developments in Corporate Governance.

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

Board evaluation

Progress during 2023 vs actions identified as part of the prior year's Board evaluation (2022)

	Strategy	Risk	Board Papers	Diversity
Actions identified in 2022	To ensure that ESG issues are regularly considered as the strategy evolves. The Board will ensure that it continues to review the approach to sustainability and that it is embedded across the business.	Risk is discussed in detail at the Board and within Committees. The evaluation results were good in this area but it was identified that the Board could heighten awareness of emerging risks over the coming years.	To signpost the issues that require Board engagement and the key areas for decision.	To continue to focus on developing diversity throughout the organisation. The Board will support the development of the Diversity and Inclusion Plan.
Progress made in 2023	The Executive ESG Committee (chaired by the Chief Executive) continued our focus on the relevant ESG issues, which is attended by a range of stakeholders responsible for the implementation of the Company' strategy.	Adam Phillips now chairs the Risk Committee and during the year the Board carried out a review of Principal Risks (including emerging risks) and introduced an annual Risk Appetite review, the results of which will be reviewed by the Board in its first Board meeting in 2024.	Board papers are highlighted on Board agendas where Board decisions and/or approvals are required, or whether papers and the issues within them are for discussion and/or noting to facilitate Board engagement and the key areas for decision.	An 'Inclusion and Wellbeing' Company strategy was developed in 2023, which includes actions to improve the diversity, equity and inclusion of our workforce. To ensure continued focus, long- and short-term diversity targets have been set. The implementation of this strategy and progress against the diversity targets will be overseen by the Executive Team, and ultimately the Board. The Board Diversity Policy was reviewed and enhanced as part of its annual review and introduced a commitment to maintain at least two female Board members, (a copy of the Board Diversity Policy can be found on the Company's website).

2023 Board evaluation

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

The Board undertook an externally facilitated self-evaluation in 2023 based on a confidential online questionnaire facilitated by Gould Consulting. Gould Consulting has no other connection to the Company or its Directors.

Preparation for the evaluation included a scoping discussion between Gould Consulting and the Chair together with the Company Secretary. The evaluation questionnaire was approved in advance by the Chair. The questionnaire was used to assess the performance of the Board and its Committees during the year. The evaluation was conducted towards the end of the year. The questionnaire responses were anonymous. The resulting report was received and analysed in draft by the Chair prior to being submitted to the Nomination Committee for review on behalf of the Board at its meeting in December 2023.

The evaluation noted the positive performance of the Board in several areas at this early stage given the relatively recent appointments of the three new Non-Executive Directors in 2022 as well as the appointment of the Chief Financial Officer in March 2023. In addition, it highlighted areas, which would benefit from further improvement.

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

- The Directors have a good understanding of management's agenda and key issues and investor perspectives are well understood by the Board.
- The Committee meetings (an area not examined in the prior year) are well led and operating effectively.
- The contributions from the Non-Executive Directors and balanced and reflect each individual's area of expertise. However, a few points were signposted through this evaluation and these are outlined below.

2023 outcomes and actions

	ESG	Risk	Employee Forum
2023 Outcomes and actions	To ensure that feedback from the ESG Committee is formally fed back to the Board following each ESG Committee, and to ensure that ESG Committee feedback becomes a standing agenda item at the relevant Board meetings immediately following the quarterly ESG Committee meetings.	Risk is discussed in detail at the Board and within Committees. The evaluation results were good in this area but it was agreed that the Board would carry out an annual review of risk appetite as well as an annual review of the Principal Risks.	It was agreed that a paper would be submitted to provide formal written feedback to the Board following each Employee Forum to further enhance the oversight of points raised by employees through the Employee Forums.

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

Performance review of the Chair

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

Individual director performance reviews

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

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

AUDIT COMMITTEE REPORT

Robin Williams, Chair of the Audit Committee

“The Audit Committee has carefully monitored the impact of macroeconomic and industry headwinds on the Group and its significant accounting matters and key judgements”

Key responsibilities:

- Monitoring the integrity of the Group's financial statements and results announcements and any other published financial information and significant financial reporting issues and judgements, as well as other required disclosures.
- Reviewing the adequacy and effectiveness of the Group's internal controls and risk management systems.
- Approving the activities, reviewing the findings and assessing the effectiveness of the Group's internal audit function.
- Recommending the external auditor appointment; assessing audit quality and effectiveness; assessing independence, objectivity and approving fees; and monitoring non-audit services.

Audit, risk and internal control

Statement from the Chair of the Audit Committee

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended 31 December 2023.

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

During the year, the Audit Committee's core duties remained unchanged but the macroeconomic and industry headwinds experienced throughout the year, along with the geopolitical backdrop, presented externally-driven challenges, which the Audit Committee has carefully monitored for their impact on the Group.

This was my first full year as Chair of the Audit Committee, having joined the Board on 10 October 2022. During the year, Adam Phillips joined the Board as Chief Financial Officer on 20 March 2023, at which point the Interim Chief Financial Officer left the Group following a suitable handover period.

Membership and meetings

The Audit Committee had four scheduled meetings during the year, which took account of the financial calendar, the audit cycle and provided time to address other requirements and priorities. Each follows an agenda that follows the financial reporting cycle and particular matters for the Audit Committee's consideration from the structured annual programme of business. A verbal update is provided from the Chair of the Audit Committee to the Board following each meeting. The Audit Committee is scheduled close to, and shortly preceding, the Board meetings to ensure effective and timely reporting.

The Audit Committee members are Stephen Bird, Jemima Bird, Karen Hubbard and myself. All members of the Audit Committee are independent Non-Executive Directors and the remuneration of the members of the Audit Committee is set out in the Report on Directors' Remuneration on page 116. See pages 82 and 83 for further information on the Audit Committee members experience, as set out in the Directors' biographies. This wide range of relevant expertise allows robust challenge and the ability to analyse the issues that are discussed.

The Chief Executive, Chief Financial Officer, Chair and representatives of the external auditor attend the Audit Committee's meetings at the invitation of the Audit Committee Chair. The Director of Group Finance and other members of senior management are invited to attend the meetings where appropriate. Meetings of the Audit Committee with the external auditor without the presence of management were held during the year. A similar such meeting was held during the year with the Head of Internal Audit, without the presence of any other members of management. I hold meetings with the Lead Audit Partner outside of the formal meeting schedule and keep in regular contact with the Chief Financial Officer and the Head of Internal Audit. The role of Secretary to the Committee is performed by the Company Secretary.

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

Main role and key responsibilities

The Audit Committee is appointed by the Board and operates under written terms of reference (available in the investors section at www.headlam.com). In last year's report, the Audit Committee's priorities for 2023 were outlined. The table below sets out how the Audit Committee has focused on these priorities during 2023.

How the Committee spent its time

Key priorities	Progress made during 2023
The development by the management team of a plan to meet the emerging requirements from the BEIS review	Whilst the requirements were not fully clear throughout 2023 and were ultimately scaled back significantly in the FRC's announcement of 7 November 2023, the management team has continued to progress improvements to the internal controls environment through the definition, and internal launch, of a set of minimum control standards. The next step is to remediate any deviations from the new minimum standards as well as to instigate an assurance programme around the new controls framework.
The continued improvement of the system of internal controls, including any ERP development across the Group	As above. In addition, the management team has now set out a roadmap for the implementation of a new ERP over the coming years.
The development by the Head of Internal Audit of a robust internal assurance plan	The Internal Audit plan was developed and presented to the Audit Committee, and executed during the year.
A specific focus on the assurance of the control framework around cyber risk	Cyber risk is one of the Group's principal risks. Significant progress has been made by management in improving cyber security, with numerous additional controls implemented. Cyber security updates are provided to the full Board. Assurance over cyber controls is included in the Internal Audit plan.
Supporting a successful Chief Financial Officer transition	Smooth transition of Chief Financial Officer, supported by an induction programme. See the Nomination Committee's report for more information on the CFO's induction.

Activities of the Audit Committee during the year

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

Financial reporting

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

Internal controls and Risk

- Approved the internal audit charter and the work plan for 2023 and draft plan for 2024.
- Considered reports from management and the Auditor on their assessment of the control environment.
- Reviewed the effectiveness of the risk management framework and considered the systems and processes for identifying, managing and mitigating risks.
- Assisted the Board in its assessment of the emerging and principal risks, reviewed minutes from the Executive Risk Committee and challenged management on its activities, ensured that the Board reviewed and discussed the Risk Register.
- Reviewed reporting disclosures in relation to internal controls, risk management, principal risks and uncertainties and the work of the Committee.

External Audit

- Considered and approved the external audit plan, the materiality level, the risk assessment and the key members of the external audit team.
- Discussed the audit fee and the increase proposed due to increased regulatory requirements and increased costs within the audit profession. Information on the audit fees can be found on page 173.
- Discussed the reports on audit findings and met with the Auditor without management present. There were no significant issues to report.
- Considered the independence and objectivity of PwC LLP. The Audit Committee confirmed the independence of PwC. See page 107.
- Reviewed the effectiveness of the external audit process. The Audit Committee concluded that the audit was effective and a recommendation was made to the Board on the reappointment of PwC at the AGM.

Governance

- Reviewed and approved the Audit Committee's Terms of Reference and annual programme of business.
- Approved the Speak Up, Fraud and Anti-Money Laundering and the Anti-Corruption and Bribery Policies. Further information can be found on page 143.
- Considered the Company's approach to the avoidance of modern slavery and human trafficking.
- Received updates on corporate governance requirements and the BEIS review relevant to its responsibilities

Significant financial reporting issues and areas of estimate and judgement

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

Significant issues and areas of estimate and judgement	How they were addressed
Supplier arrangements The Group has a significant number of rebate agreements with suppliers. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased and significant amounts had not been received at the year-end.	Management explained to the Audit Committee the process of calculating the amounts expected to be received and confirming these balances with suppliers and discussed the assumptions made in the calculations. The Audit Committee challenged the assumptions used by management and reviewed the level of cash receipts and credit notes received after the year-end. The work of the external auditor in relation to supplier rebates was discussed by the Audit Committee. Based on this, the Audit Committee was satisfied that the amounts recognised have been appropriately scrutinised and that the assumptions upon which the calculation was based are sufficiently robust.
Non-underlying items The Group accounting policy for non-underlying items states that performance measures will be presented which exclude items which are associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. Management must exercise judgement in deciding whether items should be treated as non-underlying by reference to this policy.	The Audit Committee considered the presentation of non-underlying items in accordance with the Group accounting policy. This year the non-underlying items included income of £8.6 million in respect of the settlement of the insurance claim on the Kidderminster property, and £2.3 million from the subsequent disposal of the land, offset by £1.2 million of costs associated with the Kidderminster settlement, £2.3 million of charges in relation to amortisation of intangibles and other acquisition-related costs, and £11.3 million of restructuring and change-related costs, of which £5.6 million related to the write-off of previously capitalised software development costs. The Audit Committee received reports from management and the Auditor, outlining the judgements applied including consideration of materiality. The Audit Committee also considered whether the Annual Report and Accounts was fair, balanced and understandable and challenged management's reconciliation of adjusted profit measures back to IFRS. The Audit Committee concluded that the disclosure of non-underlying items was sufficient and appropriate for the user of the accounts to understand the nature of the items and reason for their treatment as non-underlying.
Carrying value of non-current assets The Group had £11.2 million of goodwill allocated on its balance sheet at 31 December 2023, resulting from past acquisitions, along with intangible assets, property, plant and equipment and right-of-use assets. The assessment of the recoverable amount of these assets are estimated based on future cashflows and any impairment has the potential to be material.	Management performed the annual impairment review of goodwill, along with impairment reviews for other groups of assets at both June 2023 and December 2023 where indicators of impairment were identified. Management concluded that no impairment was necessary during 2023, albeit the level of headroom in certain CGU assessments was reduced. The key assumptions used in an impairment review are the level of revenue growth, gross margin and the discount rate. Climate change risks were also considered by management and included in the sensitivity analysis. Judgements are made by the Directors in identifying the cash generating units ('CGU'), although no changes were made to these during the year other than the addition of Melrose as a CGU following its acquisition. The Audit Committee considered the impairment reviews carried out by management and discussed the basis of the key assumptions and the sensitivities performed. The Audit Committee also considered the external auditor's findings and discussed this matter with the external auditors. Based on this the Audit Committee was satisfied that the approach taken by management was robust and that the assumptions made were reasonable.

Significant issues and areas of estimate and judgement	How they were addressed
Valuation of employee benefit liabilities In the UK, the Company operates a defined benefit pension scheme (the 'Scheme'), further details of which are set out in note 21 to the financial statements. Calculation of the Scheme liabilities involves estimation which requires making certain assumptions, notably in relation to inflation rates, mortality rates and the discount rate to apply to determine present value. The selection of these assumptions is subjective and small changes in these assumptions can have a material impact.	In selecting the assumptions, management took advice from the Group's external actuary and considered the appropriateness of this advice in light of the specific circumstances of the Scheme. Management explained to the Audit Committee how they arrived at the key assumptions and discussed the sensitivity analysis they had undertaken. The Audit Committee considered the views and procedures of the external auditor, which entailed a benchmarking of management's assumptions with the external auditor's expectations. The Audit Committee were satisfied that the assumptions had been appropriately selected.

Internal audit

The Group established an internal Audit function and appointed a Head of Internal audit in 2022 who reports into the Audit Committee at each meeting. During the year the Internal Audit function executed the approved annual internal audit plan. The plan was developed by assessing the Group's principal risks and during this first year of operation the plan continued to be refined during the year. The internal audit programme for 2023 has concluded that there has been an improvement in the control environment over the course of the year.

Assurance is also provided to the Audit Committee in the form of internal control audits undertaken by the Group finance team; various additional reports provided by management including a summary of all sources of assurance in place throughout the Group and internal self-certification reports relating to the compliance with regulation and Group policies.

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

The Audit Committee is satisfied that the internal Audit function is independent and effective. The Head of Internal Audit reports directly to the Chair of the Audit Committee with an administrative reporting line to the Chief Executive and has no other responsibilities as required under the Institute of Internal Auditors Code of Practice.

The Audit Committee has a formal private session with the Head of Internal Audit twice a year and the Head of Internal Audit meets with the Chair of the Committee at least quarterly.

External auditor

Non-audit services

During the year, no non-audit services were provided by the Auditor and therefore no fees were paid to the Auditor for non-audit services. The general policy is that the external auditor must not carry out any non-audit services. The Group's statutory auditor will only be engaged to carry out non-audit services in exceptional circumstances or where there is a regulatory request and any such engagement would be approved by the Audit Committee. This is to ensure the independence of the external auditor is safeguarded.

The Audit Committee has reviewed its policy for the provision of non-audit services ('Non-Audit Policy') within the last 12 months. Under the Non-Audit Policy and in line with the EU Audit Directive and Regulations, non-audit fees paid to the external auditor should not exceed 70% of the average audit fee for the preceding three periods.

Independence and objectivity

The Audit Committee annually reviews the appointment of the external auditor and considers their independence and objectivity.

PwC was appointed as Auditor in 2016 following a full tender exercise. Gill Hinks took over as lead audit partner for Headlam Group plc following the conclusion of the 2019 audit and as she will have served as lead audit partner for nearly five years in 2024 the Audit Committee will consider, in conjunction with the external auditors, appropriate lead audit partner arrangements in accordance with current professional standards.

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

The external 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 own professional standards and that no conflict of interest exists that would affect their professional judgement.

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

Effectiveness of external audit

Following the 2022 year-end audit, an effectiveness review was performed which aimed to ensure that the audit had been robust and encouraged open feedback and communication between the external auditor and the Audit Committee. Feedback was obtained from members of the Audit Committee, regular attendees and members of the finance team using a specifically designed questionnaire. The questionnaire covered several themes including the calibre of the external auditor, the team and relationship with the business and the independence and objectivity displayed. The progress achieved against the agreed audit plan and the competence with which the auditor handled the key accounting and audit judgements were also considered.

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

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

Consideration of external auditor appointment

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

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

Misstatements

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

Information security and cyber risk

The Company has a clear approach to identifying and mitigating information security risk which is outlined further on page 69. The Audit Committee, with its membership consisting of only Non-Executive Directors, oversees the Group's approach to information security and cyber risk management as part of its review of the risk management and internal control framework and its oversight of the work of the Executive Risk Committee. Information security and cyber risks are mitigated through processes and procedures employed by the Group, monthly training provided to all colleagues with email access and annual cyber awareness training; in addition to the independent assurance and annual penetration testing. Numerous improvements to information security were implemented in the year including the introduction of multi-factor authentication for email and remote access to network, enhancement of password retention policies and development of incident response plans.

Risk management and internal control effectiveness review

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

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

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

The Group's control framework has developed over a number of years and is intended to manage rather than eliminate the risk of failure to achieve business objectives. Such a framework can only provide reasonable and not absolute assurance against material misstatement or loss. The control framework is evolving in line with the strategic objectives and has been enhanced by the development of a set of minimum controls standards. These have been launched internally to the UK business within the Group. Focus is now on ensuring that all of the minimum control standards are designed and operating effectively, with a level of assurance provided from Internal Audit.

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

An overview of the risk management framework and the principal risks and uncertainties it identifies, is set out on pages 65 to 71.

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.

Fair, balanced and understandable

At the request of the Board, the Audit Committee reviewed the Group's Annual Report and Accounts and considered if when taken as a whole, it was fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, as required by the Code Provision 25.

The key themes are considered early in the process and this process involved a wide range of individuals including the Chief Executive, Chief Financial Officer, Company Secretary, Finance Team, Chief People & Sustainability Officer and senior managers of the businesses.

The Audit Committee followed robust procedures to make this assessment. These included reviewing the early stages of drafting and any feedback was then incorporated into the subsequent drafts. Each Director also had the opportunity to review and feedback on a full copy of the report which provides additional oversight. The Audit Committee also had oversight of the overall process and also the results of the evaluations of the remuneration committee report and the governance section as well as private sessions with the external auditor.

In addition, the Audit Committee considered and challenged the going concern assumptions and the management's areas of significant judgements as part of the year end process as did the external auditor.

The Audit Committee considered the content and if it was balanced with both negative and positive factors being presented and that it represented the events throughout the year. The balance and consistency between narrative and financial reporting was reviewed.

It was recommended to the Board that the 2023 Report and Accounts did reflect a fair, balanced and understandable assessment of the Company's position and prospects and contained sufficient information for shareholders to assess the Company's position, performance, business model and strategy.

Speak up policy

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

All employees receive a copy of the Speak Up policy as part of the induction process and training is provided. Regular training and communication about the Policy is sent to all employees throughout the year.

An independent external organisation provides a further channel for concerns to be raised confidentially and anonymously through a website or via the telephone. When an incident is logged the policy clearly defines the procedures in place to investigate and when to inform the Board of the result of any investigations. All incidents are reported the Chair of the Audit Committee.

The Group is committed to a zero-tolerance position with regard to bribery. The Anti-Corruption and Bribery, and Fraud and Anti-Money Laundering policies were each considered by the Audit Committee during the year and recommended to the Board for approval. Further information on Anti-Corruption and Bribery is available on page 143.

Committee effectiveness review

The effectiveness of the Audit Committee was evaluated as part of the Board evaluation. This was an externally facilitated self-evaluation process using questionnaires. Further details of this can be found on page 100. The review found that the Audit Committee is operating effectively and that its role and remit remain appropriate for the current needs of the business. This year, it was also acknowledged that the meetings of the plc Board's sub-committees, (including the Audit Committee) were well-led and operating effectively.

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.

The Audit Committee remains committed to maintaining an open and constructive dialogue on relevant audit matters with shareholders. If you should have any questions on any aspect of this report, please do email headlamgroup@headlam.com and I will also be available at the AGM to answer any questions about the work of the Audit Committee.

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

Robin Williams,
Chair of the Audit Committee

5 March 2024

NOMINATION COMMITTEE REPORT

Keith Edelman, Chair of the Nomination Committee

> "Our Nomination Committee plays a vital role in the long-term success of the Company through its oversight of talent, succession and balance of skills to ensure there is diversity of thinking and effective leadership"

Key responsibilities:

- Monitoring the structure, size and composition of the Board, its Committees and the senior management on an ongoing basis to ensure they remain appropriate and effective and have the right balance of skills, knowledge, experience and diversity to deliver the Company's strategy now and in the future.
- Making recommendations to the Board of any changes required and leads the process regarding appointments to the Board, including the role as Chair.
- Succession planning for the Board (including Committee Chairs) and senior management and making recommendations to the Board.
- Considering the diversity of the Board and the talent pipeline.

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

Statement from the Chair of the Nomination Committee

On behalf of the Board, I am pleased to present the Nomination Committee report for the year ended 31 December 2023.

Following the new appointments to the Board in 2022, the broad focus in 2023 was considering the composition of the Board following the new appointments, finalising the appointment and preparing the induction of the Chief Financial Officer, Adam Phillips (who joined the Board on the 20 March 2023), considering executive and senior management succession planning, diversity and reviewing the results of the Board effectiveness evaluation.

Board composition and succession planning

Following the appointment of Adam Phillips as Chief Financial Officer, along with the other Board Director appointments to the Board in 2022, we now consider that we have the right balance of skills and experience on the Board to support the delivery of the key strategic aims of the Company. Full details of all the Board can be found in their biographies on pages 82 and 83. However, the Nomination Committee will continue to monitor the composition of the Board, its Committees and the senior management on an ongoing basis to ensure they remain appropriate and effective and have the right balance of skills, knowledge, experience and diversity to deliver the Company's strategy now and in the future.

Chief Financial Officer appointment

As part of the Chief Financial Officer appointment process, the Nomination Committee, the Chief Executive and the Chief People and Sustainability Officer worked with Independent Search Partnership to ensure a thorough process was followed and a candidate brief was developed.

Candidates included both male and female candidates and an ethnic minority candidate. Three candidates were then short-listed for interview by the Chief Executive and the Interim Chief Financial Officer and the preferred candidate was then interviewed by the Chief Executive and Chair and all the Non-Executive Directors. The Nomination Committee recommended the appointment of Adam Phillips as Chief Financial Officer. External references were taken up and Adam joined on 20 March 2023. A comprehensive induction programme was developed ahead of Adam joining.

Chief Financial Officer induction process

I had a series of handover meetings, starting in January 2023, with the interim Chief Finance Officer, who I then overlapped with for two weeks after I joined in March to allow for a smooth transition. I also attended the Q1 leaders conference and Q1 Risk Committee in February, before my official start date. I met with the Company Secretary and received copies of relevant Company documentation and key policies.

I met with Robin Williams, Audit Committee Chair in January, a couple of months before joining. Since joining, Robin and I have a monthly meeting outside of Board meetings where we discuss financial performance, reporting and risk/audit matters. I also meet with the Chair on a regular basis; initially this was about aiding my induction and has more latterly become an opportunity to discuss business performance.

I've been fortunate enough to have gained investor relations experience prior to joining Headlam, in particular as IR Director for a period of time, which has made it easier to quickly pick up the external stakeholder relations.

I spent a day meeting the brokers and analysts after I had joined and then I met (in person or on video calls) most of our top 20 shareholders over the following months.

I have visited most sites, including all large sites. These site visits consisted of meeting the General Manager and the Financial Controller and having a tour of the warehouse, as well as meeting members of the team. I have spent time in person with the MDs of the French and Dutch businesses. These visits helped me become familiar with the products and processes throughout the business and we also had a whole Board product 'teach-in' in May.

In September I attended our UK business's supplier conference in Harrogate, which provided an opportunity to meet a number of our key suppliers.

Finally, I've also been a customer of our own brand products and bought a beautiful Tomkinson carpet for my garage conversion!

Adam Phillips, Chief Financial Officer

" My comprehensive induction started before joining and continued over the first couple of months, enabling me to have a fast and smooth start. I joined the Group at an exciting time, as it implements a strategy to broaden its customer reach, but also at a challenging time from a macroeconomic perspective with high cost inflation and low consumer demand. This meant that I needed to add value as quickly as possible and the tailored induction programme was key to that "

The Nomination Committee annually considers the tenure of the Board and given the new appointments in both 2022 and 2023 it considers that there is an appropriate mix of skill and experience on the Board. When considering succession planning for the Board, consideration is given to skills, experience and diversity to ensure that there is the appropriate mix to continue to lead the Company and deliver long term success of the Company for all of our stakeholders. The Board evaluation confirmed that the Board had seen the value of these appointments in the quality of the discussions and increased challenge at Board meetings.

Both Stephen Bird's and my appointments will be due for consideration for renewal in 2024 and the Nomination Committee will undertake an assessment of the contributions made and the collective skills on the Board at that time.

Strengthening the senior management team

The Nomination Committee continued to focus on the Company's talent management strategy with the Chief Executive to ensure the right people with the right skills were in place in key operational roles to deliver the strategy and ensure performance management was strengthened throughout the business. The organisational changes made during the year are outlined in the strategic report on page 13.

As a result, a comprehensive review was undertaken of the senior management team to ensure the continuing delivery of the strategy in the current challenging market conditions and a number of senior appointments were made during the year, including the addition of Toni Wood to the Executive Team in the new role of Chief Customer Officer. Toni leads the Larger Customers and Own Product Brands parts of the Group, as well as heading up the customer, marketing and digital strategies. Other senior hires included a Group Buying Director, an Ecommerce Director and a Group Marketing Director. The cost of these new roles was partially offset through repurposing a number of other senior roles.

Board diversity

Board diversity and the advantages it can make to decision making are acknowledged by the Board. Diversity is considered for every appointment, which are made on merit against objective criteria. Recruitment agencies are instructed to present a diverse list of candidates for all roles.

Any appointments are made to ensure the correct complementary skills are on the Board and the strength of the experience around the table provides the level of experience required to deliver the strategy for our stakeholders. The Board Diversity Policy is considered every year by the Board, which was last reviewed in June 2023 and can be found on the Company's website.

The key statement of that policy is that the Company is committed to developing a diverse workforce and equal opportunities for all and that the Board recognises the valuable contribution that diversity including gender, ethnicity and personal strengths can bring to the Board.

The policy also commits to maintaining the current gender balance of the Board and the Nomination Committee continues to be committed to increasing gender and ethnic diversity at Board level and will seek to achieve this when the opportunity arises and appropriate candidates are identified. Notwithstanding this, all Board appointments will be made on merit and against objective criteria and the Nomination Committee will monitor progress against the Board Diversity policy.

In terms of Board gender diversity, prior to Adam Phillips joining the Board on 20 March 2023 there were six Board members, two of which were female (33%) and following Adam's appointment and as at 31 December 2023, there were seven Board members, two of which were female (28.5%).

The Board recognises that it currently has less than 40% female Board Directors, (none of whom hold a senior Board position (such as Chair, SID, CEO or CFO)) and that it does not have a Director from an ethnic minority background which means it does not comply with the diversity and inclusion targets set out in the Listing Rules. However, the Board reviewed its size, structure and composition during the year and more recently on 1 March 2024, and concluded that its remains suitable to meet the Company's needs and to promote the desired culture, (please also see the results of the 2023 Board Evaluation on pages 98 and 99). The Board believes that it currently has the right balance of, and number of Board Directors, espeically in light of the Board appointments made in the past couple of years. However, the Board is committed to increasing diversity when the opportunity arises and appropriate candidates are identified.

It remains the policy that all appointments to the Board and Executive team should be made on merit and against objective criteria, whilst addressing diversity considerations of the Board. However, whilst adopting this approach, the Board's diversity objective is to have a broad range of age, gender, ethnicity, approach, skills, experience and educational/professional backgrounds represented at Board level and in senior management positions and the Committee will review what steps and recruitment processes are appropriate for achieving diversity on the Board with due regard being given to the recommendations set out in the Davies Report, the Hampton-Alexander Review and the 2018 Corporate Governance Code, which will be reviewed on an annual basis.

The information required by the listing rule for companies to report information and disclose the gender and ethnic background representation on their boards and executive management on a comply or explain basis is included below.

Detailed numerical information on the gender and ethnicity representation on the Board and Executive Committee is set out below. Data concerning gender and ethnicity representation is collected directly from all the individual Board and Executive Committee members as part of their onboarding process or in the case of the Non-Executive Directors through a Diversity and Inclusion Monitoring Form (the 'Form') which was issued for completion asking individuals to disclose their gender and ethnicity using the options included on the Form, which align with the detail in the left-hand columns of the tables below and therefore includes the option to not specify an answer.

Gender representation as at 31 December 2023

	Board			Executive Committee	
	Number of Board Members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
Men	5	71%	4	2	50%
Women	2	29%	0	2	50%
Not specified/prefer not to say	–	–	–	–	–

Ethnicity representation as at 31 December 2023

	Board			Executive Committee	
	Number of Board Members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
White British or other White (including minority-white groups)	7	100%	4	3	75%
Mixed/Multiple Ethnic Groups	–	–	–	1	25%
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/ Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Group-wide diversity

The Company has continued to implement its Inclusion and Wellbeing Strategy, which includes actions to improve the diversity, equity and inclusion of our workforce, please see further details on page 51.

