headlam
group plc

Annual Report and Accounts **2020**

Europe's leading floorcoverings distributor

Our purpose

To provide the distribution channel between suppliers and trade customers of floorcoverings.

Our mission

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

Our vision

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

Contents

Chief Executive's Welcome

Steve Wilson **Chief Executive**

I am pleased to welcome you to our 2020 Annual Report and Accounts.

2020 has necessitated a great deal of disclosure in relation to COVID-19, including the important actions to keep our people safe and support their wellbeing through the period. COVID-19 underscored the necessity for a business to keep improving its sustainability. Both our Operational Improvement Programme and ESG Strategy are key components in this regard, and within this Report you will find increased detail on both along with future aspirations. I want to wish everyone well for the year ahead, and I look forward to regularly updating you throughout 2021.

See more in Chief Executive's Review on page 16

Our Values

Headlam Values

Teamwork
We work together and support each other

Service
We go the extra mile to deliver excellent customer service

Safety
We keep people safe

Partnerships
We build long-term partnerships with our customers and suppliers

Innovation
We provide customers with a choice of innovative products and solutions

Support
We offer unparalleled product knowledge and expertise

2020 Overview

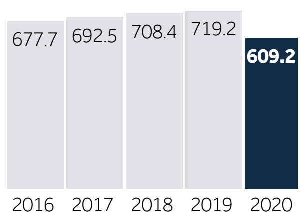
"Q2 2020 trading significantly impacted by COVID-19, with strong recovery in H2 2020"

Revenue

£609.2m

-15.3%

(2019: £719.2m)



Total ordinary dividend

-

Suspended

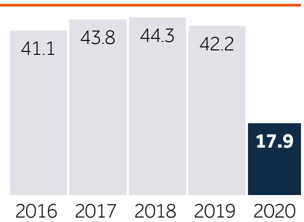
(2019: 25.0p)

Underlying* operating profit

£17.9m

-57.6%

(2019: £42.2m)



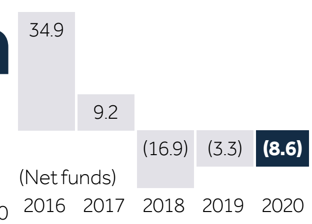
Statutory operating loss £15.0m (2019: £38.3m profit)

Average net debt**

£(8.6)m

+160.6%

(2019: (£3.3m))



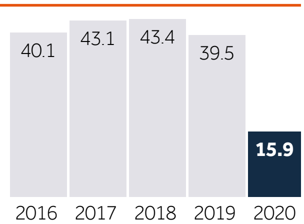
Net funds as at 31 December 2020 after the impact of IFRS 16 'Leases' £8.3m (2019: £17.6m net debt)

Underlying* profit before tax

£15.9m

-59.7%

(2019: £39.5m)



* Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisitions related fees, movement in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation.

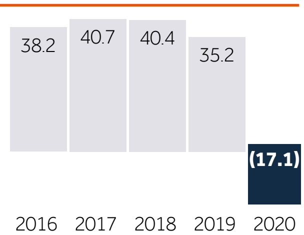
** Average net debt is calculated by aggregating the net debt position, excluding the impact of IFRS 16 'Leases', for each business day and dividing by the total number of business days.

Statutory (loss)/profit before tax

£(17.1)m

-148.6%

(2019: £35.2m)

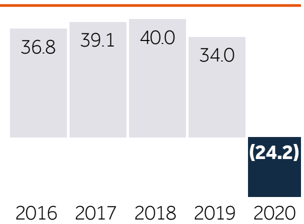


Statutory basic (loss)/earnings per share

(24.2)p

-171.2%

(2019: 34.0p)



Operational Highlights

- Following the extensive temporary closures during the second-quarter due to COVID-19, operations remained open throughout the second-half with strong recovery in demand
- Many mitigating actions put in place against the impact of COVID-19, including the acceleration of certain projects under the Operational Improvement Programme ('OIP')
- Opening of new regional distribution centre in Ipswich improving service to customers throughout the South East of England, and enabling commencement of network consolidation activities
- Accelerated OIP now anticipated to generate a net benefit in excess of £4 million in 2021, rising to in excess of £8 million in 2022

Investment Case

Market-leading position

with unrivalled distribution network and expertise, and ability to leverage and grow

See About Us on page 6, and Strategy on page 12

Financial strength

with strong balance sheet and cash flow from operations, and underpinned by freehold property portfolio and Capital Allocation Priorities

See Financial Review on page 24, and Capital Allocation Priorities on page 9

Demonstrated resilience

with strong and sustained recovery from the impact of COVID-19 during the second-half of 2020, and entering 2021 a stronger business as a result of actions taken

See Chairman's Statement on page 8, and Chief Executive's Review on page 16

Operational Improvement Programme

with multiple projects to enhance both revenue and margin, and improved customer service propositions alongside significant cost savings

See Operational Improvement Programme on page 22, and Marketplace on page 10

ESG commitment

with increasing focus on sustainability, and an ESG Strategy Report to be published in May 2021 to address the Company's most material ESG-related risks and opportunities

See ESG Report on page 37

About Us

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

About us

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

Headlam works with suppliers across the globe manufacturing a diverse range of floorcovering products, and provides them with a cost efficient and effective route to market for their products into the highly fragmented customer base. Alongside long-established processing and distribution expertise, suppliers benefit from Headlam's marketing and customer servicing into the most extensive customer base.