Colleague engagement

Karen Hubbard is appointed as the designated Non-Executive Director for workforce engagement. Further information on the establishment of the Employee Forum and how the employee voice is heard in the boardroom can be found on pages 49 and 89.

Effectiveness of the Nomination Committee

The effectiveness of the Nomination Committee was evaluated as part of the 2023 Board and Nomination Committee evaluation, which was undertaken by an external third party consultant, Gould Consulting, utilising a detailed questionnaire with metrics and scoring to produce a detailed report which highlighted the overall scoring had improved from the prior year's evaluation). The findings were discussed and it was agreed that the Nomination Committee remained effective. This year, it was also acknowledged that the meetings of the Nomination Committee were well-led and operating effectively. The work that had commenced on diversity and inclusion and succession planning in 2023 was positive and this will continue in 2024.

Retirement and re-election of Directors

All Board members will stand for election or re-election (as applicable) at the 2024 AGM.

Each Director has been subject to a performance evaluation and the Nomination Committee has conducted its own annual review of the appropriateness of the Directors' skills and experience; their time commitment to the Company; and their contribution to the Board during the year. As part of this review, each Director has confirmed that they continue to allocate sufficient time to discharge their responsibilities effectively and the Nomination Committee evaluates their ability to do so taking into consideration other external commitments in addition to their individual performance throughout the year and their skills and experience set against the agreed strategy.

Following this review the Nomination Committee, and subsequently the Board has concluded that each Director continues to make an effective and valuable contribution and demonstrates commitment to their role. It is recommended that shareholders approve the resolutions to be proposed to the forthcoming AGM relating to the election and/or re-election (as applicable) of each Director.

A year of progress

Despite the challenges with the macroeconomic climate throughout the year, we have continued to invest in the business and the people to ensure the future growth of the business can be supported and we will continue to do so throughout 2024. The Nomination Committee always has the long-term success of the business for all stakeholders in mind.

Membership and attendance at 2023 meetings

The Nomination Committee is chaired by Keith Edelman. and comprises a majority of Independent Non-Executive Directors as required by the Code and their biographies are set out on pages 80 and 81. Appointments to the Nomination Committee are made by the Board. The Nomination Committee considers the composition of the Board
and its committees on an annual basis.

The Nomination Committee met on four occasions in order to fulfil its responsibilities delegated to it by the Board. Attendance is shown in the table below.

Only members of the Nomination Committee are entitled to be present at meetings but other Directors (including the Chief Executive), members of the Executive Team and advisers may be invited to attend at the discretion of the Chair. The Company Secretary performs the role of Secretary to the Nomination Committee.

No Director is involved in any decisions regarding their own continuation in office, re-appointment or re-election, including the Chair.

Meeting attendance

Name	No. of meetings attended
Keith Edelman (Chair)	5 (5)
Stephen Bird	5 (5)
Jemima Bird	5 (5)
Karen Hubbard	5 (5)
Robin Williams	5 (5)

Appointment and re-appointment of Directors

The Nomination Committee has procedures in place for a formal, rigorous and transparent process leading to Board appointments, ensuring that appointments to the Board are made on merit, against objective criteria and promote diversity of gender, social and ethnic backgrounds.

The Chair and the other Non-Executive Directors are appointed for an initial period of three years, which, with the approval of the Nomination Committee and the Board, would normally be extended for a further three years term. All appointments are subject to annual election by the shareholders.

The letters of appointment of all Non-Executive Directors (alongside the service contracts for the Executive Directors) are available for inspection at the Company's registered office during normal office hours. Copies are also made available at each of the Company's Annual General Meetings for 15 minutes prior to the meeting and throughout.

Time commitments

The letters of appointment clearly set out the time commitment expected from each Non-Executive Director and this is reviewed annually by the Committee to ensure it remains appropriate. Each Non-Executive Director confirms at the time of their appointment, and each year thereafter, with careful consideration to their external appointments, that they can continue to dedicate sufficient time to the Group's business.

All Directors have demonstrated strong time commitment to their roles during the year.

The Nomination Committee confirms that they are fully satisfied that each Director dedicates the appropriate amount of time to their roles on the Board and the Nomination Committee.

Board size, structure and composition

The composition and performance of the Board and its Committees was considered by the Nomination Committee as part of its annual assessment and it was concluded that the Board and each Committee continue to function effectively. The Committee concluded that the composition of the Board is compliant with the provisions of the Code; is appropriate to meet the business and operational objectives; and is sufficient to bring a balanced and experienced view to the decision-making process.

Activities of the Nomination Committee

The Nomination Committee agrees an annual workplan an, in addition to matters relating specifically to its terms of reference, agendas incorporate matters arising and topical items upon which the Nomination Committee has chosen to focus.

The key activities of the Nomination Committee during the year in discharging its principal areas of responsibility are shown below:

Skills assessment and succession

- Led the process for the appointment of the Chief Financial Officer
- Reviewed the skills and experience required by the Board in the context of wider business needs and culture, long-term strategic objectives and stakeholder feedback
- Reviewed the skills and experience of Non-Executive Directors to fully support the achievement of the Group's strategic objectives
- Reviewed succession plans for Board, Executive Team and senior management
- Supported the recruitment of key management positions

Governance

- Reviewed the structure, size and composition of the Board and its Committees
- Reviewed and updated the terms of reference of the Committee and its annual plan
- Reviewed the time commitment required of Non-Executive Directors and evaluated whether enough time had been committed to fulfil their duties
- Agreed that all Non-Executive Directors (excluding the Chair) remain independent
- Recommended the re-election of all Directors due to retire at the AGM
- Reviewed the role descriptions of the Chair, Chief Executive and Senior Independent Director positions
- Considered and reapproved the policy on approving external appointments
- Reviewed and approved the Board Diversity Policy

Evaluation

- Reviewed the results of the Board effectiveness in relation to the Board, its Committees and their own performance
- Considered the composition, size and diversity of the Board

Reporting

- Considered and recommended to the Board the Nomination Committee Report for inclusion in the Annual Report and Accounts

This report and the information on pages 77 and 145 forms part of the Corporate Governance Report and is signed on behalf of the Nomination Committee by:

Keith Edelman
Chair of the Nomination Committee

5 March 2024

Jemima Bird, Chair of the Remuneration Committee

"Our focus over the last year has been to implement the policy which is aligned to our strategy"

Key responsibilities:

- Designing the framework and policy for Executive Directors' remuneration and determining remuneration packages for the Executive Directors, Chair and Senior Managers.
- Establishing remuneration schemes that promote long-term shareholding by Executive Directors and that support alignment with Shareholders' interests, both in post and post cessation.
- Reviewing workforce remuneration and related policies.

Annual statement from the Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2023.

The Report includes this Annual Statement, an abridged version of the Directors' Remuneration Policy ('Policy') which was approved by shareholders at the 2023 AGM and the Annual Report on Remuneration for the financial year ended 31 December 2023. The Directors' Remuneration Report (excluding the Policy) will be subject to an advisory shareholder vote at the AGM on 23 May 2024.

Business performance and incentive out-turn for 2023

As stated in the Chair's statement on page 6, 2023 proved to be a difficult year for the industry as a whole, and for many businesses exposed to consumer discretionary spend. Financial performance was hampered not just by the cost-of-living crisis, but also by high operational cost inflation. Despite this backdrop, we made good progress with the implementation of our strategy, and investing in our strategy and for the future, (whilst also undertaking particular scrutiny of operational performance , efficiencies and the cost base). Once volumes improve from the unprecedented current lows, we will be able to restore and build profitability, particularly given the ongoing execution and maturity of our strategy.

For 2023, annual bonus opportunity was capped at 125% of base salary (pro-rated for the Chief Financial Officer). 70% of the bonus was assessed against the Company's underlying profit before tax performance and 30% against key strategic and ESG-related objectives. While the threshold Underlying PBT target was not met, the strategic targets and ESG related were met in full, resulting in 30% of the maximum bonus payable. However, notwithstanding the significant progress that has been achieved by the management team in respect of delivering the Company's strategy and continuing to invest in broadening market presence and building capabilities to position the business as market conditions and volumes recover, the Committee applied negative discretion to:

- reduce the bonus from 30% to 20% of the maximum in light of the Company's financial performance and broader stakeholder experience; and
- defer 100% of the bonus awards into shares for two years (rather than defer one-third of the bonus award as per the Remuneration Policy).

In respect of PSP awards granted in April 2021 and due to vest in April 2024, which were based on EPS and relative Total Shareholder Return measured against the constituents of the FTSE SmallCap Index (excluding investment trusts), EPS was below threshold and Headlam's TSR was below median based on performance to 31 December 2023. As such, none of the 2021 PSP awards will vest. Further details of the 2021 PSP award are set out on page 131.

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. As detailed above, the Remuneration Committee considered the formulaic outcomes of the annual bonus plan and applied negative discretion to both reduce the out-turn and defer the bonus awards into shares for two years. No discretion was applied in respect of the 2021 PSP awards which will lapse in full in April 2024.

Remuneration for 2024

Base salary

Chris Payne's salary increased by 2% from £475,000 to £484,500 from 1 January 2024 which was in line with the workforce increase.

Adam Phillips joined the Board as Chief Financial Officer on 20 March 2023 on a base salary set at £290,000. Following a review by the Board of both individual and Company performance since his appointment and as detailed in last year's Directors' Remuneration Report, his base salary increased to £325,000 from 1 January 2024. This remains below the salary paid to the previous Chief Financial Officer (£364,000).

Pension

Pension contributions will continue to be capped at 8% of salary for both the Chief Executive and Chief Financial Officer.

Annual bonus and PSP

Maximum bonus potential will remain at 125% of salary for the Chief Executive and Chief Financial Officer and, consistent with last year, 70% of the annual bonus opportunity will be based on a sliding scale underlying profit before tax target and 30% will be based on a number of key strategic and ESG-related objectives. The profit before tax target and strategic and ESG objectives, which are considered to be commercially sensitive at this time, together with the level of achievement, will be detailed in the 2024 Annual Report and Accounts.

It is the Committee's intention to make PSP awards in 2024 up to 150% of salary for the Chief Executive and Chief Financial Officer. As per last year's award, vesting will be subject to EPS targets for the majority of the award and relative TSR targets and ESG targets for a minority of the award. The combination of a post-vesting holding period requirement under the PSP, the deferral into shares under the annual bonus scheme and the shareholding guidelines will continue to provide alignment between the interests of Executive Directors, the shareholders and delivery of the strategy.

Shareholder views and voting outcomes

The Remuneration Committee conducted a consultation exercise with our larger shareholders and the major proxy voting agencies in advance of the 2023 AGM on our new Policy and was grateful for the responses and the level of support received. No changes were made to the original proposals and the Committee was pleased with the level of support received at the 2023 AGM with over 90% of votes cast in favour of the new Policy and over 99% of votes cast in favour of the Directors' Remuneration Report (excluding the Policy). We hope we will again receive your support at the forthcoming AGM.

2024 AGM Resolution

On the basis that the Directors' Remuneration Policy was approved by shareholders at the 2023 AGM and no changes are proposed, the Directors' Remuneration Report (excluding the Policy) will be subject to an advisory shareholder vote at the AGM on 23 May 2024.

Conclusion

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

Jemima Bird
Chair of the Remuneration Committee

5 March 2024

At a glance remuneration overview

Executive Remuneration for the year ending 31 December 2024

Fixed Remuneration	Salary	Workforce Aligned Pension	Benefits
	(c. 30% of total reward assuming maximum performance)		

Variable Remuneration	Annual Bonus	Performance Share Plan
	Link to Strategy	
	Performance measures support Group strategy to: • increase profitability for shareholders • deliver key strategic and ESG-related priorities	Performance measures support Group strategy to deliver: • higher returns to shareholders • increased earnings • the ESG strategy
	Potential	
	(Maximum 125% of Salary) 1/3rd deferred into shares under the Deferred Bonus Plan	**(Maximum 150% Salary)** Two year post vesting holding period Dividend equivalents accrue to extent awards vest
	Performance measures support Group strategy to: • increase profitability for shareholders • deliver key strategic and ESG-related priorities	Performance measures support Group strategy to deliver: • higher returns to shareholders • increased earnings • the ESG strategy
	FY2023 Performance Metrics	
	• Underlying Profit Before Tax – 70% (to support profitability of the business) • Key strategic and ESG-related objectives – 30% (to support business growth and ESG objectives)	• Underlying Basic Earnings Per Share (EPS) – 70% (to support the growth of earnings) • Relative Total Shareholder Return (TSR) – 20% (to align the interests of Directors with those of shareholders) • ESG-related objectives – 10% (to support key strategic and ESG objectives)

Shareholder alignment	In employment	Post employment
	• 200% of salary	• Lower of shareholding at cessation of employment and 200% of salary to be held for two years post cessation

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out an abridged version of the Directors' Remuneration Policy which was approved by shareholders at the AGM on 25 May 2023. The Policy took formal effect from the date of approval and is intended to apply until the 2026 AGM unless a new version is presented to shareholders in the interim. The full shareholder approved Policy can be found in the 2022 Annual Report which can be viewed via the Company's website at www.headlam.com.

Considerations when determining the remuneration policy

The overarching objective of the remuneration policy is to promote the long-term success of the Group. In seeking to achieve this objective the policy has been designed based on the following key principles:

- to operate remuneration arrangements which are simple and transparent, and which help to build and maintain a sustainable performance culture;
- to appropriately align executive reward with the Group's strategic objectives and with the best interests of shareholders and other key stakeholders;
- to promote appropriately the long-term success of the Group, and to not pay more than is necessary in doing so; and
- to have a competitive mix of base salary and short- and long-term incentives, with an appropriate proportion of the package determined by the rigorous application of stretching targets linked to the Group's performance.

When designing the policy, the Remuneration Committee takes into account the provisions of the 2018 UK Corporate Governance Code and other good practice guidelines from institutional shareholders and shareholder bodies.

In reviewing our Policy during the course of 2022 and in respect of its future implementation, we are careful to take full account of the provisions of the Code. In summary, with regard to how we have sought to comply with the six factors outlined in Provision 40 of the UK Corporate Governance Code, the following are worthy of particular note:

- **Clarity** – Our Policy is transparent and well understood by our senior executive team. It has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation when changes are being made).
- **Simplicity** – A key objective of the Remuneration Committee is to ensure that our remuneration framework is straightforward to communicate and operate. We have operated the same simple and transparent overarching structure for many years and applied it on a consistent basis across all employees.
- **Risk** – Our Policy has been designed to ensure that it is aligned with the Board's system of risk management and risk appetite. Any inappropriate risk-taking is discouraged and mitigated through, for example (i) the operation of arrangements that provide an appropriate balance of fixed pay to short- and long-term incentive pay and with multiple performance measures operating based on a blend of financial, non-financial and shareholder return targets, (ii) the significant proportion of long-term share-based pay in our packages (together with the operation of significant in-employment and post-employment shareholding guidelines), (iii) the deferral of a proportion of annual bonus into shares and the operation of a post-vesting holding period for the PSP, and (iv) the operation of robust recovery and withholding provisions.
- **Predictability** – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. The Remuneration Committee has full discretion to alter the pay-out levels or vesting outcomes to ensure payments are appropriately aligned with the underlying performance of the Company.
- **Proportionality** – There is a clear link between individual awards, delivery of strategy and our long-term performance. Ensuring our Executive Directors are not rewarded for failure underscores our approach (e.g. through the significant proportion of our packages based on long-term performance targets linked to the KPIs of the Company, our ability and openness to the use of discretion to ensure appropriate outcomes, and the structure of our Executive Directors' contracts).
- **Alignment to culture** – Our aim is to align our Remuneration Policy to Headlam's culture and values. The Remuneration Committee strives to instil a sustainable performance culture at the management level that cascades throughout the Company. The Board sets the framework of KPIs against which we monitor the performance of the Company and the Remuneration Committee links the performance metrics of our incentive arrangements to those KPIs. We are keen to foster a culture of share ownership throughout the Company and operate all-employee share scheme arrangements in pursuit of this objective.

Consideration of employment conditions elsewhere in the Group

In setting remuneration for the Executive Directors, the Remuneration Committee takes note of the overall approach to reward for employees in the Group. Salary increases will ordinarily be (in percentage of salary terms) no higher than those of the wider workforce. The Company operates an Employee Forum at which aspects of remuneration across the Group (including Executive Director remuneration) is discussed. In addition, the Chair of the Remuneration Committee receives feedback on remuneration matters directly from the designated workforce engagement Non-Executive Director and the Group People Director updates the Remuneration Committee periodically on remuneration arrangements and employment conditions across the Group.

Shareholder views

The Remuneration Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration. The Remuneration Committee will seek to engage directly with larger shareholders and their representative bodies should any material changes be made to the Policy. The Remuneration 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.

Summary Policy table for Executive Directors

Component	Purpose and link to strategy	Operation
Base salary	To provide a competitive base salary for the market in which the Group operates to attract and retain Executives of a suitable calibre.	Salaries are usually reviewed annually, with any increases typically effective 1 January. Salaries are typically set after considering: • pay and conditions elsewhere in the Group; • overall Group performance; • individual performance and experience; • progression within the role; and • competitive salary levels in companies of a broadly similar size and complexity and market forces.
Benefits	To provide broadly market competitive benefits as part of the total remuneration package.	Executive Directors receive benefits in line with market practice, and these include life assurance, private medical insurance, company car or car allowance and, where relevant, relocation expenses. Executive Directors are also provided with the opportunity to join any HMRC approved all-employee share plan arrangements on the same basis as other employees. Executive Directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and other benefits might be provided from time to time based on individual circumstances and if the Committee decides payment of such benefits is appropriate. Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit).
Retirement benefits	To provide employees with long-term savings to allow for retirement planning.	The Group may offer participation in a defined contribution pension plan or may permit Executive Directors to take a cash supplement in lieu of pension up to the same value.
Annual bonus	Rewards performance against targets which support the strategic direction of the Group. Bonus deferral provides a retention element through share ownership and direct alignment with shareholders' interests.	Awards are based on performance typically measured over one year. Pay-out levels are determined by the Remuneration 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 Remuneration Committee, be so small as to make deferral administratively burdensome. Deferred shares will typically take the form of nil-cost share options but may be structured as an alternative form of share award. Deferred bonus awards may be granted on the basis that the participant shall be entitled to an additional benefit (in cash or shares) in respect of dividends paid over the deferral period, calculated on such basis as the Committee shall determine. The vesting of the deferred shares is not subject to the satisfaction of any additional performance conditions. The annual bonus plan includes provisions which enable the Remuneration Committee (in respect of both the cash and the deferred elements of bonuses) to recover or withhold value in the event of certain defined circumstances.

Maximum opportunity	Performance measures
While there is no maximum salary, increases will normally be in line with the typical range of salary increases awarded (in percentage of salary terms) to the wider workforce. Larger salary increases may be awarded to take account of individual circumstances, such as: • where an Executive Director has been promoted or has had a change in scope or responsibility; • where the Remuneration 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 Remuneration Committee deems appropriate.	Although there are no formal performance conditions, any increase in base salary is only implemented after careful consideration of individual contribution and performance and having due regard to the factors set out in the Operation column of this table.
Whilst the Remuneration 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 Remuneration Committee considers appropriate against the market and provides a sufficient level of benefits based on individual circumstances.	Not applicable.
Workforce aligned (currently 8% of base salary).	Not applicable.
125% of base salary.	Targets are set annually with measures linked to the Group's strategy and aligned with key financial, strategic and/or individual targets. The majority, if not all, of the annual bonus will be assessed against key financial performance metrics of the business and any balance will be based on non-financial strategic, ESG-related and/or personal objectives. A graduated scale of targets is set for each measure, with up to 10% of each element payable for achieving the relevant threshold performance level and 100% of maximum potential for achieving stretch performance. The Remuneration Committee has discretion to amend the pay-out should any formulaic output not reflect the Remuneration Committee's assessment of overall business performance.

Component	Purpose and link to strategy	Operation
Performance Share Plan ('PSP')	To incentivise Executive Directors, and to deliver genuine long-term performance-related pay, with a clear line of sight for Executives and direct alignment with shareholders' interests.	Awards will be in the form of nil-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the Remuneration Committee, with performance normally measured over at least a three-year performance period. The Remuneration Committee retains discretion to adjust vesting levels in exceptional circumstances, including but not limited to regard of the overall performance of the Company or the grantee's personal performance. Awards will usually be subject to a two-year holding period following the end of the performance period, and shares will typically not be released to participants until the end of any such holding period. Awards under the PSP may be granted on the basis that the participant shall be entitled to an additional benefit (normally in shares) in respect of dividends paid over the holding period. This amount shall be calculated on such basis as the Remuneration Committee determines. The PSP includes provisions which enable the Remuneration Committee to recover or withhold value in the event of certain defined circumstances.
Shareholding guidelines	To further align the Executive Directors' long-term interests with those of shareholders.	**In employment:** Until the guideline has been reached Executive Directors are required to retain all of the net number of vested shares from the PSP and DBP. Vested shares which are subject to a holding period under the PSP and shares which are subject to DBP awards will count towards the limit (on a net of assumed tax basis). **Post employment:** Executive Directors will normally be required to hold shares at a level equal to the lower of their shareholding at cessation of employment and 200% of salary for two years post cessation in respect of any share awards granted after the 2021 AGM and excluding own shares purchased.
Non-Executive Directors (including the Chair)		
Annual Fee	To attract individuals with appropriate knowledge and experience.	Fees are normally reviewed annually taking into account factors such as the time commitment and contribution of the role and market levels in companies of comparable size and complexity. The Chairman is paid an all-inclusive fee for all Board responsibilities. Fees for the other Non-Executive Directors may include a basic fee and additional fees for further responsibilities (for example, chairmanship of Board committees or holding the office of Senior Independent Director). In exceptional circumstances, if there is a temporary yet material increase in the time commitments for Non-Executive Directors, the board may pay extra fees on a pro rata basis to recognise the additional workload.

Maximum opportunity	Performance measures
150% of salary.	PSP performance measures may include, and are not limited to, relative TSR, EPS, strategic measures and ESG-related objectives. A maximum of 25% of any element vests for achieving the threshold performance target and 100% for maximum performance. Performance metrics and weightings are reviewed annually and may be varied for future award cycles as appropriate to reflect the prevailing strategic priorities of the Group at that time.
200% of salary.	Not applicable.
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, ESG-related and/or personal objectives designed to ensure that Executive Directors are incentivised to deliver across a range of objectives. 'Target' performance is typically set in line with the business plan for the year, with threshold to stretch targets set around this based on a sliding scale which takes account of relevant commercial factors. Only modest rewards are available for delivering threshold performance levels, with rewards at stretch requiring material outperformance of the business plan. Details of the specific measures used for the annual bonus are set out in the annual report on remuneration.

Performance measures for the PSP are selected in order to provide a robust and transparent basis on which to measure the Group's performance, to demonstrably link remuneration outcomes to delivery of the business strategy over the longer term, and to provide strong alignment between senior management and shareholders. In achievement of these aims, PSP awards granted in respect of 2023 will be based on underlying basic Earnings Per Share ('EPS'), relative Total Shareholder Return ('TSR') and ESG-related metrics. EPS is currently a critical KPI for the Group, supporting a focus on profitability and growth; TSR is aligned with the Group's focus on creating value for our shareholders; and ESG-related objectives are being built in to reflect the increasing importance of this aspect of the Group's overall strategy. However, the policy provides for Remuneration 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 Remuneration 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 Remuneration 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 Remuneration Committee's assessment of overall business performance over the relevant performance period.

Malus and clawback

The following provisions apply:

- Prior to the payment of an annual bonus or vesting of a DBP or PSP award, the Remuneration Committee may operate 'malus' (or 'withholding') to cancel the award.
- For up to two years following the payment of an annual bonus award, the Remuneration 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 Remuneration Committee may operate clawback to cancel the award during the holding period (or require repayment of the award if it has been released prior to the end of the holding period); reduce future vesting under the Company's share plans; or reduce the number of shares already vested but unexercised.

The circumstances in which malus and clawback may be operated are as follows:

- the Company materially misstated its financial results (excluding any changes resulting from a change in accounting standards);
- the Executive's conduct being such that it would entitle (or, where the Employment has terminated prior to the date on which the Board becomes aware of such act or omission, would have entitled) the Group to terminate the Employment summarily;
- a material error having occurred in determining whether any corporate or personal performance conditions relating to the bonus or PSP award have been met (or any other material error having occurred in calculating the sum that was awarded as a bonus or the size of the PSP award);
- circumstances which in the opinion of the Board would have (or would have if made public) a sufficiently significant impact on the reputation of the Company or Group;
- the Company becomes insolvent or otherwise suffers a corporate failure and the Board determines that such circumstances arose from events occurring (in whole or substantial part) during any period in which the relevant individual was a participant; or
- such other exceptional circumstances which, in the Remuneration Committee's absolute discretion, justify such reimbursement being imposed.

Discretion retained by the Committee in operation of the incentive plans

The Remuneration 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 Remuneration 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 Remuneration Committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the Annual Remuneration Report.

Differences in pay policy for Executive Directors compared to employees more generally

The Remuneration Policy applied to the Executive Directors is similar to the policy for the wider senior management team in that a significant element of remuneration is dependent on Group performance and the key principles of the remuneration philosophy are applied consistently across the Group below this level, taking into account seniority and market practice. Key features include:

- we aim to provide market competitive levels of remuneration across the workforce in order to recruit and retain high calibre employees at all levels;
- we have aligned pension contributions for Executive Directors with the workforce;
- all UK employees have the opportunity to participate in an HMRC-approved employee share scheme arrangement; and
- employees at selected levels participate in an annual bonus arrangement.

At senior levels, remuneration is increasingly long-term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

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 Remuneration Committee seeks to ensure that arrangements are in the best interests of the Group and not to pay more than is appropriate.

The Remuneration 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 Remuneration Committee will typically align the remuneration package with the above Policy. The Remuneration 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 Remuneration Committee.
- The Remuneration 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 Remuneration Committee may also alter the performance measures, performance period, vesting period, deferral period and holding period of the annual bonus or PSP, if the Remuneration Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 275% of salary.
- The Remuneration 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 Remuneration 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:

Component	Policy
Payment in lieu of notice	If notice is served by either party, the Executive Director can continue to receive base salary, benefits and pension for the duration of their notice period, during which time the business may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Group has discretion to make a payment in lieu of notice. Such a payment would include base salary and, at the election of the Remuneration 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 Remuneration Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure (i.e. normal good leaver provisions) and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid in respect of a good leaver will normally be prorated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Remuneration Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances) and normally subject to deferral policy. Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Remuneration 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 Remuneration 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 Remuneration 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 Remuneration Committee, the Remuneration 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 Remuneration Committee taking into account the extent to which the performance condition is satisfied and, unless the Remuneration 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 Remuneration 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 Remuneration 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 Remuneration Committee determines, if a participant leaves for any reason (other than summary dismissal).

Component	Policy
Change of control	The extent to which unvested awards under the DBP and PSP will vest will be determined in accordance with the rules of the relevant plan. Awards under the DBP will vest in full in the event of a takeover, merger or other relevant corporate event. Unvested awards under the PSP will vest early on a takeover, merger or other relevant corporate event. The Committee will determine the level of vesting taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period. Awards under the PSP which have vested but not been released (i.e. awards which are subject to a holding period) will be released, to the extent vested.
Mitigation	If an Executive Director's employment is terminated, any compensation payment will be calculated in accordance with normal legal principles including the application of mitigation to the extent appropriate to the circumstances of the termination. Payments will be made in instalments and reduced to the extent employment is taken up elsewhere.
Other payments	Payments may be made either in the event of a loss of office or a change of control under any of the Group's HMRC-favoured all-employee share plans in line with the associated plan rules. There is no discretionary treatment for leavers or on a change of control under these schemes. In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees and other benefits that may be considered appropriate taking into account the circumstances of the termination. The Remuneration 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 Remuneration 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 Remuneration 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 Remuneration Committee, the payment was not in consideration of the individual becoming a Director of the Group.

External appointments

The Board believes that experiences of other companies' practices and challenges is valuable both for the personal development of its Executive Directors and for the Group. Any external appointments are subject to board approval (which would not be given if the proposed appointment would lead to a material conflict of interest). Fees received by Executive Directors in respect of external non-executive appointments are retained by the individual Director. Details of such appointments are included in the Annual Report on Remuneration.

Annual report on remuneration

Certain information provided in this part of the Directors' Remuneration Report is subject to audit. This is annotated as audited. Any information not annotated as audited is unaudited.

Single total figure of remuneration for each Director

The tables below report the total remuneration receivable in respect of qualifying services by each of the Executive Directors for the years 2023 and 2022.

Executive Directors' remuneration as a single figure – 2023 (audited)

Executive Director	Base salary/ fees £000	Non-salary benefits[2] £000	Pension related benefits[3] £000	Total fixed £000	Annual performance bonus[4] £000	Share-based incentive schemes[5] £000	Total variable £000	Total £000
Chris Payne	475	12	38	525	119	–	119	644
Adam Phillips[1]	229	1	10	240	54	–	54	294

1 Adam Phillips was appointed Chief Financial Officer on 20 March 2023.

2 Non-salary benefits include the provision of a company car or car allowance, private medical insurance and other benefits deemed to be an employment benefit such as some fuel costs.

3 The amount of employer contribution to a scheme or paid as cash in lieu of retirement benefits based on a fixed percentage of base salary.

4 Details of the annual bonus award are set out on the following page.

5 2021 PSP awards granted on 9 April 2021 will lapse in full in April 2024 as a result of below threshold performance against EPS (80%) and relative TSR (20%) targets.

Executive Directors' remuneration as a single figure – 2022 (audited)

Executive Director	Base salary/ fees £000	Non-salary benefits £000	Pension related benefits £000	Annual performance bonus £000	Share-based incentive schemes[4] £000	Total £000	Total fixed £000	Total variable £000
Chris Payne[1]	416	19	35	204	–	674	470	204

1 Chris Payne served as interim Chief Executive up to 28 February 2022 and was appointed Chief Executive from 1 March 2022.

2 Non-salary benefits include the provision of a company car or car allowance, private medical insurance and other benefits deemed to be an employment benefit such as some fuel costs.

3 The amount of employer contribution to a scheme or paid as cash in lieu of retirement benefits based on a fixed percentage of base salary.

4 As a result of the COVID-19, the grant of 2020 PSP awards was delayed until 11 September 2020 with performance based on relative Total Shareholder Return measured against the constituents of the FTSE SmallCap Index (excluding investment trusts) over the three years from grant. Based on the final performance assessment in September 2023, Headlam's TSR was below median resulting in nil vesting.

The following tables report the total remuneration receivable in respect of qualifying services by each of the Non-Executive Directors for the years 2022 and 2021.

Non-Executive Directors' remuneration as a single figure – 2023 (audited)

	Base salary/ fees £000	Non-salary benefits[1] £000	Total £000	Total fixed £000
Keith Edelman	150	4	154	154
Steven Bird	60	0.9	60.9	60.9
Karen Hubbard	57	4.1	61.1	61.1
Robin Williams	57	0.5	57.5	57.5
Jemima Bird	57	1	58	58
Total	**381**	**10.5**	**391.5**	**391.5**

1 Relates to taxable expenses

Non-Executive Directors' remuneration as a single figure – 2022 (audited)

	Base salary/ fees £000	Non-salary benefits £000	Total £000	Total fixed £000
Philip Lawrence[1]	58	1	59	59
Amanda Aldridge[2]	59	1	60	60
Keith Edelman[3]	118	2.7	120.7	120.7
Simon King[4]	62	3	65	65
Steven Bird[5]	52	2.2	54.2	54.2
Karen Hubbard[6]	17	0.6	17	17
Robin Williams[7]	13	0.1	13	13
Jemima Bird[7]	13	0.3	13	13
Total	**392**	**9.9**	**401.9**	**401.9**

1 Appointed 01.06.18. Left 19.05.22
2 Appointed 01.02.18. Left 10.10.22
3 Appointed 01.10.18. Chair from 19.05.22
4 Appointed 14.05.21. Left 10.10.22
5 Appointed 13.09.21
6 Appointed 01.09.22
7 Appointed 10.10.22

Annual performance bonus in respect of financial year 2023 (audited)

For 2023, the Chief Executive and Chief Financial Officer had a maximum annual bonus opportunity equal to 125% of base salary (with the Chief Financial Officer's bonus pro-rated to reflect that he joined in year), with 50% of maximum payable for a target level of performance. The bonus was assessed against the Company's underlying profit before tax (PBT) (70% of bonus opportunity) and against the achievement of a number of key strategic and ESG-related objectives (30% of bonus opportunity) as shown in the tables below:

Performance metric	Weighting	Threshold	Target	Maximum	Actual	Bonus earned (% max)	Bonus Receivable – C Payne (£)	Bonus Receivable – A Phillips[1] (£)
Underlying PBT	70%	£29.7m	£33m	£39.6m	£11m	0%	0	0
Strategic/ESG objectives	30%	See table below				30%	178,125	81,563
	100%					30%[2]	178,125[2]	81,563[2]

1 Pro-rated
2 Before the application of negative discretion (see overleaf)

Strategic and ESG-related objectives (audited)

The following non-financial strategic objectives were designed to focus on the achievement of certain key elements of Company strategy.

Objective	Target	Maximum	Committee Assessment/ Result	Potential Bonus (% of bonus opportunity)	Bonus Achieved (% of bonus max)
Key Accounts (Growth) Develop partnership approach with key account customers and a meaningful pipeline of new accounts	Two strategic partnerships developed by either a joint business plan (evidenced by an agreed plan) and/or a material sales initiative worth at least an annualized 10% increase for that account	Four strategic partnerships developed strategic partnerships developed by either a joint business plan (evidenced by an agreed plan) and/ or a material sales initiative worth at least an annualized 10% increase for that account	Acheived at maximum. Five strategic partnerships were developed during 2023.	10%	100%
Routes to market (Growth) Developing Headlam's Digital Asset Base	Create Headlam Brand website and launch in December 2023 achieving at least 1000 visitors per month by March 2024	Scope B2B trading website and define plan to deliver in 2024	Acheived at maximum. The Headlam website was launched in December and has already received over 1,800 visitors and the B2B website remains on track.	5%	100%
Trade Counters (Growth) Continue the Trade Counter roll-out of new sites/relocations and refits	Twelve sites by year end (new/refurb/relocation) delivering at least the aggregate revenue in the business case (pro-rated for opening date)	Twelve sites by year end (new/refurb/relocation) delivering at least 10% over the aggregate revenue in the business case (pro-rated for opening date)	Achieved at maximum. Twelve trade counters were delivered during 2023 delivering in excess of the 10% revenue target.	5%	100%
Environmental, Social & Governance Significantly increase Near Miss Reporting in UK Distribution from 0.2 per employee per year at end of 2022	Near miss reporting at 0.45 per employee per year (75% of industry benchmark) based on Q4 Near Misses multiplied by 4 to come up with an annualized run rate as of Q4	Near miss reporting reflects industry benchmark for sector (0.6 per employee per year) based on Q4 Near Misses multiplied by 4 to come up with annnualised run rate as of Q4	Acheived at maximum. With a rate of 1.17 per employee per year.	10%	100%
Total				**30%**	**100%**

Based on the above performance assessment, while the threshold Underlying PBT target was not met, the strategic targets have been met in full, resulting in 30% of the maximum bonus payable.

However, notwithstanding the significant progress that has been achieved by the management team in respect of delivering the Company's strategy and continuing to invest in broadening market presence and building capabilities to position the business well as market conditions and volumes recover, the Remuneration Committee agreed to reduce the bonus from 30% to 20% of the maximum in light of the Company's financial performance and broader stakeholder experience. This application of negative discretion reduces the 2023 bonus award from £178,125 to £118,750 for the CEO and from £81,563 to £54,375 for the CFO. In addition, rather than defer one-third of the bonus award into shares for a two-year period in line with the Remuneration Policy, the Remuneration Committee decided to defer 100% of the bonus awards into shares for two years. Awards will be structured as nil cost options and will normally vest two years from the date of grant (other than in the case of summary dismissal in which case awards lapse). No performance conditions will operate.

2021 PSP due to vest in 2024 (audited)

Awards granted under the PSP in April 2021 are based on underlying Earnings Per Share ('EPS') performance condition (80% of the award) and a relative Total Shareholder Return ('TSR') performance condition (20% of the award). The performance targets are shown in the table below:

Performance Target	% vesting	Underlying Basic EPS for 2023 (80% of award)	TSR v FTSE SmallCap (excluding ITs) (20% of award)
Below Threshold	–	Less than 32.1p	Below median
Threshold	25	32.1p	Median
Maximum	100	34.7p	Upper quartile
Actual Performance		**11p**	**Below median**
Expected vesting		**0%**	**0%**

Director	Shares granted	Shares vesting (estimate)	Value of shares vesting (estimate)
Chris Payne	64,137	0	£0

Share awards granted during the financial period (audited)

PSP awards

PSP awards were granted to the Executive Directors on 29 June 2023 as follows (audited)

	Number of nil-cost options over which award granted	Value of Award £000	% of salary	% of award vesting at threshold	Date of grant	Performance period
Chris Payne	277,669	£713	150%	25%	29 June 2023	3 years ending 31.12.2025
Adam Phillips	127,143	£326	112.5%*	25%	29 June 2023	3 years ending 31.12.2025

*Pro-rated from the normal 150% of salary PSP to reflect his March 2023 joining date.

The share price used to determine the number of shares under the PSP was 256.60 pence, being the average mid-market closing share price for the five business days prior to the date of award.

The Awards are subject to an underlying Basic Earnings Per Share ('EPS') performance condition (70% of the award), a relative Total Shareholder Return ('TSR') performance condition (20% of the award) and an ESG performance condition (10% of award). The performance targets are shown in the table below:

Performance Target	% vesting	Underlying Basic EPS for 2025 (70% of award)	TSR v FTSE SmallCap (excluding ITs) (20% of award)	tCO_2e% reduction (10% of award)
Below Threshold	–	Less than 32.5p	Below median	Less than 22%
Threshold	25	32.5p	Median	22%
Maximum	100	38.5p	Upper quartile	25%

The vesting of the awards is additionally subject to a financial underpin whereby the extent of vesting may be adjusted to reflect the overall financial performance of the Company over the three-year performance period. The Remuneration Committee also has full discretion to ensure that the final outcome is warranted based on the performance of the Company in the light of all relevant factors and to ensure there have been no windfall gains. Any awards vesting are additionally subject to a two-year holding period following the date of vesting.

DBP awards (audited)

In addition, following payment of the annual bonus in respect of the financial year ended 31 December 2022, the Company granted nil-cost options to Chris Payne over 22,563 shares under the Deferred Bonus Plan ("DBP") on 13 April 2023. The award will not vest until the second anniversary of the grant date, and is subject to dividend equivalents in the form of additional shares. The number of ordinary shares over which the awards were granted was calculated based on a share price of 301.1 pence per ordinary share.

Pension-related benefits (audited)

Chris Payne received pension contributions from the Company equivalent to 8% of his base salary (£8,478 as pension, £29,499 as a salary supplement, totally £37,977) which aligns with the contribution level (i) received by a significant proportion of our employees and (ii) available to all new joiners under the Headlam Master Trust Pension Scheme. Adam Philips received pension contributions from the Company equivalent to 5% of his base salary.

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

No payments were made for loss of office and there have been no payments to past directors to be reported for the year under review.

Executive Directors' share awards outstanding (audited)

Chris Payne

Scheme	Number of shares / options as at 31 December 2022	Shares / options granted	Shares / options lapsed	Shares / options exercised	Number of shares/ options at 31 December 2023	Date of grant	Share price at grant (pence)	Exercise price (pence)	Market price on exercise date (pence)	Vesting date	Expiry date
PSP	–	227,669	–	–	277,669	29 June 2023	257	Nil	–	June 2026[1]	June 2033
DBP	–	22,563	–	–	22,563	13 April 2023	301	Nil	–	April 2025	April 2033
PSP	111,548	–	–	–	111,548	8 April 2022	381	Nil	–	April 2025[1]	April 2032
PSP	64,137	–	–	–	64,137	9 April 2021	454	Nil	–	April 2024[1]	April 2031
DBP	39,822	–	–	–	39,822	8 April 2022	381	Nil	–	April 2024	April 2032
PSP	103,669	–	103,669	–	–	11 Sept 2020	281	Nil	–	Sept 2023[1]	Sept 2030
DBP	24,076	–	–	24,076	–	11 Sept 2020	281	Nil	–	Sept 2022	Sept 2030
SAYE	–	10,214	–	–	10,214	6 Oct 2023	220	181.6	–	Nov 2026	May 2027
SAYE	7,929	–	–	–	7,929	5 Oct 2020	271	227	–	Nov 2023	April 2024

1 This includes all owned shares plus, on a net of tax basis: (i) vested scheme interests; and (ii) deferred bonus awards which vest based on continued service only, as permitted under the Company's share ownership policy.

Adam Phillips

Scheme	Number of shares / options as at 31 December 2022	Shares / options granted	Shares / options lapsed	Shares / options exercised	Number of shares/ options at 31 December 2023	Date of grant	Share price at grant (pence)	Exercise price (pence)	Market price on exercise date (pence)	Vesting date	Expiry date
PSP	–	127,143	–	–	127,143	29 June 2023	257	Nil	–	June 2026[1]	June 2033
SAYE	–	5,107	–	–	5,107	6 Oct 2023	220	181.6		Nov 2026	May 2027

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

Statement of Directors' shareholding and share interests (audited)

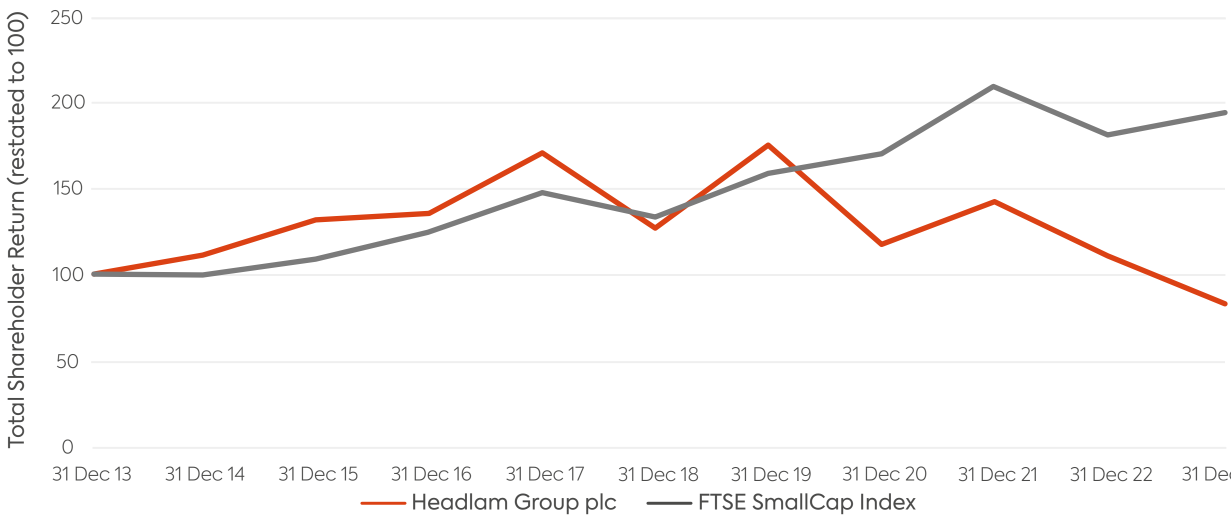
The interests of Directors and their connected persons in the Company's ordinary shares as at 31 December 2023 were as set out below. There have been no changes to those interests between 31 December 2023 and the date of signing of these financial statements and reports.

	Owned Shares at 31 December 2023	PSP	Deferred Bonus	Vested but not exercised	SAYE	Shares under Shareholding Guidelines[1]	Guidelines achieved (%)
Chris Payne	53,855	453,354	62,385	0	18,173	86,919	20
Adam Philips	Nil	127, 143	0	0	5,107	0	0
Keith Edelman	37,415	N/A	N/A		N/A	N/A	N/A
Jemima Bird	Nil	N/A	N/A		N/A	N/A	N/A
Stephen Bird	5,000	N/A	N/A		N/A	N/A	N/A
Karen Hubbard	13,288	N/A	N/A		N/A	N/A	N/A
Robin Williams	7,090	N/A	N/A		N/A	N/A	N/A

1 This includes all owned shares plus, on a net of tax basis: (i) vested scheme interests; and (ii) deferred bonus awards which vest based on continued service only, as permitted under the Company's share ownership policy.

TSR graph

The graph below shows the value at 31 December 2023 of £100 invested in the Company on 1 January 2014 compared to the value of £100 invested in the FTSE SmallCap Index, making the assumption that dividends are reinvested to purchase additional equity. The SmallCap has been chosen given that the Company is a constituent of this index and has been over the period presented.



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 (%)
2023	Chris Payne	644	20	–
2022	Chris Payne	674	38	–
2021	Chris Payne	205[1]	100	–
2021	Steve Wilson	864[2]	100	–
2020	Steve Wilson	514	–	–
2019	Steve Wilson	798	45.5	5.7
2018	Steve Wilson	588	–	53.5
2017	Steve Wilson	1,069	65.8	97.5
2016	Steve Wilson	1,067[3]	76.8	98.6
	Tony Brewer	737[4]	n/a	88.9
2015	Tony Brewer	1,175	87.1	N/A
2014	Tony Brewer	1,134	81.4	N/A
2013	Tony Brewer	927	42.7	N/A

1 The remuneration shown is on a pro-rated basis for the period Chris Payne was Interim Chief Executive from 7 October 2021 to 31 December 2021 only.

2 Steve Wilson stepped down as Chief Executive and a Director on 6 October 2021. The 2021 figures reflect his remuneration earned from the start of 2021 until the date of his resignation as a Director. This remuneration is for a part year and does not include a termination payment.

3 The remuneration shown is for the full year and incorporates his remuneration as Group Finance Director from 1 January 2016 until 14 Septem ber 2016 when he became Chief Executive.

4 Tony Brewer stepped down as Chief Executive and a Director on 14 September 2016. The 2016 figures reflect his remuneration earned from the start of 2016 until the date of his resignation as a Director. This remuneration is for a part year and does not include a termination payment.

Percentage change in remuneration of Directors compared with other employees

The table below shows the percentage increase/(decrease) in each Executive and Non-Executive Directors' remuneration compared with the Company's employees as a whole between the financial periods 2020, 2021, 2022 and 2023. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	2023			2022			2021			2020		
Director	Salary and fees (% change)	All taxable benefits (% change)	Annual Bonuses[2] (% change)	Salary and fees (% change)	All taxable benefits (% change)	Annual Bonuses[2] (% change)	Salary and fees (% change)	All taxable benefits (% change)	Annual Bonuses[2] (% change)	Salary and fees (% change)	All taxable benefits (% change)	Annual Bonuses[2] (% change)
Executive Director												
Chris Payne	14	-37	-42	25	27	(55)	–	(10)	100	2	–	(100)
Adam Phillips[8]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Non-Executive Director												
Keith Edelman[5]	27	-72	N/A	95	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Stephen Bird[3]	15	-73	N/A	282	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jemima Bird[6]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Karen Hubbard[7]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Robin Williams[7]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Former Directors												
Philip Lawrence[7]	N/A	N/A	N/A	(60)	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Amanda Aldridge[7]	N/A	N/A	N/A	12	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Simon King[3]	N/A	N/A	N/A	120	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Steve Wilson[4]	N/A	N/A	N/A	N/A	N/A	N/A	(23)	(24)	100	2	2	(100)
Alison Littley[4]	N/A	N/A	N/A	N/A	N/A	N/A	(75)	N/A	N/A	8	N/A	N/A
All employees[1]	7	-3	-100	3	(6)	(74)	–	5	100	2	(14)	(100)

1 Reflects the average percentage change in salary, benefits and bonus for employees of the parent company (excluding the Board).

2 This reflects annual bonus paid in respect of the financial year as per the single figure table.

3 Stephen Bird and Simon King joined the board on 13 September 2021 and 14 May 2021 respectively. Simon King stepped down from the Board on 11 October 2022.

4 Alison Littley and Steve Wilson left the Board on 31 March 2021 and 6 October 2021 respectively and their pro-rated salary is reflected in the percentage change shown.

5 Keith Edelman was promoted from Senior Independent Director to Non-Executive Chairman on 19 May 2022.

6 Jemima Bird and Robin Williams joined the Board on 11 October 2022 and Karen Hubbard joined the Board on 1 September 2022.

7 Philip Lawrence stepped down from the Board on 19 May 2022 and Amanda Aldridge stepped down from the Board on 11 October 2022.

8 Adam Phillips joined the Board on 20 March 2023.

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.

	2023 £000	2022 £000	% change
Dividends[1]	**12,169**	27,292	-55.4%
Pay	**99,270**	94,766	4.54%

1 Includes dividends paid during the financial year.

CEO pay ratio

The data shows how the Chief Executive's single figure remuneration for 2023 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for the year ended 31 December 2023 for full-time equivalent UK employees as at 31 December 2023, on a Group basis, ranked at the 25th, 50th and 75th percentile.

Period	Method	25th percentile ratio	Median (50th percentile) ratio	75th percentile ratio
2023	Option A	27.3:1	22.7:1	16.6:1
2022	Option A	29.2:1	24.0:1	16.9:1
2021[1]	Option A	51.1:1	38.9:1	26.5:1
2020	Option A	25.8:1	20.7:1	14.4:1
2019	Option A	39.3:1	31.8:1	22.7:1

1 The remuneration for comparison for 2021 reflects the total remuneration included in the single total figure of remuneration table paid to Steve Wilson and Chris Payne in relation to the period that each were undertaking the role of Chief Executive. Pension payments have been omitted from the CEO pay ratio calculation for the period that Steve Wilson was Chief Executive to maintain consistency as he did not receive a pension payment. Pension payments have been included for the period in which Chris Payne was Chief Executive to align with his pay package.

Option A was selected given that this method of calculation was considered to be the most efficient and robust approach in respect of gathering the required data and was consistent with reporting for previous years.

The salary and total pay and benefits for the UK employees at the relevant percentiles, and upon which the pay ratios have been calculated, are as follows:

Year	Percentile	Salary (£)	Total pay and benefits (£)
2023	25th percentile	23,598	23,598
	Median	28,323	28,323
	75th percentile	37,983	38,801

The CEO pay ratios for 2023 are lower than those for 2022. This is primarily due to the CEO single figure reducing year on year which reflects the lower annual bonus award for 2023 (20% of maximum) compared to 2022 (38% of maximum). As such, given that the change in the ratios is due to the CEO's performance related pay (which will by its nature fluctuate year on year) rather than a material change to employee pay, the Remuneration Committee considers the median CEO pay ratio to be representative of the UK employee base and not inconsistent with the Company's pay, reward and progression policies.

Executive Directors' service contracts

Chris Payne was appointed on 13 September 2017 and the date of his current service contract is 8 March 2022. His service contract may be terminated on 12 months' notice from either party.

Adam Phillips was appointed on 20 March 2023 and the date of his current service contract is 14 November 2022. His service contract may be terminated on 12 months' notice from either party.

Non-Executive Directors' letters of appointment

Details of the current Non-Executive Directors' appointment dates are set out below:

Non-Executive Director	Date of appointment	Expiry of current term
Keith Edelman	1 October 2018	30 September 2024
Jemima Bird	11 October 2022	10 October 2025
Stephen Bird	13 September 2021	12 September 2024
Karen Hubbard	1 September 2022	31 August 2025
Robin Williams	11 October 2022	10 October 2025

Statement of implementation of remuneration policy in 2024

Details of how the Company will operate the Remuneration Policy in 2024 are provided below.

Base salaries for 2023

Chris Payne's salary increased by 2% from £475,000 to £484,500 from 1 January 2024 which was in line with the workforce increase.

Adam Phillips joined the Board as Chief Financial Officer on 20 March 2023 on a base salary set at £290,000. Following a review by the Board of both individual and Company performance since his appointment and as detailed in last year's Directors' Remuneration Report, his base salary increased to £325,000 from 1 January 2024. This remains below the salary paid to the previous Chief Financial Officer (£364,000). The performance assessment considered Adam's support in respect of crafting and delivering the strategy and strategic initiatives, his progress in building relationships with key stakeholders and evolving and improving the Company's Management Information Systems, financial reporting, forecasting and risk management (which included his appointment as Chair of the Risk Committee).

Pension

Pension contributions will continue to be capped at 8% of salary for both the Chief Executive and Chief Financial Officer.

Annual bonus

The maximum annual bonus opportunity for 2024 will remain at 125% of base salary and on-target bonus will continue to 50% of maximum potential. The payment of the annual bonus will be based 70% on underlying profit before tax ('PBT') performance and 30% linked to the achievement of a number of key strategic and ESG-related objectives. The strategic targets relate to various measurable objectives that underpin Company growth and ESG strategy. Full disclosure of the targets, which are considered to be commercially sensitive, will be provided in the 2024 Annual Report and Accounts. In line with our Remuneration Policy, one-third of any amount earned will be deferred into shares for two years.

PSP

In considering the performance targets for the 2024 PSP Awards the Committee has considered the need to set stretching and challenging targets which are aligned to the short- and long-term performance of the Group. The Committee will once again set targets based on underlying Basic EPS Growth and relative TSR and ESG. PSP awards in respect of 2024 will be granted in the form of nil cost options over ordinary shares in the Company at the level up to 150% of salary for the Chief Executive and Chief Financial Officer.

The proposed performance targets are set out in the table below:

Vesting (% of maximum)	Underlying Basic EPS for 2026 (70% of award)	TSR v FTSE SmallCap (ex ITs) (20% of award)	tCO_2e% reduction (10% of award)
0%	Less than 16p	Below median	Less than 25%
25%	Less than 16p	Median	Less than 25%
100%	25p	Upper quartile	29%

Straight-line vesting between points.

In addition to the above performance targets, the Committee will consider whether there has been any windfall gains at the point of vesting.

To balance the overall long-term nature of the package, and in line with best practice, awards will be subject to a two-year holding period following the date of vesting.

Non-Executive Directors' fees for 2024

The following fees are to be applied for the financial year ended 31 December 2024.

Role	**Fees effective 1 Jan 2024 £000**	Fees effective 1 Jan 2023 £000
Chairman fee	**150.0**	150.0
Non-Executive Director base fee	**50.0**	50.0
Senior Independent Director fee	**10.0**	10.0
Audit Committee chair fee	**7.5**	7.5
Remuneration Committee chair fee	**7.5**	7.5
Employee Forum and ESG committee fee	**7.5**	7.5

Remuneration Committee activity

The Board approved the terms of reference, delegating certain responsibilities to the Remuneration Committee, most recently on 20 September 2023. The terms of reference are reviewed periodically and are available on the Company's website within the Governance section at www.headlam.com. The Remuneration Committee comprises the Chairman and each of the other Non-Executive Directors. Attendance at scheduled meetings of the Committee during the year was as follows:

Members	Meetings attended	Eligible to attend
Keith Edelman	4	4
Jemima Bird	4	4
Stephen Bird	4	4
Karen Hubbard	4	4
Robin Williams	4	4

Members additionally correspond on urgent matters between formal Remuneration Committee meetings. Other Directors may attend Remuneration Committee meetings by invitation, including the Chief Executive and CFO where appropriate. The Remuneration Committee also receives assistance from the Chief People and Sustainability Officer, the Company Secretary and from independent external advisers, FIT Remuneration Consultants LLP. The Company Secretary acts as Secretary to the Remuneration Committee.

No one attending a Remuneration Committee meeting may participate in discussions relating to their own terms and conditions of service or remuneration.

Main role and key responsibilities

The Remuneration Committee's main responsibilities include:

- designing the framework and policy for Executive Directors' remuneration and determining remuneration packages for the Executive Directors, Chairman and Senior Management, including the Company Secretary, to promote the achievement of the Group's strategy and long-term sustainable success. When setting executive remuneration, take into account the link between Executive Director and senior manager remuneration and that provided to the wider workforce;
- establishing remuneration schemes that promote long-term shareholding by Executive Directors and that support alignment with Shareholders' interests, both in post and post cessation;
- approving the design and operation of the Company's short-term and long-term incentive arrangements. This includes agreeing the targets that are applied to awards made to Executive Directors and the Senior Management Team;
- oversight of the administration of share plans as required;
- review workforce remuneration and related policies; and
- determine the policy for and scope of pension arrangements for Executive Directors and Senior Management.

Remuneration Committee activities

The key matters discussed at the meetings of the Remuneration Committee in 2023 were as follows:

Remuneration

- reviewed wider workforce remuneration arrangements, and annual bonus scheme and considered in conjunction with pay strategy for Executive Directors and Senior Management;
- considered pay awards for Executive Directors and Senior Management;
- considered Annual Bonus payments;
- reviewed and confirmed that no vesting would occur for the 2020 PSP;
- approved the Annual Bonus payments for 2023;
- approved the PSP Award and targets; and
- considered remuneration for Executive Directors, Senior Management and the Chairman; using updated benchmarking data where appropriate.