To maximise customer reach, Headlam operates 67 businesses across the UK and Continental Europe (France, the Netherlands and Switzerland). Each business operates under its own trade brand and utilises individual sales teams while being supported by the Company's network and centralised resources. The Company's customer base covers both the residential and commercial sectors, with the residential sector the larger of the two. As detailed to the right, the Company's customer base is diverse and encompasses the two principal customer groups of independent retailers and smaller flooring contractors alongside other groups such as larger retailers, housebuilders, specifiers, and local authorities.

Years operating

29

Businesses

67

Customer accounts

24,830

Supplier accounts

184

As at 31 December 2020

Customers

Headlam is focused on providing customers with a market-leading service through:

- the broadest product offering;
- unrivalled product knowledge and tailored solutions;
- sales team and marketing support;
- e-commerce support;
- 'just-in-time' nationwide delivery and collection service; and
- other support including the provision of credit.

Headlam's business is characterised by a high volume of smaller value orders delivered to customers next day, with this capability enabled by its extensive distribution network, material handling and processing capabilities, and customer servicing expertise.

Distribution hubs and centres

23

Trade counters (UK)

53

Commercial fleet (HGV)

363

As at 31 December 2020

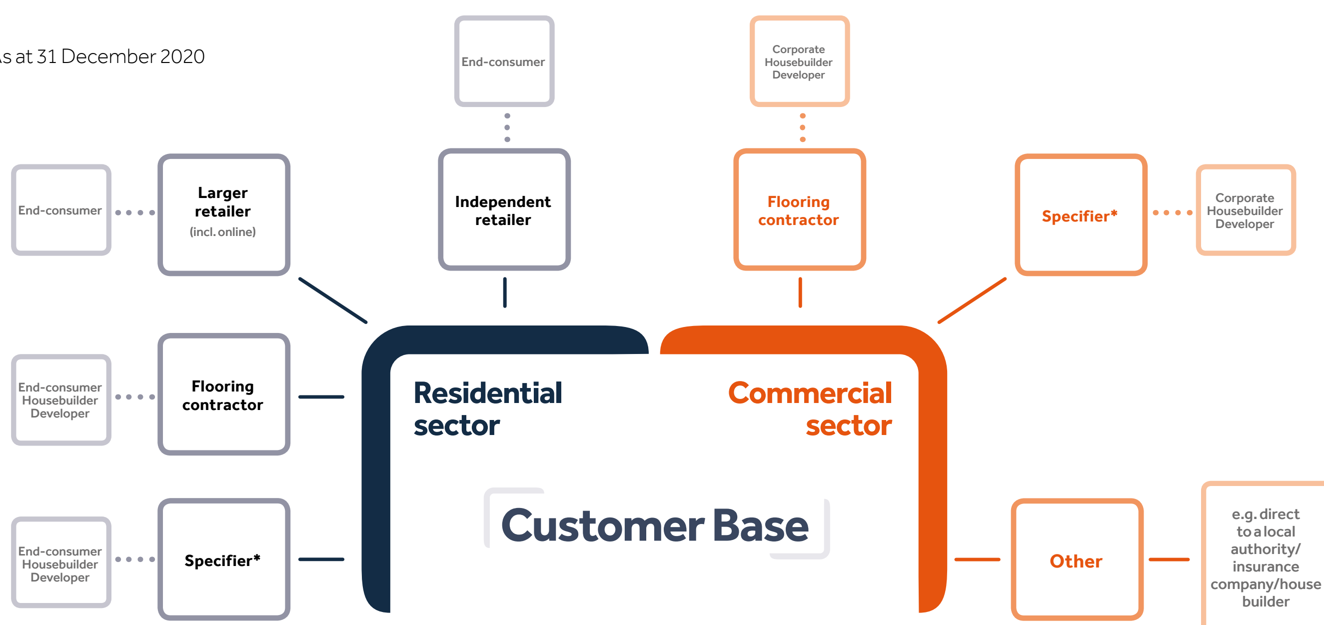
Countries of operations

1 UK
2 France
3 Switzerland
4 Netherlands

2020 Revenue

Residential sector	**68.2%**
Commercial sector	**31.8%**

UK	**82.8%**
Continental Europe	**17.2%**



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

Chairman's Statement

A positive arising from a hugely difficult year due to COVID-19, is that the Board believes the Company has entered 2021 a stronger business

Philip Lawrence Non-Executive Chairman

2020 was a challenging year, but one in which the Company took important steps to make itself more successful. Following the significant impact of COVID-19 on trading in Q2 2020, when the vast majority of the Company's operations were temporarily closed, the second-half was characterised by a strong and sustained recovery. This demonstrated the resilience of our business, the commitment and tenacity of our people, and our ability to support customers during a difficult period.