Governance

- consulted major shareholders in respect of a new Directors' Remuneration Policy which was put to shareholders for approval at the 2023 AGM;
- sought the views of our major shareholders and the main voting agencies as part of a comprehensive investor consultation exercise to inform the design process for the revised Policy;
- reviewed guidance from investor bodies and institutional shareholders;
- consulted with proxy voting recommendation agencies prior to the AGM;
- received feedback from the Employee Forum in November 2023 on matters relating to remuneration;
- received an AGM debrief and governance update and considered recommendations made by the voting agencies in their AGM reports;
- reviewed its own terms of reference; and
- approved its annual workplan;

Reporting

- approved the Remuneration Report (including CEO pay ratio and Gender pay gap disclosure);

Effectiveness

- reviewed the Committee's effectiveness; and
- reviewed the performance of its independent advisor FIT Remuneration and determined that they should remain in office.

Remuneration Committee effectiveness

The effectiveness of the Remuneration Committee was evaluated as part of the Board performance evaluation process. The review found that the Committee is operating effectively.

Advisers

FIT Remuneration Consultants LLP (FIT) has served as independent adviser to the Remuneration Committee throughout the year under review. FIT was appointed by the Committee in 2019 following a competitive tender process. FIT also provided additional related advice to the Company in relation to drafting this report, share plan rule drafting and Non-Executive Director fee benchmarking. FIT's fees in respect of advice provided during the year ended 31 December 2023 were £48,876 (excluding VAT) and were charged on a time and disbursements basis. FIT is a member of the Remuneration Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK. The Remuneration Committee reviewed the performance of the FIT and was satisfied that all advice received was of good quality, objective and independent.

Statement of shareholders' votes

The following table sets out the results of the binding vote on the Directors' Remuneration Policy at the 2023 AGM and the vote on the 2022 Directors' Remuneration Report at the 2023 AGM.

	% of votes cast For	% of votes cast Against	Number of shares Withheld
2023 Remuneration Policy	90.72	9.28	1,903,961
2022 Annual Report on Remuneration	99.22	0.78	2,110,076

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

Jemima Bird,
Chair of the Remuneration Committee

5 March 2024

DIRECTORS' REPORT

The Directors present their report, together with the audited financial statements for the Group, for the year ended 31 December 2023. 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 Chair's Statement on page 6 to the Statement of Directors' Responsibilities on page 145, this section constitutes the Directors' Report in accordance with the Companies Act 2006 and the Management Report as required by DTR 4.1.5 R(2).

Principal activities

The principal activities of the Group are the sales, marketing, supply and distribution of floorcoverings and certain other ancillary products in the UK and certain Continental Europe territories. The principal activity of the Company is that of a holding company and its subsidiaries are listed on page 207. Further details of the Group's activities and future plans are set out in the Strategic Report on pages 13 to 75.

Headlam Group plc is a company incorporated and domiciled in the UK, company number 00460129. The address of the registered office is Gorsey Lane, Coleshill, Birmingham B46 1JU.

Strategic report and future developments

The Group is required by the Companies Act 2006 to include a Strategic Report in this document. The information that fulfils the requirements of the Strategic Report, and which is incorporated in this report by reference, can be found on pages 13 to 75. The Strategic Report includes certain disclosures required to be contained in the Directors' Report as follows: the viability statement (page 72), approach to diversity (pages 51 and 112), workforce engagement (pages 49 and 89), an indication of likely future developments (page 8, Chief Executive's Review), and the approach to risk management (pages 65 to 71).

Directors

The following were Directors of the Company during the period ended 31 December 2023 and at the date of this report unless otherwise stated:

- Keith Edelman
- Chris Payne
- Adam Phillips – appointed 20 March 2023
- Stephen Bird
- Jemima Bird
- Karen Hubbard
- Robin Williams

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 pages 80 and 81 and is incorporated into this report by reference.

Acquisitions

On 4 January 2023 the Group acquired 100% of the issued share capital of Birch Close Trading Limited, and its subsidiaries, for a consideration of £4.7 million. The acquired group trades as Melrose Interiors ('Melrose'), which is the largest independent supplier to the UK online rug industry, and has operations in third-party logistics, recycling and an in-house rug, sampling and pattern book department.

The Group made two further small acquisitions in H2 2023; one in the Netherlands, which was integrated into existing businesses and provided an increased product range, and the other in the UK (PD Patterns), which enabled in-house sampling production. The latter has been integrated into the nearby Melrose Interiors site. Collectively, the purchase price for the two acquisitions was £2.3 million.

Financial results and ordinary dividends

The results for the year and financial position at 31 December 2023 are shown in the Consolidated Income Statement on page 154 and Statements of Financial Position on page 156.

An interim dividend of 4.0 p per ordinary share (2022: 6.2p) was paid on 28 November 2023 to shareholders on the register at the close of business on 28 October 2023. The Directors propose a final dividend of 6.0p per ordinary share (2022: 11.2p) in respect of the financial year ended 31 December 2023. The payment of the final dividend will be subject to shareholder approval at the AGM. If approved the total dividend for FY23 will be 10.0 p per ordinary share.

The final dividend (if approved by shareholders) will be paid on 7 June 2024 to shareholders on the register of members at the close of business on 10 May 2024, the associated ex-dividend date being 10 May 2024.

Share capital

As at 31 December 2023, the issued share capital of the Company comprised a single class of ordinary shares of 5p each ('Ordinary Shares').

The Company's Ordinary Shares are listed on the Main Market of the London Stock Exchange. No new Ordinary Shares were issued during the year. The Company's total issued share capital therefore remains 85,639,209 Ordinary Shares as at 31 December 2023. During the year, the Company purchased 1,566,622 shares into treasury pursuant to the authority granted by shareholders at the Company's Annual General Meeting on 19 May 2022.

The balance of shares in treasury stock following completion of the Share buy Back programme on 3 March 2023 was 4,997,717 Ordinary Shares (6.2 % of the Company's total issued share capital).

Details of share capital are set out in note 23 to the financial statements.

Details of the Company's share capital are set out in note 23 to the financial statements, which should be treated as forming part of this report. Subject to the provisions of the Articles of Association and the Companies Act 2006, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the Directors may decide. There are, however, no restrictions on the transfer of securities in the Company, except that certain restrictions may from time to time be imposed by law or regulation, for example, insider trading laws, and pursuant to the Listing Rules of the Financial Conduct Authority (the 'Listing Rules'), and the UK Market Abuse Regulation, whereby certain employees require the approval of the Company to deal in the Company's shares On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website by the next business day after the meeting. The holders of ordinary shares are entitled to receive the Annual Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights. Further shareholder information is available in the Notice of AGM which contains explanations as to the resolutions proposed.

Subject to certain limits, at the AGM on 19 May 2022, the Directors were granted general authority to allot shares in the Company together with an authority to allot shares in the Company in connection with a rights issue and in respect of cash without first offering them to existing shareholders. The Directors will be seeking to renew these authorities to allot unissued shares and to disapply statutory pre-emption rights at the forthcoming AGM. Full details are set out in the Notice of AGM which is contained in a separate circular to shareholders.

The Company announced a share buyback programme ('SBB') on 9 March 2022 which was completed on 3 March 2023. Full details of the purchases made in 2022 are disclosed in the Annual Report for that year.

In line with usual practice, the Directors will also seek to renew the authority to purchase shares under the at the forthcoming AGM. The Company intends to exercise this authority: (i) to purchase and hold shares in treasury to fulfil the Company's future obligations under its employee share schemes; and/or (ii) after following its Capital Allocation Priorities as detailed on page 36 and considering market conditions and the share price prevailing at the time, where the Board believes that the purchase and subsequent cancellation of shares would be in the best interest of shareholders generally. A full explanation and details are set out in the Notice of AGM sent in a separate circular to shareholders and which is also available on the Company's website, www.headlam.com.

Directors

Biographies of Directors currently serving on the Board are set out on pages 82 and 83.

Changes to the Board during the period are set out on page 110. Details of the Directors' service agreements are set out below:

Director	Date of appointment	Date of original letter of appointment/ service agreement	Effective date of current letter of appointment/service agreement	Next due for election/ re-election
Executive Director				
Chris Payne	13 September 2017	n/a	8 March 2022	23 May 2024
Adam Phillips	20 March 2023		20 March 2023	23 May 2024
Non-Executive Director				
Keith Edelman (Chair)	1 October 2018	15 August 2018	1 October 2021	23 May 2024
Stephen Bird	13 September 2021	10 August 2021	13 September 2021	23 May 2024
Jemima Bird	11 October 2022	10 October 2022	10 October 2022	23 May 2024
Karen Hubbard	1 September 2022	1 September 2022	1 September 2022	23 May 2024
Robin Williams	10 October 2022	10 October 2022	10 October 2022	23 May 2024

Remaining service agreement term for Non-Executive Directors as at 31 December 2023 (in whole months)

- Keith Edelman – 9 months
- Stephen Bird – 8 months
- Jemima Bird – 21 months
- Karen Hubbard – 20 months
- Robin Williams – 21 months

The Directors shall be not less than three and not more than eight in number, although the Company may by ordinary resolution vary these numbers. Directors may be appointed by the ordinary resolution of the shareholders or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company after their appointment, at which they are then eligible to stand for election. As set out in the AGM Notice of Meeting, all of the Board Directors are standing for re-election (with the exception of Adam Phillips who is standing for election) at the 2024 AGM.

As noted elsewhere in this report, all Directors are subject to annual election by shareholders at the AGM in line with the provisions of the UK Corporate Governance Code.

Related party transactions

The Board and certain members of Senior Management are related parties within the definition of IAS 24 (Revised) 'Related Party Disclosures' ('IAS 24') and the Board are related parties within the definition of Chapter 11 of the UK Listing Rules ('Chapter 11'). There is no difference between transactions with key personnel of the Company and transactions with key personnel of the Group. During the year, the Group did not enter into any transaction which, for the purposes of IAS 24, is considered to be a 'related party transaction'. No related party transactions that require disclosure have been entered into during the year under review. Please see page 91 for information on the Board's conflict of interest process.

Directors' powers

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by the Company by special resolution, the business of the Company will be managed by the Board which may exercise all the powers of the Company, whether relating to the management of the business of the Company or otherwise. The matters reserved for the Board are detailed in a specific schedule, which is reviewed annually and is available on the Company's website, www.headlam.com.

Change of control

The Group has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a successful takeover bid. The significant agreements in this respect are the Group's banking facility and certain of its employee share schemes. The Group's term loan facilities include a provision such that, in the event of a change of control, the lender may cancel all or any part of the facility and/or declare that all amounts outstanding under the facility are immediately due and payable by the Group. Outstanding options granted under the SAYE scheme may be exercised within a period of six months from a change of control of the Company following a takeover taking place.

Rights under employees' share schemes

As at 31 December 2023, Kleinwort Hambros, as trustee of the Headlam Group Employee Trust Company Limited ('Trust') held 589,077 shares, approximately 0.007% of the issued share capital of the Company (excluding treasury shares) for the purpose of satisfying options and awards under the various employee share schemes operated by the Company. Kleinwort Hambros waives dividends due on all but 0.01p per share of their total holding.

Details of employee share schemes are set out in note 22 to the Financial Statements. Details of long-term incentive schemes for the Directors are shown in the Remuneration Report starting on page 116.

Securities carrying special rights

There are no requirements for prior approval of any transfers and no person holds securities in the Company carrying special rights with regard to control of the Company.

Substantial interests in voting rights

Notifications of the following voting interests in the Company's ordinary share capital had been received by the Company (in accordance with Chapter 5 of the DTR), with the information received from the discloser stated to be correct at the time of disclosure.

As at and up to 31 December 2023, the persons set out in the table below have notified the Company, pursuant to DTR 5.1, of their interests in the voting rights in the Company's issued share capital.

Ordinary shares of 5p each	Number of shares[1]	% of total voting rights[2]
FiL Limited	8,086,705	10.01%
Orbis Allan Gray Limited	4,153,822	5.14%
Ruffer LLP	4,042,500	5%

As at 4 March 2024, two further notifications had been received as outlined below.

Ordinary shares of 5p each	Number of shares[1]	% of total voting rights[2]
Orbis Allan Gray Limited	4,023,153	4.98%
LA FINANCIERE DE L'ECHIQUIER	2,483,562	3.07%
FIL Limited	8,044,135	9.96%
Aberforth LLP	9,328,426	11.5%

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 31 December 2023.

Directors' interests and indemnity arrangements

During the year, no Director held any material interest in any contract of significance with the Company or any of its subsidiary undertakings, other than service agreements between each Executive Director and the Company. In addition, the Company has purchased and maintained throughout the year and up to the date of approval of the financial statements, Directors' and Officers' liability insurance in respect of itself and its Directors. The Directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision extends to include the Directors of Headlam Group Pension Trustees Limited, a corporate trustee of the Scheme, in respect of liabilities that may attach to them in their capacity as Directors of that corporate trustee. These provisions were in force throughout the year and are currently in force. Details of Directors remuneration, service agreements, and interests in the shares of the Company are set out in the Directors' Remuneration Report.

Anti-corruption and bribery

It is the Company's policy to conduct all business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships. The policy is detailed on the Company's website, www.headlam.com.

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. The Company issues a supplier Code of Conduct which our suppliers are expected to engage and adhere to. Headlam works with all suppliers to ensure compliance. However, if any supplier is found to be involved in any form of Modern Slavery or unethical behaviour, the Company will look to suspend or cease trading with that supplier.

Full information can be found in the Company's Modern Slavery Statement which is published annually on the Company's website and which details the actions undertaken to prevent slavery and human trafficking in both the Company's organisation and its supply chain.

Human rights

We have policies and processes in place to ensure that we act in accordance with our cultural values which encompass areas such as equal opportunities, diversity, inclusion and respect, anti-corruption and bribery, whistleblowing and fraud. We do not believe this to be a material issue in our business.

Employment policies

The Group is an equal opportunities employer and we are committed to the elimination of unlawful and unfair discrimination and the fair and equal treatment of all colleagues and applicants during the recruitment and selection process, training and career development. We have a zero-tolerance approach to matters of discrimination, harassment and bullying across the business. Polices are in place for reporting and dealing with such matters.

This commitment applies regardless of anyone's physical ability, sexual orientation or gender identity, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin. Our Company policies ensure this is reflected in the culture of the business and include an Inclusion and Respect at Work policy. Full consideration is given to employment applications from people with diverse backgrounds, including disabilities whenever suitable vacancies exist. If a colleague becomes disabled efforts are made to ensure their continued employment within the company with appropriate training as required.

Further details on diversity are included in the Nomination Committee Report on page 110.

Employee engagement

We are committed to keeping our colleagues informed and communicating with them on matters of importance relating to our company performance and their employment. We also recognise that communication should be two-way and we actively encourage feedback and involvement from our colleagues, either through formal channels such as our Employee Forum (pages 49 and 89), our employee survey, or more informal methods such as the dedicated internal communications email address or MyHub portal. Further information can be found on page 47.

A summary of how Directors have engaged with employees and had regard to employee interests and the effect of that regard on the principal decisions taken by the Company during the financial year is provided on pages 28 and 86.

Sharesave & long service awards

During the year, the Company invited all eligible employees to participate in:

- its HMRC approved Sharesave Scheme, (this Scheme allows eligible employees to save up to £500 per month in one or a combination of Sharesave Schemes in order to further align their interests with the performance of the Group) and at 31 December 2023, approximately 25% UK employees participate in one or more of the active Sharesave Schemes; and

- its long service award scheme which awards colleagues after certain milestones of service with a monetary gift and, for longer serving employees, an award of ordinary shares in the Company to be granted bi-annually under the scheme using service milestones and as at 31 December 2023, a total of 130,700 ordinary shares of 5 pence each were awarded to eligible employees at nil cost under the scheme.

Stakeholder engagement

The directors understand the need to develop good business relationships with its suppliers, customers and other stakeholders and the success with which this is achieved is paramount to business success. Further information on the Company's approach to engagement with its stakeholders and how this feeds through into the decision-making process can be found on pages 28 and 88.

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 145 and a statement by the Auditor on their responsibilities is given on page 148.

Political donations and expenditure

The Company's policy is not to make any donations for political purposes in the UK or to donate to political parties or incur political expenditure outside of the UK. Accordingly, neither the Company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2022: £nil).

Charitable donations

Charitable giving is undertaken through both monetary and product donations to good local causes. Monetary donations made during the year in support of charitable causes nationally, and those of interest to employees amounted to £114,134 (2022: £50,866).

Amendments to the Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The Company's Articles of Association were last amended at the general meeting held on 21 May 2021 with the updated articles being filed with the Registrar of Companies.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Group together with details of our treasury policy and management are set out in note 24 to the financial statements on pages 196 to 203.

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 2024 AGM.

AGM

This year's AGM will be held at the Company's head office in Coleshill on Thursday, 23 May 2024 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. A copy of the Notice of Meeting is available on the Company's website: www.headlam.com

Other disclosures

Certain information that is required to be included in the Directors' Report can be found elsewhere in this document as referred to below, each of which is incorporated by reference into the Directors' Report:

- Information on greenhouse gas emissions can be found on page 61.
- Information on energy consumption can be found on page 62.
- Information on energy efficiency can be found on page 64.
- For the purposes of Listing Rule (LR) 9.8.6R(8) the information on climate-related financial disclosures consistent with the TCFD recommendation and the TCFD recommended disclosure can be found on pages 56 to 60.
- Further details of the actions which the Group is taking to reduce emissions can also be found in the Sustainability Report starting on page 40.
- An indication of likely future developments in the Group's business can be found throughout the Strategic Report, starting on page 13.
- The long-term viability statement can be found on page 72.
- Information on the appropriateness of adopting the going concern basis of the accounts can be found on page 73.
- Our approach to risk management can be found on pages 65 to 71.
- Information for shareholders can be found on the Company's website.
- A list of the Company's overseas subsidiaries is on page 207.

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

Alison Hughes
General Counsel & Company Secretary

5 March 2024

Company registration number: 00460129

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Listing Rule (LR) 9.8.4R information Section

(1)	Capitalised interest	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(3)	Smaller related party transactions	Not applicable
(4)	Details of long-term incentive schemes established specifically to recruit or retain a Director	Pages 116 to 139
(5) (6)	Waiver of emoluments by a Director	Not applicable
(7) (8)	Allotments of equity securities for cash	Not applicable
(9)	Participation in a placing of equity securities	Not applicable
(10)	Contracts of significance	Not applicable
(11) (14)	Controlling shareholder disclosure	Not applicable
(12) (13)	Dividend waiver	Page 195

The directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

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

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Chris Payne
Director

5 March 2024

FINANCIAL STATEMENTS

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 2023 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company Statements of Financial Position as at 31 December 2023; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Group and Company Cash Flow Statements, and the Group and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The Group financial statements are a consolidation of a number of reporting components, comprising the group's operating businesses, centralised functions and non-trading entities.
- We performed full scope audits on the financial information of four UK reporting components: HFD Limited, MCD Group Limited, Domus Group of Companies and Headlam Group plc (the company) due to their size and risk characteristics. These UK reporting components comprise 86% consolidated revenue and 91% absolute consolidated underlying profit before tax.
- In addition, we targeted significant balances in other components. These were identified as cash balances within the components of Headlam BV, LMS and Dersimo. We also tested a sample of Melrose revenue transactions to invoices, proof of delivery and cash receipts.
- All work was performed by the group team and no reliance was placed upon the work of component auditors. Our audit of the Company Financial Statements included substantive procedures over all material balances and transactions.
- Finally, we performed analytical procedures on insignificant trading components for group reporting purposes

Key audit matters

- Supplier arrangements (group)
- Impairment of goodwill and intangible assets (group)
- Impairment of tangible assets (group)
- Recoverability of investments in subsidiary undertakings (parent)

Materiality

- Overall group materiality: £1,398,000 (2022: £1,800,000) based on 5% of a three year average of underlying profit before tax (2022 basis: 2022 underlying profit before tax).
- Overall company materiality: £1,328,000 (2022: £1,700,000) based on 1% of total assets, capped at allocated component materiality of £1,328,000 (2022: £1,700,000).
- Performance materiality: £1,050,000 (2022: £1,350,000) (group) and £996,000 (2022: £1,275,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Impairment of intangible assets, impairment of tangible assets and recoverability of investments in subsidiary undertakings were disclosed as one key audit matter in the prior year. This year these have been disclosed as three separate key audit matters. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Supplier arrangements (group) Refer to the Audit Committee Report and the use of estimates and judgements in note 1(b) to the financial statements. The group has a significant number of rebate agreements with suppliers. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased. Consequently, the calculation of these rebates can be complex and requires accurate inputs and calculations to be made. The majority of agreements are co-terminous with the financial year, meaning that, although the calculation of the rebate does not rely on estimates of future purchases, there are significant amounts of rebates receivable subject to recovery at the year end.	We tested a sample of rebate balances by requesting confirmations directly from the counterparty. For those balances where no counterparty confirmation was subsequently received, we recalculated the amount due, based on the supporting purchase agreements, and tested the calculation inputs back to underlying financial records. For those balances subject to testing, we agreed post year end settlements back to evidence of cash receipt or credit notes received, to provide evidence over the recoverability of the balances. In addition for any amounts not yet settled we assessed the recoverability, for example, through consideration of any evidence to suggest the counterparty was not able to pay the amounts due and the timing of payments received in previous years. In order to assess management's ability to accurately calculate rebates receivable balances, we compared cash receipts received during the year against balances accrued at the previous year end. No material inconsistencies or exceptions were noted during our testing of supplier arrangements.
Impairment of goodwill and intangible assets (group) Refer to the Audit Committee Report, the use of estimates and judgements in note 1(b) and Intangible assets note 11 to the financial statements. The directors are required to perform an annual assessment of the carrying value of goodwill. The determination of the appropriate level at which to define a cash-generating unit (CGU) is disclosed as a judgement. The directors are also required to exercise judgement as to whether impairment triggers, which require a full impairment assessment to be performed, have been identified in relation to the group's other intangible assets. For certain underperforming CGUs, impairment triggers were identified. Where a full impairment assessment was required to support the carrying value of assets, management have assessed the higher of value in use and fair value less costs of disposal in order to determine whether an impairment is required. For sites with goodwill and intangible assets, value in use has given the higher value and therefore provided the basis for assessing the CGU for impairment. Value in use models include a number of judgemental assumptions including revenue growth, gross margin, discount rate and the potential impact associated with climate change. Although no impairment was identified by management, one CGU was materially sensitive to individual and combined reasonably possible change in assumptions.	We evaluated management's judgement that distribution centres are the appropriate level at which to define a CGU in comparison to the requirements of IAS 36, being that a CGU is the smallest group of assets generating largely independent cash inflows. We concluded that this continues to be appropriate on the basis that management budget, review performance, and make decisions at a distribution centre level and the locations within each distribution centre have a high level of interdependence. We evaluated management's assessment of potential impairment triggers across all CGUs. Where impairment triggers were identified, we obtained management's impairment models and tested their integrity and accuracy. We agreed the revenue and cash flows used as the basis of the model back to board approved forecasts. We challenged management on CGU specific growth assumed in year one of the models and reviewed evidence to support these. We reviewed corroborative and contradictory evidence available for growth rates from 2024 onwards by performing independent research for market and wider economy forecasts. We reviewed gross margins and confirmed they were consistent with historical margins achieved by individual or similar CGUs and wider business performance. We evaluated the extent to which the impact of climate change had been incorporated into the models. We engaged valuation experts to benchmark the discount rate calculated by management and concluded that it lay within our expected range. We reviewed management's sensitivity analysis on key assumptions, including revenue growth, gross margin, discount rate and climate related scenarios. We performed independent sensitivities which included replacing future revenue growth with external industry forecasts. We reviewed management's previous forecasts against actual results, assessing management's ability to forecast accurately. We also considered 2024 actual results to date against management's forecasts. We reviewed the associated disclosures within the financial statements. As a result of these procedures, we consider the directors' assessment of the carrying value of goodwill and intangible assets to be supportable and appropriately disclosed.

Key audit matter	How our audit addressed the key audit matter
Impairment of tangible assets (group) Refer to the Audit Committee Report and the use of estimates and judgements in note 1(b) to the financial statements. Annually, the Directors consider whether any events or circumstances have occurred that could indicate that the carrying value of tangible assets should be impaired. For certain underperforming CGUs, impairment triggers were identified. Where a full impairment assessment was required to support the carrying value of assets, management have assessed the higher of value in use and fair value less costs of disposal in order to determine whether an impairment is required. Value in use models include a number of judgemental assumptions including revenue growth, gross margin, discount rate and the potential impact associated with climate change. Although no impairment was identified by management, one CGU was materially sensitive to individual and combined reasonably possible change in assumptions. Fair value less costs of disposal models include judgemental assumptions regarding the fair value of property, plant and equipment. Although no impairment was identified by management, one CGU was materially sensitive to individual and combined reasonably possible change in assumptions.	We evaluated management's assessment of potential impairment triggers across all CGUs. Where impairment triggers were identified, we obtained management's impairment models and tested their integrity and accuracy. Where the model used a value in use method of valuation, we performed procedures consistent with those outlined for the impairment of goodwill and intangible assets described above. For models that used fair value less costs of disposal, we agreed the fair value of land and buildings to latest available external valuation reports and considered external data available regarding movements in property values since this date. For other plant and equipment we agreed the fair value to external sources used by management, as well as performing independent research and considering other corroborative and contradictory sources. We reviewed management's sensitivity analysis on key assumptions used in fair value less costs of disposal models, including fluctuation of land and building valuation. We concluded that the sensitivities applied were reasonable and accurately calculated. We reviewed the associated disclosures within the financial statements. As a result of these procedures, we consider the directors' assessment of the carrying value of tangible assets to be supportable and appropriately disclosed.
Recoverability of investments in subsidiary undertakings (parent) Refer to note 12 to the company financial statements. As at 31 December 2023 the company's balance sheet includes investments of £101.7m (2022: £101.4m). Annually, the Directors consider whether any events or circumstances have occurred that could indicate that the carrying amount of fixed asset investments may not be recoverable. Management have not identified any events or circumstances indicating that the carrying value of investments in subsidiaries may be impaired.	We have considered the performance of each of the subsidiaries and although performance has been behind budget across the group, all subsidiaries continue to be in cash generative positions for 2023 with the exception of one entity, which has a nil carrying value at 31 December 2023. We have compared the total carrying value of investments to the market capitalisation of the group as at 31 December 2023. As a result of these procedures, we agree with the directors' conclusion that there is no impairment indicator regarding investments in subsidiary undertakings.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group operates as a supplier and distributor of floorcovering products and has two operating segments; the UK and Continental Europe. The Group financial statements are a consolidation of a number of reporting companies, comprising the group's operating businesses, centralised functions and non-trading group companies.

In establishing the overall approach to the group audit, we identified four UK reporting components which, in our view,required an audit of their complete financial information both due to their size and risk characteristics: HFD Limited, MCD Group Limited, Domus Group of Companies and Headlam Group plc (the Company). These reporting components were audited by the group engagement team.

In addition, we targeted significant balances in other components. These were identified as cash balances within the components of Headlam BV, LMS and Dersimo. We also tested a sample of Melrose revenue transactions to supporting evidence.

The work on these four components, together with additional procedures performed at the Group level, including analytical procedures and specific testing of the consolidation, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Our audit of the Company Financial Statements was undertaken by the Group audit team and included substantive procedures over all material balances and transactions.

The impact of climate risk on our audit

As part of our audit, we made enquiries of management to understand their process to assess the extent of the potential impact of climate change risks on the Group and its financial statements. Management's assessment has considered the climate-related risks disclosed in the Annual Report including the Group's transition to its net zero emissions targets in 2030 (Scope 1 & 2) and 2050 (Scope 1 & 2), and potential exposure to changing consumer preferences and potential new legislation. In particular, management considered the extent to which:

- The group may incur costs in the transition to net zero, for example, replacements to renewable energy, buildings and vehicles;
- The group may be exposed to government imposed end-of-life disposal taxes on bulky waste (extended producer responsibility); and
- The group may be exposed to changing consumer preferences towards more sustainable flooring products.

As disclosed within notes 1 and 11 of the financial statements, management considers that the impact of climate change does not give rise to a material financial statement impact based on the assumption that the increased cost of sustainable products is passed onto consumers as consumer preferences shift towards more sustainable products in the medium term.

In response, we used our understanding of the Group to evaluate management's assessment; in particular, we considered how climate change risks, both physical and transitional, would impact the assumptions made in the forecasts prepared by management used in their impairment analyses and in their going concern and viability assessments. We concluded that climate change risks do not materially impact the Group's financial statements. We also read the disclosures made in relation to climate change in the other information within the Annual Report, and considered their consistency with the financial statements and our knowledge from the audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£1,398,000 (2022: £1,800,000).	£1,328,000 (2022: £1,700,000).
How we determined it	5% of a three year average of underlying profit before tax (2022 basis: 2022 underlying profit before tax)	1% of total assets, capped at allocated component materiality of £1,328,000 (2022: £1,700,000)
Rationale for benchmark applied	Based on the benchmarks used in the annual report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark. A 3 year average benchmark has been used in the current year as it is considered to appropriately represent the size of the underlying business despite the impact of the current economic environment on profitability.	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 £475,000 and £1,328,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £1,050,000 (2022: £1,350,000) for the group financial statements and £996,000 (2022: £1,275,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £70,000 (group audit) (2022: £90,000) and £66,000 (company audit) (2022: £85,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's detailed cash flow forecasts and liquidity headroom under both base case and downside scenarios.
- Testing the cashflows were consistent with board approved forecasts and considering whether they were reasonable in light of previous performance, future expectations and management's track record of accurate forecasting.
- Assessing whether there were any significant doubts over the ability of the group to meet its debt covenants under both base case and downside scenarios.
- Confirming the amendment to covenants as agreed on 23 February 2024.
- Assessing the adequacy of disclosures in the going concern statement and statements in note 1a of the notes to the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and 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 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulation, health and safety legislation and Listing Rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Inquiries of management and reviewing minutes of meetings of those charged with governance regarding any known or suspected instances of fraud or non-compliance with laws and regulations.
- Review of correspondence and discussions with legal advisors.
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements.
- Testing of journals posted to revenue, rebates and cash that have unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 20 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2016 to 31 December 2023.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Gillian Hinks,
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

5 March 2024

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Underlying 2023 £M	Non-underlying (Note 3) 2023 £M	Total 2023 £M	Underlying 2022 £M	Non-underlying (Note 3) 2022 £M	Total 2022 £M
Revenue	2	656.5	—	656.5	663.6	—	663.6
Cost of sales		(448.7)	—	(448.7)	(444.1)	—	(444.1)
Gross profit		207.8	—	207.8	219.5	—	219.5
Distribution costs		(131.3)	—	(131.3)	(129.5)	—	(129.5)
Administrative expenses		(60.8)	(12.5)	(73.3)	(51.3)	(1.5)	(52.8)
Other operating income		0.4	8.6	9.0	0.5	6.2	6.7
Operating profit/(loss)	2	16.1	(3.9)	12.2	39.2	4.7	43.9
Finance income	6	0.3	—	0.3	0.7	—	0.7
Finance expenses	6	(5.4)	—	(5.4)	(2.8)	—	(2.8)
Net finance costs		(5.1)	—	(5.1)	(2.1)	—	(2.1)
Profit/(loss) before tax	3	11.0	(3.9)	7.1	37.1	4.7	41.8
Taxation	7	(2.2)	2.8	0.6	(7.4)	(0.8)	(8.2)
Profit/(loss) for the year attributable to the equity shareholders		8.8	(1.1)	7.7	29.7	3.9	33.6
Earnings per share							
Basic	9	11.0p		9.6p	35.5p		40.1p
Diluted	9	10.9p		9.6p	35.2p		39.8p
Ordinary dividend per share							
Interim dividend for the financial year	23			4.0p			6.2p
Final dividend declared	23			6.0p			11.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £M	2022 £M
Profit for the year attributable to the equity shareholders		**7.7**	33.6
Other comprehensive (expense)/income			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	21	**(0.3)**	0.1
Related tax		**0.1**	—
		(0.2)	0.1
Items that are or may be reclassified to profit or loss			
Exchange differences arising on translation of overseas operations		**(0.2)**	0.4
		(0.2)	0.4
Other comprehensive (expense)/income for the year		**(0.4)**	0.5
Total comprehensive income attributable to the equity shareholders for the year		**7.3**	34.1

STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2023

		Group		Company	
	Note	**2023 £M**	2022 £M	**2023 £M**	2022 £M
Assets					
Non-current assets					
Property, plant and equipment	10	**127.6**	119.9	**3.2**	2.6
Investment properties	10	**—**	—	**87.7**	89.6
Right of use assets	18	**41.6**	36.7	**0.8**	0.7
Intangible assets	11	**19.4**	17.8	**0.1**	3.0
Deferred tax assets	13	**0.9**	—	**—**	—
Investments in subsidiary undertakings	12	**—**	—	**101.7**	101.1
		189.5	174.4	**193.5**	197.0
Current assets					
Inventories	14	**131.5**	139.8	**—**	—
Trade and other receivables	15	**117.1**	119.1	**13.6**	16.7
Non-current trade and other receivables	15	**—**	—	**11.8**	12.6
Income tax receivable	8	**3.1**	—	**1.5**	—
Cash and cash equivalents	16	**21.1**	2.1	**63.2**	20.7
		272.8	261.0	**90.1**	50.0
Total assets		**462.3**	435.4	**283.6**	247.0
Liabilities					
Current liabilities					
Bank overdrafts	17	**(0.7)**	—	**—**	—
Other interest-bearing loans and borrowings	17	**(50.0)**	(0.3)	**(50.0)**	—
Lease liabilities	18	**(11.9)**	(11.4)	**(0.1)**	(0.1)
Trade and other payables	19	**(129.1)**	(153.2)	**(41.4)**	(42.5)
Employee benefits	21	**(1.1)**	(1.0)	**(1.1)**	(1.0)
Income tax payable	8	**—**	(1.9)	**—**	(2.5)
		(192.8)	(167.8)	**(92.6)**	(46.1)
Non-current liabilities					
Lease liabilities	18	**(31.5)**	(26.3)	**(0.8)**	(0.7)
Provisions	20	**(2.6)**	(1.7)	**—**	—
Deferred tax liabilities	13	**(13.2)**	(12.1)	**(7.7)**	(8.0)
Employee benefits	21	**(1.8)**	(2.7)	**(1.2)**	(2.2)
		(49.1)	(42.8)	**(9.7)**	(10.9)
Total liabilities		**(241.9)**	(210.6)	**(102.3)**	(57.0)
Net assets		**220.4**	224.8	**181.3**	190.0
Equity attributable to equity holders of the parent					
Share capital	23	**4.3**	4.3	**4.3**	4.3
Share premium		**53.5**	53.5	**53.5**	53.5
Other reserves	23	**(15.5)**	(15.8)	**3.2**	2.7
Retained earnings		**178.1**	182.8	**120.3**	129.5
Total equity		**220.4**	224.8	**181.3**	190.0

The notes on pages 161 to 207 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 £3.1 million (profit in 2022: £2.1 million).

The financial statements on pages 155 to 213 were approved by the Board of Directors on 5 March 2024 and were signed on its behalf by

Chris Payne
Director

Company Number: 00460129

STATEMENT OF CHANGES IN EQUITY – GROUP

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2022		4.3	53.5	0.1	1.5	1.7	(4.9)	175.9	232.1
Profit for the year attributable to the equity shareholders		—	—	—	—	—	—	33.6	33.6
Other comprehensive income		—	—	—	—	0.4	—	0.1	0.5
Total comprehensive income for the year		—	—	—	—	0.4	—	33.7	34.1
Transactions with equity shareholders, recorded directly in equity									
Share-based payments	22	—	—	—	—	—	—	0.9	0.9
Share options exercised by employees		—	—	—	—	—	0.4	(0.2)	0.2
Deferred tax on share options		—	—	—	—	—	—	(0.2)	(0.2)
Repurchase of own shares		—	—	—	—	—	(15.0)	—	(15.0)
Dividends to equity holders	23	—	—	—	—	—	—	(27.3)	(27.3)
Total contributions by and distributions to equity shareholders		—	—	—	—	—	(14.6)	(26.8)	(41.4)
Balance at 31 December 2022		4.3	53.5	0.1	1.5	2.1	(19.5)	182.8	224.8
Balance at 1 January 2023		**4.3**	**53.5**	**0.1**	**1.5**	**2.1**	**(19.5)**	**182.8**	**224.8**
Profit for the year attributable to the equity shareholders		—	—	—	—	—	—	7.7	7.7
Other comprehensive expense		—	—	—	—	(0.2)	—	(0.2)	(0.4)
Total comprehensive (expense)/income for the year		—	—	—	—	(0.2)	—	7.5	7.3
Transactions with equity shareholders, recorded directly in equity									
Share-based payments	22	—	—	—	—	—	—	0.6	0.6
Share options exercised by employees		—	—	—	—	—	0.5	(0.5)	—
Deferred tax on share options		—	—	—	—	—	—	(0.1)	(0.1)
Dividends to equity holders	23	—	—	—	—	—	—	(12.2)	(12.2)
Total contributions by and distributions to equity shareholders		—	—	—	—	—	0.5	(12.2)	(11.7)
Balance at 31 December 2023		**4.3**	**53.5**	**0.1**	**1.5**	**1.9**	**(19.0)**	**178.1**	**220.4**

STATEMENT OF CHANGES IN EQUITY – COMPANY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2022		4.3	53.5	0.1	22.1	(4.9)	154.0	229.1
Profit for the year attributable to the equity shareholders		—	—	—	—	—	2.1	2.1
Other comprehensive income		—	—	—	—	—	0.1	0.1
Total comprehensive income for the year		—	—	—	—	—	2.2	2.2
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	22	—	—	—	—	—	0.9	0.9
Share options exercised by employees		—	—	—	—	0.4	(0.2)	0.2
Deferred tax on share options		—	—	—	—	—	(0.1)	(0.1)
Repurchase of own shares		—	—	—	—	(15.0)	—	(15.0)
Dividends to equity holders	23	—	—	—	—	—	(27.3)	(27.3)
Total contributions by and distributions to equity shareholders		—	—	—	—	(14.6)	(26.7)	(41.3)
Balance at 31 December 2022		4.3	53.5	0.1	22.1	(19.5)	129.5	190.0
Balance at 1 January 2023		**4.3**	**53.5**	**0.1**	**22.1**	**(19.5)**	**129.5**	**190.0**
Profit for the year attributable to the equity shareholders		**—**	**—**	**—**	**—**	**—**	**3.1**	**3.1**
Other comprehensive expense		**—**	**—**	**—**	**—**	**—**	**(0.2)**	**(0.2)**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**2.9**	**2.9**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	22	**—**	**—**	**—**	**—**	**—**	**0.6**	**0.6**
Share options exercised by employees		**—**	**—**	**—**	**—**	**0.5**	**(0.5)**	**—**
Dividends to equity holders	23	**—**	**—**	**—**	**—**	**—**	**(12.2)**	**(12.2)**
Total contributions by and distributions to equity shareholders		**—**	**—**	**—**	**—**	**0.5**	**(12.1)**	**(11.6)**
Balance at 31 December 2023		**4.3**	**53.5**	**0.1**	**22.1**	**(19.0)**	**120.3**	**181.3**

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Group 2023 £M	Group 2022 £M	Company 2023 £M	Company 2022 £M
Cash flows from operating activities					
Profit before tax for the year		**7.1**	41.8	**4.5**	3.2
Adjustments for:					
Depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and other acquisition-related costs	3	**14.0**	7.7	**6.7**	1.8
Depreciation and impairment of right-of-use assets	3	**13.9**	12.5	**0.1**	—
Finance income	6	**(0.3)**	(0.7)	**(7.3)**	(0.7)
Finance expense	6	**5.4**	2.8	**11.5**	1.5
Insurance proceeds for property, plant and equipment (following fire)	3	**(8.6)**	(1.7)	**(7.1)**	(0.5)
Profit on sale of property, plant and equipment	3	**(1.1)**	—	**(1.1)**	—
Share-based payments	22	**0.6**	0.9	**—**	0.2
Operating cash flows before changes in working capital and other payables		**31.0**	63.3	**7.3**	5.5
Change in inventories		**10.0**	(8.3)	**—**	—
Change in trade and other receivables		**2.7**	(3.5)	**(4.6)**	(8.0)
Change in trade and other payables		**(22.1)**	(34.2)	**2.9**	(1.1)
Cash generated from/(used in) the operations		**21.6**	17.3	**5.6**	(3.6)
Interest paid		**(4.7)**	(1.2)	**(2.6)**	(1.4)
Interest received		**0.3**	0.6	**5.7**	0.7
Tax (paid)/received		**(4.7)**	(5.8)	**(4.4)**	0.8
Net cash flow from operating activities		**12.5**	10.9	**4.3**	(3.5)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment	3	**2.3**	—	**2.3**	—
Acquisition of subsidiary, net of cash acquired	27	**(6.1)**	—	**—**	—
Acquisition of property, plant and equipment		**(17.4)**	(12.6)	**(3.0)**	(1.6)
Insurance proceeds for property, plant and equipment following fire		**8.6**	1.7	**7.1**	0.5
Acquisition of intangible assets		**(0.8)**	(1.2)	**(0.7)**	(1.1)
Net cash flow from investing activities		**(13.4)**	(12.1)	**5.7**	(2.2)
Cash flows from financing activities					
Proceeds from the issue of treasury shares		**—**	0.2	**—**	0.2
Payment to acquire own shares*	23	**(5.2)**	(9.8)	**(5.2)**	(9.8)
Proceeds from borrowings		**110.0**	25.0	**110.0**	25.0
Repayment of borrowings		**(60.3)**	(32.3)	**(60.0)**	(25.0)
Principal elements of lease payments		**(13.0)**	(14.0)	**(0.1)**	(0.1)
Dividends paid	23	**(12.2)**	(27.3)	**(12.2)**	(27.3)
Net cash flow from financing activities		**19.3**	(58.2)	**32.5**	(37.0)
Net increase/(decrease) in cash and cash equivalents		**18.4**	(59.4)	**42.5**	(42.7)
Cash and cash equivalents at 1 January		**2.1**	61.2	**20.7**	63.4
Effect of exchange rate fluctuations on cash held		**(0.1)**	0.3	**—**	—
Cash and cash equivalents at 31 December	16	**20.4**	2.1	**63.2**	20.7

* During the period 1,566,622 (2022: 3,122,721) shares were acquired for £5.2 million (2022: £9.8 million) under the Group's Share Buyback Programme.

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of the Financial Statements and Accounting Policies

Reporting entity

Headlam Group PLC (the 'Company') is a company incorporated and domiciled in the UK. The address of its registered office is PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW.

Statement of compliance

Both the Company's and the Group's financial statements have been prepared and approved by the Directors in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom's Financial Conduct Authority. On publishing the Company's financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The Company and Group financial statements were authorised for issuance on 5 March 2024.

Basis of preparation

The principal accounting policies applied in the preparation of the financial statements of the Company and the financial statements of the Group are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed below.

(a) Measurement convention

These financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest hundred thousand.

The Company and Group financial statements are prepared on the historical cost basis with the exception of derivative financial instruments and pension scheme assets and liabilities, both of which are stated at fair value.

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements the Directors are required to consider whether the Group can continue in operational existence for a period no shorter than 12 months from the date of approval of the financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 06 and Chief Executive's Review on pages 08 to 11.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 32 to 39. 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. The Group has a committed sterling revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million, with maturity in October 2027.

The Group also has short term uncommitted facilities of £15.0 million and €4.8 million which are renewable on an annual basis.

As at 31 December 2023, the Group had net debt of £29.6 million and had total banking facilities available of £100.6 million, of which £49.9 million was undrawn. Lease liabilities are excluded from this metric to be consistent with measurements used in the facility agreement and to allow comparison to total banking facilities available.

As detailed on pages 72 to 73 under Viability and Going Concern, the Directors have reviewed the Group's and Company's resilience to the principal risks and uncertainties by considering forecasts through adverse scenarios, which involve a reduction in market demand, including (A) an economic crisis with a sharp decline in demand before a recovery and (B) a sustained recessionary environment, characterised by a long period of underperformance throughout the assessment period. The testing indicated that the Group and Company would be able to operate within their banking facilities and meet their financial covenants in both scenarios.

The Directors have a reasonable expectation that the Group and Company have 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.

In preparing the Financial Statements the Directors have considered the potential impact of climate change, particularly in the context of the Taskforce for Climate-related Financial Disclosures ('TCFD') included in the Strategic Report. It is the Directors' opinion that the potential impact of climate change, after mitigating actions, is unlikely to be material. See TCFD on pages 56 to 60, the Viability Statement on pages 72 to 73 and note 11 Intangible Assets.

1 Presentation of the Financial Statements and Accounting Policies continued

(b) Use of accounting estimates and judgements

Estimates

The preparation of financial statements in conformity with UK adopted International Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty at the Statement of Financial Position date that have significant risk of material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

Supplier arrangements

The Group has a number of rebate agreements with suppliers. The majority of agreements are co-terminus with the financial year, meaning that, although the calculation of the rebate does not rely on estimates of future purchases, there are significant amounts of rebates receivable subject to recovery at the year-end. At 31 December 2023, rebates receivable are estimated to be fully recoverable.

Employee benefits

The deficit relating to the Group's defined benefit plans is assessed annually in accordance with IAS 19 and after taking independent actuarial advice. The principal assumptions are set out in note 21. The amount of the deficit is dependent on plan asset and liability values and the actuarial assumptions used to determine the deficit. The assumptions include pension increases, price inflation, discount rate used to measure actuarial liabilities and mortality rates. Sensitivities in respect of these assumptions are detailed in note 21.

Impairment

The Group determines whether goodwill is impaired on an annual basis unless there is an indication of impairment at an earlier date. The Group also assesses whether property, plant and equipment, right of use assets and other intangible assets are impaired if there is an indication of impairment at the end of the reporting period. Estimations are required of the value in use of the CGUs to which the assets are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Estimations are also required of the fair value less costs of disposal of the assets in the CGUs, including the market value of the property. No impairment has been recognised as a result of impairment testing in the current year, with the exception of the full impairment of specific IT assets held within property, plant and equipment 'under construction' and intangible assets 'software development' categories and specific property, plant and equipment and right of use assets following strategic decisions to close certain sites. Further details of the impairment review can be found in note 11.

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:

Impairment

Judgements are made by the Directors in identifying the cash generating units ('CGU'), being the smallest groups of assets that generate independent cash flows, with the development of the business strategy, as well as in assessing whether any CGUs trigger an impairment review.

Non-underlying items

In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results, which requires application of judgement. These non-underlying items are defined as those items that are associated with the acquisition of businesses or other items which by virtue of their nature, size and expected frequency, require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year, see note 3.

The following are the principal items classed as non-underlying:

- Insurance proceeds (following fire) and profit on sale of property, plant and equipment as these are non-recurring items;
- Amortisation of acquired intangibles and other acquisition-related items as they relate to the acquisition of businesses;
- Impairment of intangibles, property, plant and equipment and right of use assets as, in totality, they are significant, non-recurring items relating to the decision to replace the ERP system and the decision to close certain sites; and
- Business restructuring and change-related costs which is a significant item in 2023 comprising £3.4 million cash costs and £2.0 million non-cash costs and relate to the period from January to December 2023. No further costs are currently expected. See note 3 for further details.

(c) Impact of newly adopted accounting standards

A number of amendments to IFRSs became effective for the financial year beginning on 1 January 2023. The Group has applied the amendments to IAS 1, Practice Statement 2, IAS 8 and IAS 12 (deferred tax related to assets and liabilities arising from a single transaction and international tax reform pillar 2 model rules). The impact of this amendment is to disclose deferred tax assets and liabilities gross for leases. See note 13.

(d) IFRS not yet applied

There are no new standards, amendments to existing standards, or interpretations that are not yet effective that would be expected to have a material impact on the Group.

(e) Accounting Policies

Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiaries which together are referred to as the 'Group'. The Company's financial statements present information about the Company as a separate entity and not about its Group.

Subsidiaries are entities controlled by the Group. Control exists when the Group has power over an entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The financial results of subsidiaries are included in the Group's financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment and any gain on a bargain purchase is recognised in the Consolidated Income Statement immediately. Transaction costs are expensed as incurred, with the exception of costs that relate to the issue of debt or equity securities.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group's financial statements.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in UK sterling currency units (£), which is Headlam Group PLC's functional and presentational currency.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign subsidiaries are translated at foreign exchange rates ruling at the Statement of Financial Position date.

Foreign currency exposure

The revenues, expenses and cash flows of foreign subsidiaries are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign subsidiaries are taken directly to the translation reserve and reflected as a movement in the statement of comprehensive income.

When a foreign subsidiary is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss of disposal.

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

1 Presentation of the Financial Statements and Accounting Policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis in order to depreciate assets to their residual value over their useful economic lives. Assets begin to be depreciated from the date they become available for use. The annual rates applicable are:

Land and buildings		
Freehold and long leasehold properties	–	2%
Plant and equipment		
Motor and commercial vehicles	–	10% – 25%
Office and computer equipment	–	10% – 33%
Warehouse and production equipment	–	10% – 20%
Solar panels	–	4%

Land is not depreciated.

The residual balances are reviewed annually.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the income statement.

Assets under construction are reported within property, plant and equipment. These assets are stated at cost and are not depreciated until they are complete and utilised by the Group. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Investment properties

Investment properties are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis in order to depreciate assets to their residual value over their useful economic lives. The annual rate applicable is:

Freehold and long leasehold properties	–	2%

The residual balances are reviewed annually.

Goodwill and other intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill arises on the acquisition of subsidiaries and represents the excess of the fair value of the consideration of the business combination over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Transaction costs associated with acquisitions and movements in contingent consideration are recognised in the income statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment, or more frequently when there is an indicator that the unit may be impaired.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. This is in accordance with IFRS 1.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less cumulative amortisation and impairment losses. Other intangible assets are amortised from the date they are available for use.

Amortisation

Amortisation is charged to the income statement and is split over the estimated useful lives of each separately identifiable intangible asset unless such lives are indefinite. Amortisation occurs on brand names, order book, non-compete agreements, customer relationships, supply agreements and software development and is charged to administrative expenses in the income statement. The estimated useful lives are assessed to be:

Brand names	–	10 – 15 years
Order book	–	1 – 36 months
Non-compete agreements	–	1 – 3 years
Customer relationships	–	5 – 10 years
Supply agreements	–	1 – 5 years
Software development	–	5 – 10 years

Financial assets

At initial recognition, the Group measures a financial asset (unless it is a trade receivable without a significant financing component) at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. A trade receivable without a significant financing component is initially measured at the transaction price. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

There are three measurement categories under IFRS 9 into which debt instruments may be classified, these are;

- Amortised cost;
- Fair value through other comprehensive income;
- Fair value through profit and loss

All material financial assets of the Group are held at amortised cost. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss.

Financial assets are no longer recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Trade and other receivables

Trade receivables are recognised at the transaction price if the trade receivables do not contain a significant financing component. Other receivables are measured at fair value on initial recognition.

The Group assesses, on a forward-looking basis, the expected credit losses associated with its trade and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 24.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. This includes management's best estimate of overheads to be absorbed in the cost of inventory and rebates to be received from suppliers. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions to write down inventory to its net realisable value are calculated by reference to each individual product, based on the ageing profile, consideration of inventory sold for less than its carrying value, and consideration for discontinued items.

Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at amortised cost.

Cash and cash equivalents relate to cash balances held. Bank overdrafts that are repayable on demand and form an integral part of cash management of both the Company and Group are included as a component of cash and cash equivalents for the purpose only of the Cash Flow Statement.

1 Presentation of the Financial Statements and Accounting Policies continued

Impairment

The carrying amounts of the Group's assets, other than financial assets, inventories and deferred tax assets, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Financial assets are assessed using an expected credit loss model.

Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment annually.

For the purposes of impairment testing, assets are grouped together into cash generating units, being the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows from other groups of assets. Each distribution centre (including satellite trade counters) is classified as a cash generating unit.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets, with the exception of the Group's receivables, is the greater of their fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade payables

Trade payables are initially recognised at fair value and then are stated at amortised cost.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are made for property dilapidations for the estimated costs of the repairs over the period of the tenancy where a legal obligation exists.

Contingent liability

Contingent liabilities are not recognised but are disclosed when the Group has a possible obligation as a result of past events and whose existence will be confirmed only by uncertain future events not wholly within the Group's control, or when the Group has a present obligation as a result of past events but either it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Contingent asset

Contingent assets are possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognised, but they are disclosed when it is more likely than not that an inflow of benefits will occur.

Employee benefits

The Company and the Group operate both defined benefit and defined contribution plans. The assets of the defined benefit plans are held in independent trustee-administered funds. The pension cost is assessed in accordance with the advice of a qualified actuary.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement immediately.

To the extent that any benefits vest immediately, the expense is recognised directly in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in finance expenses in the income statement.

All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of comprehensive income.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan. The Company does not have an unconditional right to a refund, or reduction in future contribution, under IFRIC 14. Consequently, the surplus balance sheet position at 31 December 2023 has been reduced to a deficit in recognition of the asset ceiling and the minimum funding requirement (i.e. the present value of future contributions the Company is contractually obliged to pay via the schedule of contributions).

The Group operates a UK defined benefit pension plan. 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 116 to 139.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity over the period that the employees unconditionally become entitled to the award. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting and market conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

When options are granted to employees of subsidiaries of the Company, the fair value of options granted is recognised as an employee expense in the financial statements of the subsidiary undertaking together with the capital contribution received. In the financial statements of the Company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding increase in equity.

The Company and Group also operate an Employee Long Service Award scheme whereby shares are issued to employees meeting certain milestones of service for no cash consideration and vest immediately on the grant date. The market value of the shares issued at grant date is recognised as an employee expense 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. Where the Group has committed to buy back its own shares, but not yet repurchased them, the amount of the commitment is recognised as a deduction from equity with a corresponding amount recognised as a liability. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

1 Presentation of the Financial Statements and Accounting Policies continued

Own shares held by Employee Benefit Trust

Transactions of the Group sponsored Employee Benefit Trust are included in the Group financial statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

Revenue

Revenue from the sale of floorcoverings is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of floorcoverings is recognised when control of the goods is transferred to the customer (which is typically the point at which goods are received by the customer), at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods. Provisions for returns, discounts and other allowances are reflected in revenue at the point of recognition.

Supplier arrangements

Rebates received from suppliers comprise volume related rebates on the purchase of inventories. Volume related rebates are accrued as units are purchased based on the percentage rebate applicable to the forecast total purchases over the rebate period, where it is probable the rebates will be received and the amounts can be estimated reliably. Rebates relating to inventories purchased but still held at the balance sheet date are deducted from the carrying value so that the cost of inventories is recorded net of applicable rebates. Rebates received for the financial year are deducted from cost of sales. Rebates recoverable at the end of the financial year are accrued within other debtors.

Insurance proceeds

Insurance proceeds are recognised when recovery is virtually certain and the amounts can be measured reliably. Insurance proceeds recognised are shown as other operating income, separately from any related costs. Insurance proceeds recoverable at the period end are recognised within other receivables.

Leases – Group as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability at the lease commencement date, with the exception of short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets, comprising mainly of IT equipment.

The Group has elected to use a practical expedient as permitted by IFRS 16, not to separate non-lease components and instead account for the lease and non-lease component as a single lease component.

Lease liability

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

Lease liabilities for the Group include the net present value of the following payments:

- fixed payments, less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is measured at amortised cost using the effective interest method, by increasing the carrying amount to reflect interest in the lease liability and reducing the carrying amount to reflect the lease payments made. The lease liability is subsequently remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in the income statement.

The lease liability is presented separately in the Statement of Financial Position.

Right-of-use assets
Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life (in line with property, plant and equipment) and the lease term on a straight-line basis. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for remeasurements of the corresponding lease liability.

The right-of-use assets are presented separately in the Statement of Financial Position.

Short-term and low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Net financing costs
Net financing costs include interest receivable on funds invested, interest payable, interest on lease liabilities and net interest expense on the net defined benefit liability.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

Interest paid and interest received are classified as operating cash flows in the cash flow statement.

Dividends
Paid
Interim, final and special dividends are recognised when they are paid or when approved by the members in a general meeting. Final and special dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements.

Received
The Company receives dividends from its UK and Continental European subsidiaries. Dividends are recognised in the financial statements when they have been received by the Company.

Taxation
Income tax comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related tax is also recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group has adopted the amendments to IAS 12 for the first time in the current year. The IASB amended the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

1 Presentation of the Financial Statements and Accounting Policies continued

The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Non-underlying items

In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. These non-underlying items are defined as those items that are associated with the acquisition of businesses or other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year, see note 3. The principal items classed as non-underlying are described in the basis of preparation in this note.

See page 208 for details on alternative performance measures.

2 Segment reporting

As at 31 December 2023, the Group had 16 operating segments in the UK and three operating segments in Continental Europe. Each segment represents an individual distribution centre operation, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Chief Executive. Discrete financial information is available for each segment and used by the Chief Executive to assess performance and decide on resource allocation.

The operating segments have been aggregated to the extent that they have similar economic characteristics. The key economic indicators considered by management in assessing whether operating segments have similar economic characteristics are the products supplied, the type and class of customer, method of sale and distribution and the regulatory environment in which they operate.

As each operating segment is a trading operation wholly aligned to the sales, marketing, supply and distribution of floorcovering products, management considers all segments have similar economic characteristics except for the regulatory environment in which they operate, which is determined by the country in which the operating segment resides.

The Group's internal management structure and financial reporting systems differentiate the operating segments on the basis of the differing economic characteristics in the UK and Continental Europe and accordingly present these as two separate reportable segments. This distinction is embedded in the construction of operating reports reviewed by the Chief Executive, the Board and the executive management team and forms the basis for the presentation of operating segment information given below.

	UK		Continental Europe		Total	
	2023 £M	2022 £M	**2023 £M**	2022 £M	**2023 £M**	2022 £M
Revenue						
External revenues	**577.3**	577.8	**79.2**	85.8	**656.5**	663.6
Reportable segment underlying operating profit	**22.0**	36.8	**0.2**	3.4	**22.2**	40.2
Reportable segment assets	**359.4**	371.0	**35.6**	40.7	**395.0**	411.7
Reportable segment liabilities	**(209.8)**	(173.8)	**(18.9)**	(22.8)	**(228.7)**	(196.6)

During the year there were no inter-segment revenues for the reportable segments (2022: £nil).

In the UK the Group's freehold properties are held within Headlam Group plc and a rent is charged to the operating segments. In the current year this rent has been allocated to the operating segments to better reflect their performance.

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

	2023 £M	2022 £M
Profit for the year		
Total underlying operating profit for reportable segments	22.2	40.2
Non-underlying items	(3.9)	4.7
Unallocated expense	(6.1)	(1.0)
Operating profit	12.2	43.9
Finance income	0.3	0.7
Finance expense	(5.4)	(2.8)
Profit before taxation	7.1	41.8
Taxation	0.6	(8.2)
Profit for the year	7.7	33.6

	2023 £M	2022 £M
Assets		
Total assets for reportable segments	395.0	411.7
Unallocated assets:		
Intangible assets	0.1	3.0
Income tax receivable	3.1	—
Deferred tax assets	0.9	—
Cash and cash equivalents	63.2	20.7
Total assets	462.3	435.4
Liabilities		
Total liabilities for reportable segments	(228.7)	(196.6)
Unallocated liabilities:		
Income tax payable	—	(1.9)
Deferred tax liabilities	(13.2)	(12.1)
Total liabilities	(241.9)	(210.6)

	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 2023					
Capital expenditure	17.1	0.3	17.4	—	17.4
Depreciation	6.7	0.4	7.1	—	7.1
Depreciation of right of use assets	12.0	1.5	13.5	—	13.5
Impairment of property, plant and equipment	1.9	—	1.9	—	1.9
Impairment of intangible assets	—	—	—	3.6	3.6
Impairment of right of use assets	0.4	—	0.4	—	0.4
Non-underlying items (excluding impairment)	(2.3)	0.1	(2.2)	0.2	(2.0)
Other material items 2022					
Capital expenditure	12.1	0.5	12.6	—	12.6
Depreciation	5.9	0.3	6.2	—	6.2
Depreciation of right of use assets	10.7	1.8	12.5	—	12.5
Non-underlying items	(4.8)	0.1	(4.7)	—	(4.7)

2 Segment reporting continued

The Chief Executive, the Board and the senior executive management team have access to information that provides details on revenue by principal product group for the two reportable segments, as set out in the following table:

Revenue by principal product group and geographic origin is summarised below:

	UK		Continental Europe		Total	
	2023 £M	2022 £M	**2023 £M**	2022 £M	**2023 £M**	2022 £M
Revenue						
Residential	**377.2**	382.8	**47.5**	52.5	**424.7**	435.3
Commercial	**200.1**	195.0	**31.7**	33.3	**231.8**	228.3
	577.3	577.8	**79.2**	85.8	**656.5**	663.6

3 Profit before tax

The following material items are included in profit before tax:

	2023 £M	2022 £M
Underlying items:		
Depreciation on property, plant and equipment	**7.1**	6.2
Depreciation of right of use assets	**13.5**	12.5
Reduction in impairment loss allowance (note 24)	**(1.5)**	(1.7)
	19.1	17.0
Non-underlying items:		
Amortisation of intangibles and other acquisition-related costs	**2.3**	1.5
Impairment of property, plant and equipment, intangible asset and right of use assets	**5.9**	—
Insurance proceeds (following fire)	**(8.6)**	(6.2)
Profit on sale of property, plant and equipment	**(1.1)**	—
Business restructuring and change-related costs	**5.4**	—
	3.9	(4.7)
Taxation on non-underlying items	**(2.8)**	0.8
	1.1	(3.9)

Included within impairment is £3.6 million impairment of intangible assets, £1.9 million impairment of property, plant and equipment and £0.4 million impairment of right of use assets. The impairment charges relate to the write off of software development costs following the decision to replace the existing ERP system and the write down of assets following the decision to close certain sites.

Insurance proceeds relates to an insurance claim for losses arising from the Kidderminster fire in December 2021. Profit on sale of property, plant and equipment includes £1.2 million loss on disposal of items under construction relating to previously capitalised costs associated with the rebuild of the Kidderminster site, including site clearance fees and professional adviser fees incurred before the decision was made to dispose of the site and also a £2.3 million profit on sale relating to the ultimate disposal of the Kidderminster land.

Business restructuring and change-related costs relate to network optimisation, including headcount reduction costs as a result of the restructuring, together with the cost of closing certain sites and the implementation of dynamic transport planning which led to further headcount reductions and vehicle termination costs. The costs comprise £3.4 million cash costs and £2.0 million non-cash costs and relate to the period from January 2023 to December 2023. No further cash or non-cash costs are currently expected in 2024.

See page 208 for details on alternative performance measures.

Auditors' remuneration:

	2023 £M	2022 £M
Audit of these financial statements	**0.2**	0.2
Amounts received by the Auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**0.4**	0.3
	0.6	0.5

4 Staff numbers and costs

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

	Number of employees			
	Group		Company	
	2023	2022	**2023**	2022
By sector:				
Floorcoverings	**2,311**	2,152	**—**	—
Central operations	**27**	27	**27**	27
	2,338	2,179	**27**	27
By function:				
Sales and distribution	**2,106**	1,964	**—**	—
Administration	**232**	215	**27**	27
	2,338	2,179	**27**	27

The aggregate payroll costs were as follows:

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Wages and salaries	**83.8**	79.6	**2.7**	2.9
Equity settled share-based payment expense (note 22)	**0.6**	0.9	**—**	0.2
Social security costs	**10.4**	10.4	**0.2**	0.4
Other pension costs (note 21)	**4.4**	3.8	**0.2**	0.1
	99.2	94.7	**3.1**	3.6

5 Emoluments of key management personnel

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

	2023 £M	2022 £M
Short-term employee benefits	**1.3**	1.1
Equity settled share-based payment expense	**—**	0.3
	1.3	1.4

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year. Further details on Directors' remuneration, share options and long-term incentive schemes are disclosed in the Remuneration Report on pages 116 to 139.

6 Finance income and expense

	2023 £M	2022 £M
Interest income:		
Bank interest	0.3	0.6
Other	—	0.1
Finance income	0.3	0.7
Interest expense:		
Bank loans, overdrafts and other financial expenses	(3.0)	(1.3)
Interest on lease liability	(2.1)	(1.4)
Net interest on defined benefit plan obligations (note 21)	(0.1)	(0.1)
Other	(0.2)	—
Finance expenses	(5.4)	(2.8)

7 Taxation

Recognised in the income statement

	2023 £M	2022 £M
Current tax (credit)/expense:		
Current year	—	7.2
Adjustments for prior years	(0.3)	(0.6)
	(0.3)	6.6
Deferred tax (credit)/expense:		
Origination and reversal of temporary differences	(0.5)	0.8
Effect of change in UK tax rates	—	0.3
Adjustments for prior years	0.2	0.5
	(0.3)	1.6
Total tax	(0.6)	8.2

	2023 £M	2022 £M
Tax relating to items (credited)/charged to equity		
Deferred tax on:		
Share options	0.1	0.2
Deferred tax on other comprehensive expense:		
Defined benefit plans	(0.1)	—
Total tax reported directly in reserves	—	0.2

Factors that may affect future current and total tax charges

The UK headline corporation tax rate for the year was 23.5% (2022: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax would increase from 19.0% to 25.0%. This new law was substantively enacted on 24 May 2021. UK deferred tax assets and liabilities have been calculated at a rate of 25.0% (2022: 25.0%).

The Group is within the scope of the OECD Pillar Two model rules. The Pillar Two legislation was enacted on 11 July 2023. The Group does not expect the Pillar Two legislation to have any material impact.

Reconciliation of tax (credit)/charge

	2023 £M	2022 £M
Profit before tax	7.1	41.8
Tax using the UK corporation tax rate of 23.5% (2022: 19.0%)	1.7	7.9
Effect of change in UK tax rate	—	0.3
Local tax incentives	—	(0.3)
(Non-taxable income)/non-deductible expenses	(1.3)	0.5
Impact of losses not recognised	—	(0.1)
Recognition of deferred tax on losses	(0.9)	—
Adjustments in respect of prior years	(0.1)	(0.1)
Total tax in income statement	(0.6)	8.2
Add back tax on non-underlying items	2.8	(0.8)
Total tax charge excluding non-underlying items	2.2	7.4
Profit before tax before non-underlying items	11.0	37.1
Adjusted effective tax rate excluding non-underlying items	20.0%	20.1%
Total effective tax rate (credit)/charge	(8.5)%	19.6%

8 Income tax receivable/payable

The Group's current tax asset of £3.1 million (2022: liability of £1.9 million) represents the amount of income tax receivable (2022: payable) in respect of current and prior year periods. The Company's current tax asset of £1.5 million (2022: liability £2.5 million) represents the amount of income tax receivable (2022: payable) in respect of current and prior year periods.

9 Earnings per share

	2023 £M	2022 £M
Earnings for basic and diluted earnings per share	7.7	33.6
Earnings for underlying basic and underlying diluted earnings per share	8.8	29.7

	2023	2022
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	80,270,756	83,626,126
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	80,270,756	83,626,126
Dilutive effect of share options	107,110	615,584
Weighted average number of ordinary shares for the purposes of diluted earnings per share	80,377,866	84,241,710
Earnings per share		
Basic	9.6p	40.1p
Diluted	9.6p	39.8p
Underlying basic	11.0p	35.5p
Underlying diluted	10.9p	35.2p

At 31 December 2023, the Company held 5,449,419 shares (2022: 4,046,617) 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.

10 Property, plant and equipment

Group property, plant and equipment

	Land and buildings £M	Plant and equipment £M	Under construction £M	Total £M
Cost				
Balance at 1 January 2022	127.2	43.7	1.0	171.9
Additions	4.8	3.5	4.3	12.6
Disposals	(0.4)	(7.1)	—	(7.5)
Effect of movements in foreign exchange	0.3	0.3	—	0.6
Balance at 31 December 2022	131.9	40.4	5.3	177.6
Balance at 1 January 2023	**131.9**	**40.4**	**5.3**	**177.6**
Acquisitions	**0.1**	**0.5**	**—**	**0.6**
Additions	**4.7**	**10.8**	**1.9**	**17.4**
Disposals	**(0.4)**	**(3.1)**	**(2.3)**	**(5.8)**
Transfers	**0.9**	**2.2**	**(3.1)**	**—**
Effect of movements in foreign exchange	**(0.1)**	**(0.2)**	**—**	**(0.3)**
Balance at 31 December 2023	**137.1**	**50.6**	**1.8**	**189.5**
Accumulated depreciation and impairment				
Balance at 1 January 2022	30.4	28.2	—	58.6
Depreciation charge for the year	2.6	3.6	—	6.2
Disposals	(0.4)	(7.1)	—	(7.5)
Effect of movements in foreign exchange	0.2	0.2	—	0.4
Balance at 31 December 2022	32.8	24.9	—	57.7
Balance at 1 January 2023	**32.8**	**24.9**	**—**	**57.7**
Depreciation charge for the year	**3.4**	**3.7**	**—**	**7.1**
Impairment charge	**0.7**	**0.1**	**1.1**	**1.9**
Disposals	**(0.4)**	**(3.1)**	**(1.1)**	**(4.6)**
Effect of movements in foreign exchange	**(0.1)**	**(0.1)**	**—**	**(0.2)**
Balance at 31 December 2023	**36.4**	**25.5**	**—**	**61.9**
Net book value				
At 1 January 2022	96.8	15.5	1.0	113.3
At 31 December 2022 and 1 January 2023	99.1	15.5	5.3	119.9
At 31 December 2023	**100.7**	**25.1**	**1.8**	**127.6**

£1.1 million of the impairment charge in the year relates to specific IT assets held in 'under construction' that have been written off. £0.8 million of the impairment charge in the year relates to the impairment of specific assets following the decision to close certain sites. These impairment charges are reported in non-underlying administrative expenses in the Consolidated Income Statement.

Company investment properties and plant and equipment

	Investment properties £M	Plant and equipment £M	Plant and equipment under construction £M	Plant and equipment total £M
Cost				
Balance at 1 January 2022	116.8	—	1.0	1.0
Additions	—	0.8	0.8	1.6
Balance at 31 December 2022	116.8	0.8	1.8	2.6
Balance at 1 January 2023	**116.8**	**0.8**	**1.8**	**2.6**
Additions	**—**	**2.2**	**0.8**	**3.0**
Disposals	**—**	**—**	**(2.3)**	**(2.3)**
Balance at 31 December 2023	**116.8**	**3.0**	**0.3**	**3.3**
Accumulated depreciation				
Balance at 1 January 2022	25.4	—	—	—
Depreciation charge for the year	1.8	—	—	—
Balance at 31 December 2022	27.2	—	—	—
Balance at 1 January 2023	**27.2**	**—**	**—**	**—**
Depreciation charge for the year	**1.9**	**0.1**	**—**	**0.1**
Impairment	**—**	**—**	**1.1**	**1.1**
Disposals	**—**	**—**	**(1.1)**	**(1.1)**
Balance at 31 December 2023	**29.1**	**0.1**	**—**	**0.1**
Net book value				
At 1 January 2022	91.4	—	1.0	1.0
At 31 December 2022 and 1 January 2023	89.6	0.8	1.8	2.6
At 31 December 2023	**87.7**	**2.9**	**0.3**	**3.2**

The Company holds investment properties which are predominantly freehold distribution centres, occupied by its UK subsidiary companies for trading purposes. The Company obtains a valuation triennially, by an external valuer. Investment properties were valued by an independent professional valuer on 18 January 2023. This valuation of the investment properties, not including those under construction at the same date was £138.5 million, however the Company has chosen to hold them at cost. External valuers were also used to provide a valuation of the Group's main sites in France and the Netherlands, for the first time, which amounted to £10.3 million.

£1.1 million of the impairment charge in the year relates to specific IT assets held in 'under construction' that have been written off.

11 Intangible assets

Group	Goodwill £M	Order book £M	Customer relationships £M	Brand names £M	Non-compete £M	Supply agreements £M	Software development £M	Total £M
Cost								
Balance at 1 January 2022	37.9	6.5	7.4	7.6	0.1	0.2	2.1	61.8
Additions	—	—	—	—	—	—	1.2	1.2
Balance at 31 December 2022	37.9	6.5	7.4	7.6	0.1	0.2	3.3	63.0
Balance at 1 January 2023	**37.9**	**6.5**	**7.4**	**7.6**	**0.1**	**0.2**	**3.3**	**63.0**
Additions	**3.6**	**—**	**0.5**	**1.7**	**—**	**—**	**0.8**	**6.6**
Disposal	**—**	**—**	**—**	**—**	**—**	**—**	**(3.6)**	**(3.6)**
Balance at 31 December 2023	**41.5**	**6.5**	**7.9**	**9.3**	**0.1**	**0.2**	**0.5**	**66.0**
Impairment and amortisation								
Balance at 1 January 2022	30.3	6.5	3.6	2.8	0.1	0.1	0.3	43.7
Amortisation charge for the year	—	—	0.8	0.7	—	—	—	1.5
Balance at 31 December 2022	30.3	6.5	4.4	3.5	0.1	0.1	0.3	45.2
Balance at 1 January 2023	**30.3**	**6.5**	**4.4**	**3.5**	**0.1**	**0.1**	**0.3**	**45.2**
Amortisation charge for the year	**—**	**—**	**0.7**	**0.7**	**—**	**—**	**—**	**1.4**
Impairment charge	**—**	**—**	**—**	**—**	**—**	**—**	**3.6**	**3.6**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**(3.6)**	**(3.6)**
Balance at 31 December 2023	**30.3**	**6.5**	**5.1**	**4.2**	**0.1**	**0.1**	**0.3**	**46.6**
Net book value								
At 31 December 2022 and 1 January 2023	7.6	—	3.0	4.1	—	0.1	3.0	17.8
At 31 December 2023	**11.2**	**—**	**2.8**	**5.1**	**—**	**0.1**	**0.2**	**19.4**

Software development is internally generated and includes an amount of £0.2 million (2022: £3.0 million) not currently being amortised as they are still in the course of development. The impairment charge of £3.6 million during the year relates to software development costs following the decision to replace the existing ERP system. The impairment charge is reported in non-underlying administrative expenses in the Consolidated Income Statement.

The remaining useful economic lives of intangible assets is as follows: customer relationships is 4 years; brand names is 9 years; and supply agreement is 1 year.

Amortisation charged during the year of £1.4 million (2022: £1.5 million) is presented within administration expenses in the Consolidated Income Statement.

Cumulative impairment losses recognised in relation to goodwill is £30.3 million (2022: £30.3 million).

Company	Software development £M
Cost	
Balance at 1 January 2022	1.9
Additions	1.1
Balance at 31 December 2022	3.0
Balance at 1 January 2023	**3.0**
Additions	**0.7**
Disposals	**(3.6)**
Balance at 31 December 2023	**0.1**
Impairment and amortisation	
Balance at 1 January 2022, 31 December 2022 and 1 January 2023	**—**
Impairment charge	**3.6**
Disposals	**(3.6)**
Balance at 31 December 2023	**—**
Net book value	
Net book value at 31 December 2022 and 1 January 2023	**3.0**
Net book value at 31 December 2023	**0.1**

Software development is internally generated and includes an amount of £0.1 million (2022: £3.0 million) not currently being amortised as they are still in the course of development. The impairment charge of £3.6 million during the year relates to software development costs following the decision to replace the existing ERP system.

Impairment tests for cash-generating units ('CGU') containing goodwill

Goodwill is attributed to the distribution centre operations identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent operating segments and CGUs.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported segment	**2023 £M**	2022 £M
Tamworth	UK	**6.2**	6.2
Melrose	UK	**3.2**	—
Other	UK	**1.4**	1.4
Other	Continental Europe	**0.4**	—
		11.2	7.6

Impairment of intangibles, property, plant and equipment and right of use assets

Each year, or whenever events or a change in the economic environment or performance indicates a risk of impairment, the Group reviews the value of goodwill and other assets allocated to its CGU.

An impairment test is a comparison of the carrying value of the assets of an operation or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less costs of disposal and value in use. Where the recoverable amount is less than the carrying value, an impairment results. For Tamworth and Melrose CGUs, the recoverable amount has been determined based on value in use.

No impairment has been recognised as a result of impairment testing in the current year, with the exception of the impairment of specific assets within property, plant and equipment and right of use assets following the strategic decision to close certain sites, specific IT assets held within property, plant and equipment 'under construction' and intangible assets 'software development' categories. This is included within non-underlying items.

11 Intangible assets continued

Key assumptions – value in use

Cash flows were projected based on actual operating results, the approved 2024 business plan and management's assessment of planned performance in the period to 2028. For the purpose of impairment testing, where there was goodwill allocated to CGUs, the cash flows were assumed to grow into perpetuity at a rate of 2.0% beyond 2028. For CGUs with no associated goodwill, revenue and central costs were assumed to grow at a rate of 2.0% for each year up to 2073, being a 50 year period in line with the deemed useful life of the property associated with the CGUs. The property value makes up the majority of the value of the CGUs being assessed.

The main assumptions within the operating cash flows used for 2024 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 assumptions for sales growth are 2% to 30% and the assumptions for gross margin are 23% to 50%.

The Directors have estimated the discount rate by reference to an industry average weighted average cost of capital. This has been adjusted to include an appropriate risk factor to reflect current economic circumstances and the risk profile of the CGUs. As the CGUs in the UK have similar characteristics and risk profiles, a single discount rate has been applied: a pre-tax weighted average cost of capital of 13.3% (2022: 11.9%). The CGUs in Continental Europe operate under a different regulatory environment which is reflected in the risk factor used to determine the discount rates. In the Netherlands, the pre-tax weighted average cost of capital is 12.0% (2022: 12.2%) and in France, the pre-tax weighted average cost of capital is 12.7% (2022: 12.9%).

Climate-related risks have been considered in relation to the impairment testing, assuming that a transition scenario is most likely, including Extended Producer Responsibility (EPR) for bulky waste and reduced demand for current product offering. As noted in the TCFD disclosure, the timing of any consultation on EPR is uncertain and, if implemented, the Group could mitigate this risk by passing on significantly all of the cost to customers. Similarly, any risk from a reduced demand for the Group's current product offering could be mitigated by the Group quickly adapting its offering to reflect consumer preferences. As such, neither risk is included in the base models but sensitivity analysis has been performed.

There is a high degree of uncertainty in the cost estimates for a zero emission HGV fleet. It has been assumed, for this impairment modelling, that the cost of operating a zero emission HGV fleet is broadly comparable to that of operating a diesel fleet. This assumption is consistent with the TCFD disclosure and is on the basis that there is a very large global market for HGVs, which provides commercial incentive for companies to develop a viable, cost-effective zero emission solution for HGVs.

Key assumptions – fair value less costs of disposal

The most significant component of the fair value less costs of disposal figures for the CGUs relate to the freehold and long leasehold properties. The fair values have been calculated with reference to the independent valuation of the properties that was performed on 18 January 2023. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. After considering movements in the macro-economic environment relating to commercial properties it has been assumed that there has been no significant movement in the valuation between January and December 2023.

Sensitivity analysis

The Group has applied sensitivities to assess whether any reasonable possible changes in these key assumptions could cause a further impairment to goodwill and subsequently intangible assets, property, plant and equipment and right-of-use assets that would be material to these Consolidated Financial Statements.

The Directors performed sensitivity analysis on the estimated recoverable amounts focusing on a reasonably possible change in key assumptions:

Key assumptions - value in use:

- sales growth decrease of 2% in first five years;
- gross margin decrease of 1% in first five years;
- pre-tax discount rate, used to convert the cash flow forecasts to present values, increase of 1%;
- a shift away from non-sustainable to more sustainable flooring at a rate of 0.5% of mix per year, settling in the medium term, with an associated gross profit reduction; and
- introduction of EPR costing 0.6% of revenue from 2027 with none of the cost passed onto customers;

Key assumptions - fair value less costs of disposal:

- decreases in fair values of the property of 5%

One CGU is materially sensitive to the sales growth and gross margin sensitivities and would require an impairment of £4.4 million (£3.2 million to goodwill, £0.6m to right of use assets, £0.4 million to intangibles and £0.2 million to property, plant and equipment) and £1.2 million to goodwill respectively should these sensitivities occur independently as above. The same CGU is materially sensitive to a combination of all sensitivities above and would require an impairment of £6.4 million (£3.2 million to goodwill, £1.5 million to right of use assets, £1.2 million to intangibles and £0.5 million to property, plant and equipment) should all five value in use sensitivities occur simultaneously as above.

12 Investments in subsidiary undertakings

Company

Summary information on investments in subsidiary undertakings is as follows:

	£M
Cost	
Balance at 1 January 2022	117.0
Share options granted to employees of subsidiary undertakings	0.7
Balance at 31 December 2022	117.7
Balance at 1 January 2023	**117.7**
Share options granted to employees of subsidiary undertakings	**0.6**
Balance at 31 December 2023	**118.3**
Impairment	
Balance at 1 January 2022 and 31 December 2022	(16.6)
Balance at 1 January 2023 and 31 December 2023	**(16.6)**
Carrying value	
At 1 January 2022	100.4
At 31 December 2022	101.1
At 31 December 2023	**101.7**

A full list of the Group's subsidiaries is listed on page 207.

The investments in subsidiaries are assessed annually to determine if there is any indication of impairment. As at December 2023 there has been no indication of impairment in the Company's investments in subsidiary undertakings.

13 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2023 £M	2022 £M	**2023 £M**	2022 £M	**2023 £M**	2022 £M
Property, plant and equipment	**—**	—	**(11.9)**	(11.3)	**(11.9)**	(11.3)
Intangible assets	**—**	—	**(2.4)**	(2.1)	**(2.4)**	(2.1)
Leases	**7.5**	8.5	**(7.9)**	(8.9)	**(0.4)**	(0.4)
Employee benefits	**1.0**	1.5	**—**	—	**1.0**	1.5
Tax losses	**1.1**	—	**—**	—	**1.1**	—
Other items	**0.3**	0.2	**—**	—	**0.3**	0.2
Tax assets/(liabilities)	**9.9**	10.2	**(22.2)**	(22.3)	**(12.3)**	(12.1)
Set-off of tax	**(9.0)**	(10.2)	**9.0**	10.2	**—**	—
	0.9	—	**(13.2)**	(12.1)	**(12.3)**	(12.1)

13 Deferred tax assets and liabilities continued

Movement in deferred tax assets during the year

	1 January 2023 £M	Acquisition of subsidiary £M	Recognised in income £M	Recognised in equity £M	31 December 2023 £M
Tax losses	—	—	0.9	—	0.9
	—	—	0.9	—	0.9

Movement in deferred tax liabilities during the year

	1 January 2023 £M	Acquisition of subsidiary £M	Recognised in income £M	Recognised in equity £M	31 December 2023 £M
Property, plant and equipment	(11.3)	(0.1)	(0.5)	—	(11.9)
Intangible assets	(2.1)	(0.5)	0.2	—	(2.4)
Leases	(0.4)	—	—	—	(0.4)
Employee benefits	1.5	—	(0.5)	—	1.0
Tax losses	—	—	0.2	—	0.2
Other items	0.2	0.1	—	—	0.3
	(12.1)	(0.5)	(0.6)	—	(13.2)

Movement in deferred tax liabilities during the prior year

	1 January 2022 £M	Acquisition of subsidiary £M	Recognised in income £M	Recognised in equity £M	31 December 2022 £M
Property, plant and equipment	(9.7)	—	(1.6)	—	(11.3)
Intangible assets	(2.5)	—	0.4	—	(2.1)
Leases	(0.3)	—	(0.1)	—	(0.4)
Employee benefits	1.7	—	—	(0.2)	1.5
Other items	0.5	—	(0.3)	—	0.2
	(10.3)	—	(1.6)	(0.2)	(12.1)

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2023 £M	2022 £M	2023 £M	2022 £M	2023 £M	2022 £M
Property, plant and equipment	—	—	(8.5)	(9.2)	(8.5)	(9.2)
Employee benefits	0.8	1.2	—	—	0.8	1.2
Tax assets/(liabilities)	0.8	1.2	(8.5)	(9.2)	(7.7)	(8.0)
Set-off of tax	(0.8)	(1.2)	0.8	1.2	—	—
	—	—	(7.7)	(8.0)	(7.7)	(8.0)

Movement in deferred tax during the year

	1 January 2023 £M	Recognised in income £M	Recognised in equity £M	31 December 2023 £M
Property, plant and equipment	(9.2)	0.7	—	(8.5)
Employee benefits	1.2	(0.5)	0.1	0.8
	(8.0)	0.2	0.1	(7.7)

Movement in deferred tax during the prior year

	1 January 2022 £M	Recognised in income £M	Recognised in equity £M	31 December 2022 £M
Property, plant and equipment	(9.2)	—	—	(9.2)
Employee benefits	1.4	(0.1)	(0.1)	1.2
	(7.8)	(0.1)	(0.1)	(8.0)

Unrecognised deferred tax assets and liabilities – Group and Company

At 31 December 2023, the Group and Company has unused capital losses of £4.0 million (2022: £8.8 million) available for offset against future chargeable gains. In addition, the Group has an unrecognised deferred tax asset in respect of tax losses in France of £0.3 million (2022: £1.2 million). The Directors have considered the probability that the deferred tax asset will be recoverable within the foreseeable future and concluded that no additional deferred tax asset should be recognised at 31 December 2023.

14 Inventories

	Group		Company	
Goods for resale	2023 £M	2022 £M	2023 £M	2022 £M
Balance as at 31 December	131.5	139.8	—	—

During the period, inventories of £448.7 million (2022: £444.1 million) were recognised as an expense and included in cost of sales in the Consolidated Income Statement. Included within this expense is a £8.0 million charge (2022: £8.5 million charge) for write-downs of inventory to net realisable value.

15 Trade and other receivables

	Group		Company	
Current	2023 £M	2022 £M	2023 £M	2022 £M
Trade receivables	79.7	83.2	—	—
Prepayments and accrued income	10.1	9.7	1.0	0.7
Other receivables	27.3	26.1	1.4	0.1
Amounts due from subsidiary undertakings	—	—	11.2	15.9
Derivative assets (note 24)	—	0.1	—	—
	117.1	119.1	13.6	16.7

15 Trade and other receivables continued

	Group		Company	
Non Current	2023 £M	2022 £M	2023 £M	2022 £M
Amounts due from subsidiary undertakings	—	—	11.8	12.6
	—	—	11.8	12.6

Amounts due from subsidiary undertakings are unsecured, interest bearing and are repayable on demand.

£1.5 million (2022: £1.7 million reduction) was recognised as a reduction in the impairment loss allowance in the Consolidated Income Statement in respect of trade receivables.

The receivables written off during the year as uncollectible are attributable to the reportable segments as follows:

	Group		Company	
	2023 £M	2022 £M	2023 £M	2022 £M
UK	0.6	0.6	—	—
Continental Europe	0.2	0.2	—	—
	0.8	0.8	—	—

Further details on the impairment of trade receivables is provided in note 24.

16 Cash and cash equivalents

	Group		Company	
	2023 £M	2022 £M	2023 £M	2022 £M
Cash	21.1	2.1	63.2	20.7
Cash and cash equivalents per Statement of Financial Position	21.1	2.1	63.2	20.7

Cash and cash equivalents of £21.1 million (2022: £2.1 million) is shown net of overdrawn bank accounts of £186.0 million (2022: £90.5 million) that have a right of set-off under the UK overdraft facilities. Gross cash without the set-off agreement is £207.1 million (2022: £92.6 million).

Reconciliation to cash flow statement

	Group		Company	
	2023 £M	2022 £M	2023 £M	2022 £M
Cash and cash equivalents per Statement of Financial Position	21.1	2.1	63.2	20.7
Bank overdraft	(0.7)	—	—	—
Cash and cash equivalents per Cash Flow Statement	20.4	2.1	63.2	20.7

17 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and Company's interest-bearing loans and borrowings.

At 31 December 2023, the Group had a committed sterling revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million which will expire in October 2027. The Group had short term uncommitted facilities of £15.0 million in the UK and €4.8 million facility in Continental Europe. These are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2023 were £100.6 million (2022: £100.3 million).

	Facilities	
	31 December 2023 £M	31 December 2022 £M
Sterling RCF	**81.5**	81.5
Sterling uncommitted facilities UK	**15.0**	15.0
Euro uncommitted facilities Continental Europe	**4.1**	3.8
	100.6	100.3

For more information about the Group's and Company's exposure to interest rate and foreign currency risk, see note 24.

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Current liabilities				
Bank overdraft	**0.7**	—	**—**	—
Interest-bearing loan	**50.0**	0.3	**50.0**	—
	50.7	0.3	**50.0**	—

The Group has undrawn borrowing facilities at 31 December 2023, which amounted to £49.9 million (2022: £100.0 million). The facility conditions for drawdown had been met during the period. The facility is unsecured and there is a cross guarantee in place between the Company and its UK, French and Dutch subsidiaries. Covenant calculations have been prepared for the year ending 31 December 2023 and there were no breaches.

The undrawn borrowing facilities are as follows:

	Interest rate %	**2023 £M**	Interest rate %	2022 £M
UK	**5.9**	**46.5**	4.9	96.5
Netherlands	**7.2**	**1.4**	4.7	1.7
France	**5.0**	**2.0**	3.1	1.8
		49.9		100.0

The undrawn borrowing facilities consisted of £31.5 million committed and £18.4 million uncommitted facilities (2022: £81.5 million committed and £18.5 million uncommitted).

All the borrowing facilities above bear interest at floating rates.

17 Other interest-bearing loans and borrowings continued

Changes in net debt

	At 1 January 2023 £M	Acquisitions £M	Non-cash items £M	Cash flows £M	Foreign exchange movements £M	At 31 December 2023 £M
Cash at bank and in hand	2.1	0.5	—	18.6	(0.1)	21.1
Bank overdraft	—	—	—	(0.7)	—	(0.7)
Debt due within one year	(0.3)	—	—	(49.7)	—	(50.0)
Lease liabilities	(37.7)	(2.7)	(18.2)	15.1	0.1	(43.4)
Liabilities from financing activities	(38.0)	(2.7)	(18.2)	(35.3)	0.1	(94.1)
Net funds/(debt)	1.8	0.5	—	(31.8)	(0.1)	(29.6)
Net debt including lease liabilities	(35.9)	(2.2)	(18.2)	(16.7)	—	(73.0)

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

Non-cash items relate to lease additions, modifications and interest.

18 Leases

The Group leases various properties, commercial vehicles and cars. Rental contracts are typically made for fixed periods of 5 to 10 years and 3 to 7 years respectively, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

	Group			Company
	Properties £M	Non-property £M	Total £M	Properties £M
Net book value at 1 January 2022	9.4	25.6	35.0	0.7
Additions	3.2	7.9	11.1	—
Contract modifications	2.9	—	2.9	—
Depreciation	(3.7)	(8.8)	(12.5)	—
Effect of movements in foreign exchange	0.1	0.1	0.2	—
Net book value at 31 December 2022	11.9	24.8	36.7	0.7
Net book value at 1 January 2023	**11.9**	**24.8**	**36.7**	**0.7**
Acquisitions	**2.6**	**0.1**	**2.7**	**—**
Additions	**6.8**	**7.6**	**14.4**	**0.2**
Contract modifications	**2.0**	**(0.2)**	**1.8**	**—**
Depreciation	**(4.1)**	**(9.4)**	**(13.5)**	**(0.1)**
Impairment	**(0.4)**	**—**	**(0.4)**	**—**
Effect of movements in foreign exchange	**(0.1)**	**—**	**(0.1)**	**—**
Net book value at 31 December 2023	**18.7**	**22.9**	**41.6**	**0.8**

The right-of-use assets are shown as non-current assets in the balance sheet. The non-property right-of-use assets relate mainly to commercial and motor vehicles.

Lease liabilities

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Current	**11.9**	11.4	**0.1**	0.1
Non-current	**31.5**	26.3	**0.8**	0.7
	43.4	37.7	**0.9**	0.8

The lease liabilities are split on the balance sheet between current and non-current.

Amounts recognised in the Consolidated Income Statement

	Group	
	2023 £M	2022 £M
Interest on lease liabilities	**2.1**	1.4
Expenses relating to leases of low-value assets	**0.1**	0.1

The total cash outflow for leases during the year ended 31 December 2023 was £15.2 million (2022: £14.1 million) for the Group and £0.1 million (2022: £0.1 million) for the Company.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held, are exercisable only by the Group and not by the respective lessor.

19 Trade and other payables

Current	Group 2023 £M	Group 2022 £M	Company 2023 £M	Company 2022 £M
Trade payables	**93.3**	110.7	**0.6**	0.5
Taxation and social security	**14.7**	15.2	**3.2**	2.1
Non-trade payables and accrued expenses	**21.1**	27.3	**1.8**	8.9
Amounts due to subsidiary undertakings	**—**	—	**35.8**	31.0
	129.1	153.2	**41.4**	42.5

Amounts due to subsidiary undertakings are unsecured, interest free and are repayable on demand.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

20 Provisions

	Property 2023 £M	Property 2022 £M
Balance at 1 January	**1.7**	2.7
Acquired through business combination (note 27)	**0.8**	—
Utilisation of provisions	**—**	(0.1)
Charged/(credited) to the income statement:		
Additional provisions	**0.1**	—
Release of provisions	**—**	(0.9)
Balance at 31 December	**2.6**	1.7

The property provisions relate to property dilapidations. Dilapidation provisions are expected to be utilised between 1 and 111 years as the individual lease term comes to an end.

21 Employee benefits

During the year, the Group operated a UK defined benefit plan and defined contribution plans in the UK, France and the Netherlands.

UK defined benefit plan

The Headlam Group PLC Staff Retirement Benefits Scheme (the 'plan') is the defined benefit plan operated by the Company which provides pensions in retirement and death benefits to members. The majority of members are entitled to receive pensions from age 65, equal to either 1/50 or 1/60 of final salary for each year of service that the employee provided, depending on which section of the plan the member is part of. The plan is closed to new members and from 31 March 2020 was closed to future accrual of benefits.

The plan is a registered scheme under UK legislation and is contracted out of the State Second Pension. The plan is legally separated from the Company and assets are held independently of the Company's finances. The plan is subject to the scheme funding requirements outlined in UK legislation.

The Company has a right to a refund of any surplus in the plan if the plan winds up, after payment of expenses, members benefits and any enhancements to the members' benefits as the Trustee sees fit. In addition, if the assets of the plan exceed the estimate by the actuary of the cost of buying out the benefits of all beneficiaries with an insurance company, including the associated expenses, and the plan is not being wound up, then the Company may request a payment of the excess funds though does not have an unconditional right to a refund. There have been no payments made to the Company out of the plan's assets over the year.

The plan was established from 11 February 1983 under trust and is governed by the plan's Trust Deed and Rules dated 26 March 2015. The Trustee of the plan comprises one sole corporate trustee. The Trustee of the plan is required by law to act in the best interests of the plan participants. The Trustee is responsible for the operation and the governance of the plan, including making decisions regarding the plan's funding and investment strategy in conjunction with the Company.

There have been no curtailments or settlements made to the plan over 2023. On 31 March 2020, the plan closed to future accrual which would typically be treated as a curtailment event. Historically the future salary increase assumption used to calculate the Scheme's IAS 19 liabilities has been set equal to the assumption for expected future RPI inflation (the rate of increase applied to pensions in deferment) and therefore there was no impact on the reported liabilities in respect of this event.

The plan's current investment strategy is to hold 92.5% Liability Hedging Assets and 7.5% Cashflow Matching Credit Assets.

The plan holds a number of annuity policies which match a portion of the pensions in payment.

The last scheme funding valuation of the plan was as at 31 March 2020 and revealed a funding shortfall of £11.1 million.

The main annual rate assumptions used by the actuary were, increase of pensions in payment 2.45%, discount rate before retirement 2.75%, discount rate after retirement 1.0% and inflation 2.45%. Assets were taken at their audited market value at the valuation date.

The deficit recovery plan was agreed between the Company and Trustee in February 2021. Contributions will be c.£1.0 million per annum between April 2021 and March 2026. A mechanism has also been agreed whereby 1.5% of any amount distributed to shareholders in excess of £21.0 million per annum is paid to the Scheme.

In addition, the Company is expected to meet the cost of administrative expenses and insurance premiums for the plan.

The liabilities of the plan are based on the current value of expected benefit payment cash flows to members of the plan over the next 60 years or more. The average duration of the liabilities is approximately 13 years.

Defined benefit obligation

In the UK there is no contractual agreement or stated Group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the Company, which is the sponsoring employer.

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Present value of funded defined benefit obligations	**(69.2)**	(72.0)	**(69.2)**	(72.0)
Fair value of plan assets	**73.6**	74.1	**73.6**	74.1
Surplus in funded scheme	**4.4**	2.1	**4.4**	2.1
Adjustment in respect of asset ceiling and minimum funding requirement	**(6.7)**	(5.3)	**(6.7)**	(5.3)
	(2.3)	(3.2)	**(2.3)**	(3.2)
Other long-term employee benefits	**(0.6)**	(0.5)	**—**	—
Total employee benefits	**(2.9)**	(3.7)	**(2.3)**	(3.2)
Analysed as:				
Current liabilities	**(1.1)**	(1.0)	**(1.1)**	(1.0)
Non-current liabilities	**(1.8)**	(2.7)	**(1.2)**	(2.2)
Total employee benefits	**(2.9)**	(3.7)	**(2.3)**	(3.2)

Movements in present value of defined benefit obligation

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
At 1 January	**72.0**	107.0	**72.0**	107.0
Interest cost	**3.4**	2.0	**3.4**	2.0
Net remeasurement losses/(gains) – financial	**0.7**	(35.8)	**0.7**	(35.8)
Net remeasurement gains – demographic	**(1.4)**	(0.5)	**(1.4)**	(0.5)
Net remeasurement (gains)/losses – experience	**(2.4)**	5.4	**(2.4)**	5.4
Benefits paid	**(3.1)**	(6.1)	**(3.1)**	(6.1)
At 31 December	**69.2**	72.0	**69.2**	72.0

21 Employee benefits continued

Movements in fair value of plan assets

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
At 1 January	**74.1**	119.1	**74.1**	119.1
Interest income on plan assets	**3.5**	2.2	**3.5**	2.2
Return on assets, excluding interest income	**(2.2)**	(42.2)	**(2.2)**	(42.2)
Contributions by employer:				
Past service deficit contributions	**1.3**	1.1	**1.3**	1.1
Benefits paid	**(3.1)**	(6.1)	**(3.1)**	(6.1)
At 31 December	**73.6**	74.1	**73.6**	74.1

The fair value of the plan assets were as follows:

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Equities*	**3.4**	17.1	**3.4**	17.1
Government debt*	**61.7**	44.4	**61.7**	44.4
Corporate bonds*	**6.2**	13.5	**6.2**	13.5
Annuities	**0.9**	0.9	**0.9**	0.9
Liability and currency hedging	**0.7**	(11.1)	**0.7**	(11.1)
Cash and other	**0.7**	9.3	**0.7**	9.3
	73.6	74.1	**73.6**	74.1

* These assets are held within pooled investment vehicles that are unquoted. The fair value of the underlying assets within these funds have a quoted market price in an active market.

Movements in the effect of the asset ceiling

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
At 1 January	**5.3**	16.4	**5.3**	16.4
Interest income on the asset ceiling	**0.2**	0.3	**0.2**	0.3
Changes in the effect of the asset ceiling excluding interest income	**1.2**	(11.4)	**1.2**	(11.4)
At 31 December	**6.7**	5.3	**6.7**	5.3

Expense recognised in the Consolidated Income Statement relating to defined benefit obligation

	Group	
	2023 £M	2022 £M
Net interest expense on the net defined benefit liability (note 6)	**0.1**	0.1
Total	**0.1**	0.1

Net interest is charged to net finance costs.

Remeasurement of the net defined benefit liability/(asset) in the Statement of Comprehensive Income

	Group	
	2023 £M	2022 £M
Return on assets, excluding interest income	**2.2**	42.2
Net remeasurement – financial	**0.7**	(35.8)
Net remeasurement – demographic	**(1.4)**	(0.5)
Net remeasurement – experience	**(2.4)**	5.4
Adjustment in respect of asset ceiling and minimum funding requirement	**1.2**	(11.4)
	0.3	(0.1)

Principal actuarial assumptions

	UK 2023 %	2022 %
Discount rate (net of management fees)	**4.5**	4.8
Revaluation of deferred benefits in excess of GMPs	**3.2**	3.5
Inflation-linked pension increases	**3.2**	3.5
Price inflation (RPI)	**3.2**	3.5
Commutation of pension at retirement	**85% of members assumed to take maximum tax—free cash using the Scheme's current commutation terms**	85% of members assumed to take maximum tax—free cash using the Scheme's current commutation terms
Mortality table assumptions:		
UK pre-retirement	**AC00 (Ultimate) table**	AC00 (Ultimate) table
UK post-retirement – future pensioners	**98%(M)/107%(F) of the S3PA tables with future improvements from 2013 in—line with the CMI _2022 projections model with the initial addition to mortality improvements parameter of 0.5% and a long—term rate of improvement of 1.5% per annum, 2020/2021 weighting parameters of 0% and a 2022 weighting parameter of 25%.**	98%(M)/107%(F) of the S3PA tables with future improvements from 2013 in—line with the CMI _2022 projections model with the initial addition to mortality improvements parameter of 0.5% and a long—term rate of improvement of 1.5% per annum and a 2020/2021 weighting parameter of 0%.
UK post-retirement – current pensioners	**98%(M)/107%(F) of the S3PA tables with future improvements from 2013 in—line with the CMI _2022 projections model with the initial addition to mortality improvements parameter of 0.5% and a long—term rate of improvement of 1.5% per annum, 2020/2021 weighting parameters of 0% and a 2022 weighting parameter of 25%.**	98%(M)/107%(F) of the S3PA tables with future improvements from 2013 in—line with the CMI _2022 projections model with the initial addition to mortality improvements parameter of 0.5% and a long—term rate of improvement of 1.5% per annum and a 2021 weighting parameter of 0%.

21 Employee benefits continued

The mortality assumption implies the expected future lifetime from age 65 is as follows:

	Group	
	2023 Years	2022 Years
Non-pensioner male	**23.8**	24.3
Pensioner male	**22.2**	22.7
Non-pensioner female	**25.7**	26.1
Pensioner female	**24.0**	24.4

Company

The principal actuarial assumptions for the Company are the same as those disclosed for the UK above.

Sensitivity analysis

The table below shows the impact on the defined benefit obligation of changing each of the most significant assumptions in isolation.

		Impact on scheme liabilities 2023		Impact on scheme liabilities 2022	
Effect in £M	**Change in assumption**	**Increase**	**Decrease**	Increase	Decrease
Discount rate	1.0% movement	**(7.7)**	**9.4**	(8.1)	10.0
Rate of inflation (RPI)*	0.25% movement	**1.7**	**(1.6)**	1.7	(1.6)
Assumed life expectancy	One-year movement	**2.3**	**(2.4)**	2.3	(2.4)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2023 have been calculated using the same valuation method that was used to calculate the defined benefit obligation at the same date. The figures in the table as at 31 December 2022 have been calculated by applying the same percentage increase or decrease as at 31 December 2023.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

The plan exposes the Group to a number of risks, principally short-term asset volatility from holding equities and life expectancy changes which can affect the value of the liabilities.

The Group operated an employment indemnity scheme in connection with a foreign subsidiary undertaking to provide for lump sum cash payments due to employees retiring on their normal retirement date. The present value of the retirement indemnity obligation at 31 December 2023 is £0.6 million (2022: £0.5 million). This is reported as other long-term employee benefits within the employee benefits disclosure.

Total Group pension costs

Included within the total staff costs as disclosed in note 4 are costs relating to the Group's defined contribution plans. The pension cost for the year represents contributions payable by the Group to the plans and amounted to £4.4 million (2022: £3.8 million). Contributions amounting to £0.5 million (2022: £0.5 million) in respect of the December 2023 payroll were paid in January 2024.

22 Share-based payments

Group and Company

Executive Directors and executive management currently participate in executive share option schemes. The Group operates the Headlam Group Performance Share Plan 2017, Deferred Bonus Plan 2017 and the Headlam Group Co-Investment Plan 2008. Further details of these schemes and plans are given in the Remuneration Report on pages 116 to 139.

The Group operates the Headlam Management Incentive Plan which was approved by shareholders at the 2023 annual general meeting. The plan enables the grant of market value options to senior managers below the Executive Team. The options are intended to focus and incentivise senior managers for multi-year strategy delivery. Options granted will vest three years after the date of grant and remain exercisable up until the tenth anniversary of their grant date.

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 6 October 2023 when employees with over one month's service were invited to participate.

During the year the Group has introduced an Employee Long Service Award Scheme to recognise the long service of employees across the Group. Employees are awarded ordinary shares for no cash consideration after certain milestones of service. There were two share grants during the year, 120,200 shares were granted on 13 April 2023 with a fair value of 298.0p and 10,500 shares were granted on 12 September 2023 with a fair value of 230.0p. The fair value of the services received in return for the shares issued is measured at the closing share price on the grant date.

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	**2023**	2022	**Vesting conditions**	**Contractual life of options**
Headlam Group Performance Share Plan 2017 granted to key management 5 July 2017*	**767**	767	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	06/07/20 – 06/07/27
Five-year Sharesave scheme granted to other employees 3 May 2017	**—**	7,751	Continuous service	01/07/22 – 01/01/23
Five-year Sharesave scheme granted to other employees 1 May 2018	**16,344**	16,344	Continuous service	01/07/23 – 01/01/24
Three-year Sharesave scheme granted to other employees 3 May 2019	**—**	151,077	Continuous service	01/07/22 – 01/01/23
Headlam Group Performance Share Plan 2017 granted to key management 11 September 2020*	**—**	389,418	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	12/09/23 – 11/09/30
Three-year Sharesave scheme granted to other employees 5 October 2020	**716,212**	931,297	Continuous service	01/11/23 – 30/04/24
Headlam Group Performance Share Plan 2017 granted to key management 9 April 2021*	**165,434**	200,474	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	10/04/24 – 09/04/31
Three-year Sharesave scheme granted to other employees 6 October 2021	**73,530**	131,625	Continuous service	01/11/24 – 30/04/25
Headlam Group Performance Share Plan 2017 granted to key management 8 April 2022*	**167,114**	198,476	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	09/04/25 – 08/04/32
Three-year Sharesave scheme granted to other employees 16 September 2022	**294,392**	533,326	Continuous service	01/11/25 – 30/04/26
Headlam Group Performance Share Plan 2017 granted to key management 7 October 2022	**36,976**	36,976	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	08/10/25 – 07/10/32
Deferred Bonus Plan granted to Executive Directors 13 April 2023*	**22,563**	—	Continuous service	14/04/25 – 13/04/33
Headlam Group Performance Share Plan 2017 granted to key management 29 June 2023*	**627,142**	—	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	30/06/26 – 29/06/33
Management Long Term Incentive Plan granted to senior management 29 June 2023	**633,961**	—	Continuous service	30/06/26 – 29/06/33
Three-year Sharesave scheme granted to other employees 6 October 2023	**1,169,301**	—	Continuous service	01/11/26 — 01/05/27
Total share options	**3,923,736**	2,597,531		

* Further details are provided on pages 116 to 139 of the Remuneration Report.

22 Share-based payments continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (pence) 2023	Number of options 2023	Weighted average exercise price (pence) 2022	Number of options 2022
Outstanding at the beginning of the year	172.9	2,597,531	161.1	2,526,045
Exercised during the year	227.0	(6,673)	122.7	(57,054)
Granted during the year	145.6	2,649,701	158.4	778,924
Lapsed during the year	255.9	(20,199)	2.0	(379,461)
Forfeited during the year	45.5	(727,225)	221.1	(107,009)
Cancelled during the year	272.8	(569,399)	303.6	(163,914)
Outstanding at the end of the year	163.0	3,923,736	172.9	2,597,531
Exercisable at the end of the year	229.6	733,323	364.1	159,595

The weighted average share price at the date of exercise for options exercised during the year was 250.0p (2022: 379.0p).

The options outstanding at the year-end have an exercise price in the range of 0.0p to 400.0p and a weighted average remaining contractual life of 5.1 years (2022: 3.9 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 2023 are shown below:

2023		Performance Share Plan 2017	Sharesave scheme	Management Incentive Plan 2023	Deferred Bonus Plan 2017
Number of options granted		775,782	1,191,358	659,998	22,563
Grant date		29 June 2023	6 October 2023	29 June 2023	13 April 2023
Fair value at measurement date:					
No performance conditions		—	52.01	47.30	259.02
Performance conditions	EPS 70%, ESG 10% & TSR 20%	186.80	–	–	–
Share price at 31 December		216.00	216.00	216.0	216.0
Exercise price		—	181.60	256.6	—
Expected volatility		38%	35%	39%	32%
Option life		three years	three years	three years	two years
Dividend yield		7.0%	6.2%	7.0%	7.0%
Risk-free rate of interest		5.14%	4.52%	4.98%	3.81%

The total expenses recognised for the year arising from share-based payments are as follows:

	Group		Company		Subsidiaries	
	2023 £M	2022 £M	**2023 £M**	2022 £M	**2023 £M**	2022 £M
Options issued	**0.2**	0.9	**—**	0.2	**0.2**	0.7
Shares issued	**0.4**	—	**—**	—	**0.4**	—
Total expense recognised	**0.6**	0.9	**—**	0.2	**0.6**	0.7

23 Capital and reserves

Share capital

	Ordinary shares	
	2023	2022
Number of shares		
Authorised		
In issue at 1 January and 31 December	**107,840,000**	107,840,000
Fully paid		
In issue at 1 January and 31 December	**85,639,209**	85,639,209

	2023 £M	2022 £M
Allotted, called up and fully paid		
Ordinary shares of 5p each	**4.3**	4.3
Shares classified in Shareholders' funds	**4.3**	4.3

At 31 December 2023, the Company held 5,449,419 shares (2022: 4,046,617) 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 6.4% (2022: 4.7%) of the issued share capital as at 31 December 2023 with a nominal value of £0.3 million (2022: £0.2 million).

During the year 1,566,622 (2022: 3,122,721) shares were purchased by the Company in accordance with the terms of its share buyback programme, as announced on 9 March 2022 and subsequently on 28 November 2022, and which had a total commitment of up to £15.0 million. The share buyback programme closed in the year. The shares were acquired at an average price of 335p (2022: 314p) per share, with prices ranging from 304p to 349p (2022: 236p to 394p).

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

	2023 £M	2022 £M
Final dividend for 2021 of 8.6p paid 27 May 2022	**—**	7.2
Special dividend of 17.7p paid 27 May 2022	**—**	14.9
Interim dividend for 2022 of 6.2p paid 28 November 2022	**—**	5.2
Final dividend for 2022 of 11.2p paid 2 June 2023	**9.0**	—
Interim dividend for 2023 of 4.0p paid 28 November 2023	**3.2**	—
	12.2	27.3

The Board of Directors have declared a final dividend of 6.0p per share which if approved by shareholders at the forthcoming AGM, will be payable on 7 June 2024.

The total value of dividends proposed or declared but not recognised at 31 December 2023 is £4.8 million (2022: £9.0 million).

23 Capital and reserve continued

Reserves

Other reserves

Other reserves as disclosed on the Statement of Financial Position comprise the capital redemption reserve, translation reserve, treasury reserve and special reserve.

Capital redemption reserve

The capital redemption reserve represents the nominal value of shares repurchased and cancelled during 2007.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Treasury reserve

The treasury reserve comprises the cost of the Company's shares held by the Group.

Special reserve

The special reserve (merger reserve) arose on the issuance of shares in connection with acquisitions made by the Company. At 31 December 2023, this reserve was £1.5 million and there were no changes to this special reserve during the current or previous year.

24 Financial instruments

The main financial risks arising in the normal course of the Group's business are credit risk, liquidity risk, and market risks arising from interest rate risk and foreign currency risk. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Credit risk and credit quality

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

For Headlam Group PLC credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset and, as at the Statement of Financial Position date, in the Directors' opinion, there were no significant concentrations of credit risk likely to cause financial loss to the Group.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all new customers requiring credit and these are frequently reviewed by management to limit exposure. Businesses must obtain central approval from Executive Directors or senior executive management for credit limits in excess of £10,000. The Group does not require collateral in respect of financial assets.

The credit control procedures described above, coupled with the diversified nature of the Group's trade receivables, lead the Directors to believe that there is limited credit risk exposure and that the credit quality of these assets is robust.

Other receivables comprise amounts due to the Group which historically have been received within three months of the year-end. The Directors have considered the inherent risk profile of other receivables at the year-end and are of the view that this historical experience will prevail for the foreseeable future and accordingly consider the credit quality of these assets to be robust.

Cash and cash equivalents represent deposits with reputable financial institutions in the UK and Continental Europe and hence, the Directors consider the credit quality of cash and cash equivalents to be robust.

Impairment of financial assets

The Group has trade receivables for sales of inventory as financial assets that are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The carrying amount of financial assets at the Statement of Financial Position date was:

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Trade and other receivables (note 15)	**107.0**	109.3	**24.4**	28.6
Cash and cash equivalents (note 16)	**21.1**	2.1	**63.2**	20.7
Derivative assets (note 15)	**—**	0.1	**—**	—
	128.1	111.5	**87.6**	49.3

The fair values of the above financial assets at both 31 December 2023 and 2022, are deemed to approximate to carrying value due to the short-term maturity of the instruments.

All other receivables and derivative financial assets are not past due (2022: not past due).

The Company had trade receivables of £nil (2022: £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 2023 or 31 December 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors, including gross domestic product growth, affecting the ability of the customers to settle the receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and ageing based on invoice date. The loss allowance provision as at 31 December 2023 is determined as follows;

Ageing based on invoice date	**Current < 30 days**	**30–60 days**	**60–90 days**	**Over 90 days**	**Total**
31 December 2023					
Expected loss rate	**0.2%**	**0.2%**	**0.9%**	**39.9%**	
Gross carrying amount – trade receivables (millions)	**43.8**	**25.9**	**7.6**	**4.3**	**81.6**
Loss allowance (millions)	**0.1**	**—**	**0.1**	**1.7**	**1.9**

Ageing based on invoice date	Current < 30 days	30–60 days	60–90 days	Over 90 days	Total
31 December 2022					
Expected loss rate	0.2%	0.5%	24.0%	47.1%	
Gross carrying amount – trade receivables (millions)	50.4	24.3	8.9	3.8	87.4
Loss allowance (millions)	0.1	0.1	2.2	1.8	4.2

The maximum exposure to credit risk for trade receivables at the Statement of Financial Position date by geographic region was:

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
UK	**71.2**	71.4	**—**	—
Continental Europe	**8.5**	11.8	**—**	—
	79.7	83.2	**—**	—

During the year the Group's impairment reversal as a percentage of revenue amounted to 0.2% (2022: 0.3%).

24 Financial instruments continued

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	Group trade receivables		Company trade receivables	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Opening loss allowance at 1 January	**4.2**	6.7	**—**	—
Decrease in loan loss allowance recognised in profit or loss during the year	**(1.5)**	(1.7)	**—**	—
Receivables written off during the year as uncollectible	**(0.8)**	(0.8)	**—**	—
Closing loss allowance at 31 December	**1.9**	4.2	**—**	—

Trade receivables are written off where there is no reasonable expectation of recovery. It is the Group's policy wherever possible to engage the debtor in a repayment plan to reduce the exposure to credit losses.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Company assesses the expected credit loss associated with amounts due from subsidiary undertakings on a forward-looking basis, relying upon cash flow forecasts of the subsidiary to determine expected recoverability. The Company has loss allowances against amounts due from subsidiary undertakings of £11.3 million (2022: £3.0 million). The increase in the loss allowance in the year is driven by the increase in the effective interest rate implicit in the amounts due from subsidiary undertakings alongside a reduction in forecasted cash flows of the borrowing subsidiary.

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. Details of the total facilities that the Group has access to are given in note 17.

The following are the contractual maturities of financial liabilities:

31 December 2023 Group	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Overdraft	**0.7**	**(0.7)**	**(0.7)**	**—**	**—**	**—**
Unsecured bank loans	**50.0**	**(50.0)**	**(50.0)**	**—**	**—**	**—**
Trade and other payables	**114.4**	**(114.4)**	**(114.4)**	**—**	**—**	**—**
Lease liabilities	**43.4**	**(50.9)**	**(13.7)**	**(11.4)**	**(17.3)**	**(8.5)**
	208.5	**(216.0)**	**(178.8)**	**(11.4)**	**(17.3)**	**(8.5)**

31 December 2022 Group	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Unsecured bank loans	0.3	(0.3)	(0.3)	—	—	—
Trade and other payables	138.0	(138.0)	(138.0)	—	—	—
Lease liabilities	37.7	(42.2)	(12.4)	(9.8)	(15.9)	(4.1)
	176.0	(180.5)	(150.7)	(9.8)	(15.9)	(4.1)

31 December 2023 Company	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Unsecured bank loans	50.0	(50.0)	(50.0)	—	—	—
Trade and other payables	38.2	(38.2)	(38.2)	—	—	—
Lease liabilities	0.9	(2.0)	(0.1)	(0.1)	(0.1)	(1.7)
	89.1	(90.2)	(88.3)	(0.1)	(0.1)	(1.7)

31 December 2022 Company	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Trade and other payables	40.4	(40.4)	(40.4)	—	—	—
Lease liabilities	0.8	(1.9)	(0.1)	(0.1)	(0.1)	(1.6)
	41.2	(42.3)	(40.5)	(0.1)	(0.1)	(1.6)

The value of the Group's and Company's financial liabilities as detailed above at 31 December 2023 and 2022 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.

The table below sets out the Group's accounting classification of each class of financial assets and liabilities at 31 December 2023 and 2022.

31 December 2023	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total carrying value £M
Cash and cash equivalents	—	21.1	21.1
Bank overdraft	—	(0.7)	(0.7)
Borrowings due within one year	—	(50.0)	(50.0)
Trade payables	—	(93.3)	(93.3)
Non-trade payables	—	(21.1)	(21.1)
Lease liabilities	—	(43.4)	(43.4)
Trade receivables	—	79.7	79.7
Other receivables	—	27.3	27.3
Provisions	—	(2.6)	(2.6)
	—	(83.0)	(83.0)

24 Financial instruments continued

31 December 2022	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total carrying value £M
Cash and cash equivalents	—	2.1	2.1
Borrowings due within one year	—	(0.3)	(0.3)
Trade payables	—	(110.7)	(110.7)
Non-trade payables	—	(27.3)	(27.3)
Lease liabilities	—	(37.7)	(37.7)
Trade receivables	—	83.2	83.2
Other receivables	—	26.1	26.1
Provisions	—	(1.7)	(1.7)
Derivative assets	0.1	—	0.1
	0.1	(66.3)	(66.2)

All derivative financial instruments not in a hedge relationship are measured at fair value through the profit or loss. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

Interest rate risk

The Company and Group are exposed to interest rate fluctuations on their borrowings and cash deposits. Borrowings are principally held in sterling at floating rates. Deposits are in sterling, euros and at floating rates.

Floating rate borrowings are linked to the Sterling Overnight Index Average. The Group adopts a policy of reviewing its floating rate exposure to ensure that if interest rates rise the effect on the Group's income statement is manageable.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group carrying amount		Company carrying amount	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Variable rate instruments				
Financial assets	**21.1**	2.1	**63.2**	20.7
Financial liabilities	**(50.7)**	(0.3)	**(50.0)**	—
	(29.6)	1.8	**13.2**	20.7

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 2022.

	Group				Company			
	Profit or loss		Equity		Profit or loss		Equity	
	100bp increase £M	100bp decrease £M	100bp increase £M	100bp decrease £M	100bp increase £M	100bp decrease £M	100bp increase £M	100bp decrease £M
31 December 2023								
Variable rate instruments	**(0.3)**	**0.3**	**—**	**—**	**0.6**	**(0.6)**	**—**	**—**
31 December 2022								
Variable rate instruments	—	—	—	—	0.2	(0.2)	—	—

Foreign currency risk

The Group and Company are exposed to movements in currency exchange rates arising from transaction currency cash flows and the translation of the results and net assets of overseas subsidiaries. The currencies giving rise to this risk are primarily the euro, and US dollar.

The Group and Company use forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in the functional currency of the acquiring company. These forward exchange contracts would have a maturity of less than one year after the Statement of Financial Position date. The Group also enters into foreign currency contracts at spot rate where the amounts are not frequent or material. Gains and losses on currency contracts recognised as an asset at 31 December 2023 amounted to £nil (2022: asset of £0.1 million).

Derivatives

The Group has the following derivative financial instruments in the following line items in the balance sheet:

	Group		Company	
	2023 £M	2022 £M	**2023 £M**	2022 £M
Current assets				
Foreign currency forwards – cash flow hedges	**—**	0.1	**—**	—
Total current derivative financial instrument assets	**—**	0.1	**—**	—

Derivatives are only used for economic hedging purposes and not as speculative investments.

The movements in respect of derivative financial instruments were as follows:

	Foreign currency forwards 2023 £M	Foreign currency forwards 2022 £M
Opening balance 1 January	**0.1**	(0.1)
Charge to profit or loss	**(0.1)**	0.2
Closing balance 31 December	**—**	0.1

24 Financial instruments continued

The exposure to foreign currency risk was as follows:

2023	Group Euro amount £M	Group Other amount £M	Group Total £M	Company Euro amount £M	Company Other amount £M	Company Total £M
Trade and other receivables	0.1	0.2	0.3	—	—	—
Cash and cash equivalents	0.6	0.4	1.0	0.1	—	0.1
Trade and other payables	(1.0)	(0.3)	(1.3)	—	—	—
	(0.3)	0.3	—	0.1	—	0.1

2022	Group Euro amount £M	Group Other amount £M	Group Total £M	Company Euro amount £M	Company Other amount £M	Company Total £M
Trade and other receivables	0.1	—	0.1	—	—	—
Cash and cash equivalents	0.3	0.2	0.5	—	—	—
Trade and other payables	(1.6)	(0.5)	(2.1)	—	—	—
	(1.2)	(0.3)	(1.5)	—	—	—

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 2022.

	Group 2023 £M	Group 2022 £M	Company 2023 £M	Company 2022 £M
Euro	—	(0.1)	—	—
Other	—	—	—	—

A 10% strengthening of sterling against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Fair values hierarchy

The financial instruments carried at fair value are categorised according to their valuation method.
The different levels have been defined below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, as prices or indirectly, derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group entered into some forward currency contracts, which were fair valued in accordance with level 2 for the year.

Fair values

The carrying amounts shown in the Statement of Financial Position for financial instruments are a reasonable approximation of fair value.

Trade receivables, trade payables and cash and cash equivalents

Fair values are assumed to approximate to cost due to the short-term maturity of the instrument.

Borrowings, other financial assets and other financial liabilities

Where available, market values have been used to determine fair values. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

Capital management

The Group views its finance capital resources as primarily comprising share capital, bank loans and operating cash flow.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board closely monitors its Shareholder base, dividend yield and earnings per share. In the medium-term the Group aims to maintain a dividend cover of 2.0 times.

The Board encourages employees of the Group to hold the Company's ordinary shares. The Group operates a number of employee share option schemes.

Certain subsidiaries of the Company are required to maintain issued share capital at levels to support capital adequacy requirements prevailing in the legislative environment in which they operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends made payable to Shareholders, return capital to Shareholders, issue new shares or sell assets to reduce debt.

On 17 January 2022, the Group completed a refinancing of its existing banking facilities which will expire in October 2027 following the one-year extensions option being requested and agreed by the banks in February 2023.

At 31 December 2023, the Group had a committed sterling revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million. The Group had short term uncommitted facilities of £15.0 million in the UK and €4.8 million facility in Continental Europe. These are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2023 were £100.6 million (2022: £100.3 million).

The uncommitted facility, coupled with cash generated from operations, is used to fund the Group's ongoing working capital requirements. The committed facility is in place to support the Group's strategic investment plans.

No changes were made to the objectives, policies or processes during the years ended 31 December 2023 and 31 December 2022.

Covenants

The Group is subject to financial covenants in relation to its £81.5 million revolving credit facility agreement which are tested and reported every half year and year end. These comprise an Interest Cover ratio of not less than 4:1 in 2024 and 5:1 thereafter and a Leverage ratio not exceeding 2.5:1. Interest Cover is the ratio of the EBITDA, adjusted to exclude the impact of IFRS 16 and share-based payments ('Covenant EBITDA') to Finance Charges. Leverage is the ratio of borrowings and cash and cash equivalents, excluding IFRS 16 lease liabilities, to Covenant EBITDA. The interest cover ratio was amended from an EBIT to an EBITDA basis going forward in February 2024.

The Group met both these covenants during the year and there is headroom in both of these covenants at 31 December 2023 and is forecast to meet these covenants in the going concern period as detailed on pages 72 to 73 under Viability and Going Concern.

25 Capital commitments

Group

As at 31 December 2023, the Group entered into commitments to purchase property, plant and equipment for £0.9 million and intangibles of £nil (2022: £1.1 million and £1.1 million respectively).

Company

At 31 December 2023, the Company had commitments to purchase property, plant and equipment for £0.5 million (2022: £nil) and intangibles of £nil (2022: £1.1 million).

26 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 82 and 83.

As at 31 December 2023, Directors of the Company and their immediate relatives controlled 0.1% of the total voting rights of the Company (2022: 0.1%).

Non-Executive Directors receive a fee for their services to the Board.

Other than as disclosed in the Remuneration Report, there were no other transactions with key management personnel in either the current or preceding year. The cost charged to administrative expenses relating to share plans of key personnel amounted to £nil (2022: £0.3 million).

Company only

In addition to the transactions with key personnel, the Company has the following transactions:

Transactions with other Group companies

	Balance at 31 December 2023 £M	Balance at 31 December 2022 £M
Amounts due from subsidiaries	**23.0**	28.5
Amounts due to subsidiaries	**(35.8)**	(31.0)

Transactions with Group companies typically comprise management, rent and interest charges during the period.

Related party transactions reported in the income statement

	For year ended 31 December 2023 £M	For year ended 31 December 2022 £M
Rental income	**11.0**	11.0
Recharge of operating expenses	**2.4**	3.2
Interest income/(expense)	**7.1**	(0.1)

27 Acquisitions

On 4 January 2023 the Group acquired 100% of the issued share capital of Birch Close Trading Limited, and its subsidiaries, for a consideration of £4.7 million. The acquired group trades as Melrose Interiors ('Melrose'), which is the largest independent supplier to the UK online rug industry, and has operations in third-party logistics, recycling and an in-house rug, sampling and pattern book department. Melrose brings a number of new larger customers to the Group, including major high street and online retailers, a customer segment where the Group is targeting growth and will work with Melrose to scale up opportunities.

The operating results and assets and liabilities of the acquired group have been consolidated from 4 January 2023.

Details of the consideration transferred are:

Purchase consideration	£M
Cash paid	4.1
Contingent consideration	0.6
Total purchase consideration	4.7

The fair values of the assets and liabilities of Birch Close Trading Limited group as at the date of acquisition are as follows:

Fair Value	£M
Property, plant and equipment	0.5
Right of use assets	2.7
Intangible assets	1.7
Inventories	1.8
Trade and other receivables	1.5
Cash and cash equivalents	0.4
Lease liabilities	(2.7)
Trade and other payables	(2.0)
Provisions	(0.8)
Deferred tax liabilities	(0.4)
Net identifiable assets acquired	2.7
Goodwill	2.0
Net assets acquired	4.7

The goodwill is attributable to the access to new larger customers to the Group and the ability to produce sampling and pattern books in house. The goodwill will not be deductible for tax purposes.

The contingent consideration arrangement requires the Group to pay the former owners of the Birch Close Trading Limited group an amount of £0.8 million plus £2 for every £1 of EBITDA exceeding £1.0 million or minus £1 for every £1 miss of EBITDA of £1.0 million for the years ended 31 December 2023 and 31 December 2024 up to a maximum undiscounted amount of £3.0 million. EBITDA for the calculation of the contingent consideration is earnings before interest, tax, depreciation and amortisation. The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between £nil and £3.0 million. The fair value of the contingent consideration of £0.6m has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 4.6%.

As at 31 December 2023 the contingent consideration has been remeasured to £0.4 million as the actual EBITDA for the year ended 31 December 2023 was lower than forecast at the acquisition date. A gain of £0.2 million has been recognised in other income in the Consolidated Income Statement.

The fair value of acquired trade receivables is £1.4 million. The gross contractual amount for trade receivables due is £1.4 million, with a loss allowance of £nil recognised on acquisition.

The acquired business contributed revenues of £7.9 million and net loss of £0.2 million to the Group for the period from 4 January 2023 to 31 December 2023.

Acquisition related costs of £0.3 million are included in non-underlying administrative expenses in the Consolidated Income Statement and in operating cash flows in the statement of cash flows.

27 Acquisitions continued

On 1 July 2023 the Group acquired 100% of the issued share capital of Het Stoffen Gilde B.V., a company registered in the Netherlands and involved in the supply of fabrics and curtains. The total purchase consideration was £0.8 million and the fair value of the assets and liabilities acquired are not material individually or in aggregate.

The operating results and assets and liabilities of the acquired group have been consolidated from 1 July 2023.

On 13 September 2023 the Group completed the acquisition of the trade and assets of PD Pattern Books Limited for a cash consideration of £1.7 million. The business is involved in the manufacture of floorcovering pattern books.

The operating results and assets and liabilities of the acquired group have been consolidated from 13 September 2023.

Details of the consideration transferred are:

Purchase consideration	£M
Cash paid	1.7
Total purchase consideration	1.7

The fair values of the assets and liabilities of PD Pattern Limited as at the date of acquisition are as follows:

Fair Value	£M
Property, plant and equipment	0.1
Intangible assets	0.4
Inventories	0.1
Trade and other receivables	0.1
Trade and other payables	(0.1)
Deferred tax liabilities	(0.1)
Net identifiable assets acquired	0.5
Goodwill	1.2
Net assets acquired	1.7

The goodwill is attributable to the ability to produce pattern books in house. The goodwill will not be deductible for tax purposes.

The acquired business contributed revenues of £0.5 million and net profit of £0.1 million to the Group for the period from 1 September 2023 to 31 December 2023. If the acquisition had occurred on 1 January 2023, consolidated pro-forma revenue and profit for the year ended 31 December 2023 would have been £1.4 million and £0.1 million respectively.

28 Group subsidiaries

Company	Holding	Type	Place of incorporation
HFD Limited	Direct	Trading	UK*
MCD Group Limited	Direct	Trading	UK*
CECO (Flooring) Limited	Indirect	Trading	UK*****
Domus Tiles Limited	Indirect	Trading	UK*
Headlam BV	Indirect	Trading	Netherlands**
Dersimo BV	Indirect	Trading	Netherlands****
LMS SA	Indirect	Trading	France***
Melrose Interiors Limited	Indirect	Trading	UK*
Modern Style Rugs Limited	Indirect	Trading	UK*
Het Stoffen Gilde B.V.	Indirect	Trading	Netherlands********
Birch Close Trading Limited	Indirect	Holding Company	UK*
Headlam (European) Limited	Direct	Holding Company	UK*
Betu Holdings Limited	Indirect	Holding Company	UK*****
Headlam Holdings BV	Direct	Holding Company	Netherlands**
Headlam SAS	Indirect	Holding Company	France***
Domus Group of Companies Limited	Direct	Holding Company	UK*
Tileco (2012) Bidco Limited (in liquidation)	Indirect	Holding Company	UK*******
Tileco Group (2007) Limited (in liquidation)	Indirect	Holding Company	UK*******
Tileco Group Limited (in liquidation)	Indirect	Holding Company	UK*******
Yourfloors Limited	Direct	Dormant	UK*
Crossforge Limited	Indirect	Dormant	UK*
Headlam Group Employee Trust Company Limited	Direct	Dormant	UK*
Headlam Group Pension Trustees Limited	Direct	Dormant	UK*
Headlam Ireland Limited	Indirect	Dormant	Ireland******
Tileco Limited (in liquidation)	Indirect	Dormant	UK*******
Surface Tiles Limited (in liquidation)	Indirect	Dormant	UK*******
Gorsey Twenty One Limited	Indirect	Dormant	UK*
Gorsey Twenty Two Limited (in liquidation)	Indirect	Dormant	UK*******
Gorsey Twenty Three Limited (in liquidation)	Indirect	Dormant	UK*******

A subsidiary of the Company, Gorsey Twenty Four Limited, was dissolved on 3 June 2023.

The ordinary share capital of all of these subsidiaries are wholly owned. The principal activities of the trading companies are wholly aligned to the sales, marketing, supply and distribution of floorcovering and certain other ancillary products.

* Registered address for UK subsidiaries: PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW, UK.

** Registered address for these Dutch subsidiaries: Bettinkhorst 4, 7207 BP Zutphen, the Netherlands.

*** Registered address for French subsidiaries: 9-11 Rue de la litte, 92390, Villeneuve-la-Garenne, France.

**** Registered address for this Dutch subsidiary: Noordzee 12, 3144 DB, Maassluis, the Netherlands.

***** Registered address for these UK subsidiaries: Unit 5 Carryduff Business Park, Comber Road Carryduff, Belfast, County Down, BT8 8AN.

****** Registered address for Irish subsidiary: 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1.

******* Registered address for these UK subsidiaries: 8th Floor Temple Point 1, Temple Row, Birmingham, B2 5LG.

******** Registered address for these Dutch subsidiaries: Steenhoven 2A, 3911 TR Rhene, The Netherlands.

ALTERNATIVE PERFORMANCE MEASURES ('APMS')

Glossary of Alternative Performance Measures	Closest equivalent statutory measure	Definition and purpose
Underlying administrative expenses	Administrative expenses	Calculated as administrative expenses before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 210 to 211
Underlying operating profit	Operating profit	Calculated as operating profit before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 210 to 211
Underlying operating profit margin	None	Calculated as underlying operating profit divided by revenue. This measure is used to assess how effective the Group is at converting revenue into underlying operating profit
Underlying profit before tax	Profit before tax	Calculated as profit before tax before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year. Underlying profit before tax is used in the determination of Executive Directors' annual bonuses See Adjusted Results Reconciliation on pages 210 to 211
Underlying profit after tax	Profit after tax	Calculated as profit after tax before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 210 to 211
Underlying basic earnings per share	Basic earnings per share	Calculated as basic earnings per share before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 210 to 211
Underlying diluted earnings per share	Diluted earnings per share	Calculated as diluted earnings per share before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year See Adjusted Results Reconciliation on pages 210 to 211
EBIT	None	Calculated as underlying operating profit adjusted to exclude the impact of IFRS 16 and share-based payments
EBITDA	None	Calculated as underlying operating profit excluding the impact of depreciation and amortisation
Underlying operating cash flow	None	Calculated as shown in the table in the Financial Review on page 36. This metric is used to assess underlying cash generation

Glossary of Alternative Performance Measures	Closest equivalent statutory measure	Definition and purpose
Net debt/funds including lease liabilities	None	Calculated as cash and cash equivalents less other interest-bearing loans and borrowings and less lease liabilities. This is used as a measure of liquidity
Net debt/funds	None	Calculated as cash and cash equivalents less other interest-bearing loans and borrowings This is provided for use by investors, who used this metric before the adoption of IFRS16 and continue to do so
Average net debt/funds	None	Calculated by aggregating the net debt/funds position for each business day and dividing by the total number of business days. This is used as a measure of liquidity maintained throughout the year
Like for like revenue growth	None	Calculated as year-on-year revenue growth, expressed as a percentage and adjusted to normalise currency and for consistent working days, for businesses making a full year's contribution. This allows a consistent measure of year-on-year performance
Underlying selling, general and administrative costs	None	Calculated as distribution costs and underlying administrative expenses divided by revenue and expressed as a percentage. This measure shows how effective the Group is at converting gross profit into underlying operating profit
Return on capital employed	None	Calculated as underlying operating profit measured as a percentage of average capital employed, being total equity less non-current other interest-bearing loans and borrowings less cash and cash equivalents This demonstrates the relative level of profit generated by the capital employed
Cash conversion	None	Calculated as underlying operating cash flow divided by underlying operating profit and expressed as a percentage This cash conversion measure demonstrates the success of the Group in converting operating profit to cash, which underpins the quality of earnings and reflects the effectiveness of working capital management

ADJUSTED RESULTS RECONCILIATION

31 DECEMBER 2023

	Total Results £M	Amortisation of acquired intangibles and other acquisition-related costs £M	Impairment of property, plant and equipment, intangible assets and right of use assets £M	Insurance proceeds (following a fire) £M	Loss on disposal of items under con-struction £M	Profit on sale of property, plant and equip-ment £M	Business re-structuring and change-related costs £M	Adjusted Results (under-lying) £M
Revenue	656.5	–	–	–	–	–	–	656.5
Cost of sales	(448.7)	–	–	–	–	–	–	(448.7)
Gross profit	207.8	–	–	–	–	–	–	207.8
Distribution costs	(131.3)	–	–	–	–	–	–	(131.3)
Administrative expenses	(73.3)	2.3	5.9	–	1.2	(2.3)	5.4	(60.8)
Other operating income	9.0	–	–	(8.6)	–	–	–	0.4
Operating profit/(loss)	12.2	2.3	5.9	(8.6)	1.2	(2.3)	5.4	16.1
Finance income	0.3	–	–	–	–	–	–	0.3
Finance expenses	(5.4)	–	–	–	–	–	–	(5.4)
Net finance costs	(5.1)	–	–	–	–	–	–	(5.1)
Profit/(loss) before tax	7.1	2.3	5.9	(8.6)	1.2	(2.3)	5.4	11.0
Taxation	0.6	(0.5)	(1.5)	0.3	–	0.1	(1.2)	(2.2)
Profit/(loss) for the year attributable to the equity shareholders	7.7	1.8	4.4	(8.3)	1.2	(2.2)	4.2	8.8
Earnings/(loss) per share								
Basic	9.6p	2.2p	5.5p	(10.3)p	1.5p	(2.7)p	5.2p	11.0p
Diluted	9.6p	2.2p	5.5p	(10.4)p	1.5p	(2.7)p	5.2p	10.9p

ADJUSTED RESULTS RECONCILIATION

31 DECEMBER 2022

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

FINANCIAL RECORD

	2023 £M	2022 £M	2021 £M	2020 £M	2019 £M
Trading results (Continuing operations)					2.1
Revenue	**656.5**	663.6	667.2	609.2	719.2
Gross profit	**207.8**	219.5	220.5	188.9	229.4
Overheads	**(191.7)**	(180.3)	(183.2)	(171.0)	(187.2)
Underlying profit before net financing costs	**16.1**	39.2	37.3	17.9	42.2
Net financing costs	**(5.1)**	(2.1)	(1.5)	(2.0)	(2.7)
Underlying profit on ordinary activities before tax	**11.0**	37.1	35.8	15.9	39.5
Taxation	**(2.2)**	(7.4)	(9.2)	(3.9)	(6.9)
Underlying profit on ordinary activities after taxation – continued operations	**8.8**	29.7	26.6	12.0	32.6
Underlying profit on ordinary activities after taxation – Discontinued operations	**–**	–	0.1	–	–
Profit/(loss) before tax	**7.1**	41.8	27.6	(17.1)	35.2
Shareholder value					
Earnings/(loss) per share for profit from continuing operations	**9.6p**	40.1p	23.5p	(24.2)p	34.0p
Underlying earnings per share for profit from continuing operations	**11.0p**	35.5p	31.5p	14.3p	38.8p
Earnings per share for profit from discontinued operations	**–**	–	5.3p	–	–
Paid interim and final dividend per share	**15.2p**	14.8p	5.8p	7.55p	25.0p
Paid special dividend per share	**–**	17.7p	–	–	–
Proposed special dividend per share	**–**	–	17.7p	–	–
Proposed dividend per share[1]	**6.0p**	11.2p	8.6p	—	7.55p
Declared dividend per share	**–**	–	–	2.00p	–

[1] Following the announcement on 25 March 2020, the 2019 final ordinary dividend was suspended, that had previously been detailed within the 2019 final results announcement.

FINANCIAL RECORD

	2023 £M	2022 £M	2021 £M	2020 £M	2019 £M
Net assets					
Non-current assets					
Property, plant and equipment	**127.6**	119.9	113.3	122.9	114.5
Right of use assets	**41.6**	36.7	35.0	42.1	43.9
Intangible assets	**19.4**	17.8	18.1	21.1	48.5
Deferred tax assets	**0.9**	–	–	–	0.7
	189.5	174.4	166.4	186.1	207.6
Current assets					
Inventories	**131.5**	139.8	130.9	118.5	132.5
Trade and other receivables	**117.1**	119.1	114.0	101.6	123.7
Income tax receivable	**3.1**	–	–	–	–
Cash and cash equivalents	**21.1**	2.1	61.2	60.8	33.4
	272.8	261.0	306.1	280.9	289.6
Non-current assets classified as held for sale	**–**	–	–	0.4	–
	272.8	261.0	306.1	281.3	289.6
Total assets	**462.3**	435.4	472.5	467.4	497.2
Current liabilities					
Bank overdraft	**(0.7)**	–	–	–	–
Other interest-bearing loans and borrowings	**(50.0)**	(0.3)	(0.6)	(2.0)	(0.2)
Lease liabilities	**(11.9)**	(11.4)	(10.5)	(12.5)	(13.9)
Trade and other payables	**(129.1)**	(153.2)	(178.0)	(178.4)	(181.9)
Employee benefits	**(1.1)**	(1.0)	(1.0)	–	–
Income tax payable	**–**	(1.9)	(1.0)	(0.2)	(5.0)
	(192.8)	(167.8)	(191.1)	(193.1)	(201.0)
Non-current liabilities					
Other interest-bearing loans and borrowings	**–**	–	(6.9)	(7.2)	(6.2)
Lease liabilities	**(31.5)**	(26.3)	(25.5)	(30.8)	(30.7)
Provisions	**(2.6)**	(1.7)	(2.7)	(2.1)	(2.3)
Deferred tax liabilities	**(13.2)**	(12.1)	(10.3)	(8.7)	(7.6)
Employee benefits	**(1.8)**	(2.7)	(3.9)	(5.5)	(4.3)
	(49.1)	(42.8)	(49.3)	(54.3)	(51.1)
Total liabilities	**(241.9)**	(210.6)	(240.4)	(247.4)	(252.1)
Net assets	**220.4**	224.8	232.1	220.0	245.1

The results for 2020 – 2019 within the financial record have not been re-presented to reflect the discontinued activity that occurred in 2021, they remain the historical results reported for the Group.

ADDITIONAL INFORMATION

ADVISERS

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