The swift decisions and actions taken by the Company enabled the safety and protection of our people, and preserved the financial stability of the business during a critical period. The focus on supporting the wellbeing of our people has never been more important, with a COVID-19 Secure workplace, improved communications, an assistance programme, and the provision of an enhanced form of the UK Government's Coronavirus Job Retention Scheme having all contributed to supporting our people during the period.

A positive arising from a hugely difficult year, is that the Board believes the Company has entered 2021 a stronger business. Ongoing mitigating actions against the impact of COVID-19, including a more centralised approach to the management of costs; accelerated projects under the Operational Improvement Programme ('OIP'); and improved levels of stakeholder engagement will more effectively support the future success of the Company.

Since its instigation, the OIP has necessitated considerable planning and engagement with our people. This process has been vital to ensuring its effective implementation, the limiting of risk, and maximising the upside of the opportunities. With the considerable work undertaken in recent years and during 2020, despite the operational disruption caused by the impact of COVID-19, the Company has a clear roadmap to achieving the associated operational and financial improvements, with the ambition of achieving a 7.5% UK operating margin run-rate during 2023.

The implementation of the OIP increases the sustainability of the Company by improving the relevance of the business model as well as revenue growth opportunities. Sustainability will be further enhanced through the introduction of a concerted ESG (Environmental, Social and Governance) Strategy during 2021. This Strategy, to be published in May 2021 at the same time as the Company's Annual General Meeting, will detail the Company's approach to addressing its significant ESG-related opportunities and risks, with associated KPIs to measure performance going forward. The Company intends to provide detail on its ESG Strategy and the OIP, including the newly introduced projects for 2021, as detailed in the Chief Executive's Review, at a Capital Markets Day to be held in July 2021 at its new regional distribution centre in Ipswich. If circumstances do not permit physical attendance, the Company will provide a virtual presentation.

COVID-19 underscored the necessity of maintaining a strong balance sheet throughout the economic cycle, and following consultation the Board articulated this within its Capital Allocation Priorities which were detailed in the January 2021 Pre-Close Trading Update announcement. Based upon a prioritised low average net debt[2] position, the Company is focused on growth investment and returns to shareholders. Ordinary dividends were suspended following the emergence of COVID-19 because of the unknown duration of the pandemic, and impact on demand and cash flow. However, with the strong recovery in trading during the second-half of 2020, and the Board's confidence in the future prospects for the business, the Board has elected to resume the payment of dividends with a nominal ordinary dividend of 2 pence per share to be paid in May 2021. The Board is committed to providing dividend income for shareholders, with an interim dividend in respect of 2021 currently anticipated to be made, and a return to dividend payments based on earnings is anticipated next year.

As announced in December 2020, Alison Littley will be stepping down from the Board as a Non-Executive Director on 31 March 2021, and we wish to thank her for her valuable contribution, including her oversight and development of the Company's Remuneration Policy in her role as Chair of the Remuneration Committee. To bring further skills on to the Board, and increase oversight of the Company's strategic and corporate aims, the Board has announced its intention to appoint two new Non-Executive Directors during 2021, with the independent search process progressing well.

The Board would finally, and most importantly, like to thank and recognise the huge commitment and resilience our people have shown throughout 2020 and into 2021, and the support and understanding of all our stakeholders. Difficult decisions had to be made during 2020, but the Company is stronger for it with a clear ambition, and is now in a position to more positively impact all its stakeholders going forward.

Philip Lawrence
Non-Executive Chairman
9 March 2021

Capital Allocation Priorities

Listed below, in order of priority, are the Board's capital allocation priorities including targeted parameters:

1. Maintain a strong balance sheet, with targeted average net debt* during a financial year of not more than 0.75x EBITDA, unless exceptional or unforeseen circumstances prevail.
2. Investment, both opex and capex, in the core distribution business to optimise performance and growth.
3. Provide income to shareholders through a bi-annual ordinary dividend distribution paid out of cash with a target cover ratio of 2x earnings for the combined pay-out, and an interim and final dividend payment split of approximately 1/3 : 2/3.
4. Consideration of investment in acquisition opportunities aimed at growing the Company's core market position, including extending the product portfolio and weighting in certain customer segments.
5. After applying the priorities and parameters above, return any surplus cash to shareholders. The Board will keep under review and determine at the appropriate time the most effective method of returning surplus cash, including consideration of special dividends and share buybacks for cancellation.

These priorities are reviewed by the Board, in conjunction with the Company's Strategy as detailed on page 12, on a regular basis.

* Net debt calculation excludes leasing liabilities as defined by IFRS 16 and pension liabilities based on IAS 19.

See more on Strategy on page 12

[2] Average net debt is calculated by aggregating the net debt position, excluding the impact of IFRS 16 'Leases', for each business day and dividing by the total number of business days.

Marketplace

Industry commentators and supporting data pointed to increased repair, maintenance and improvement ('RMI') spend towards the lower end of the scale

Impact of COVID-19

Following the emergence of COVID-19 and the associated government responses, the Company made the decision in March 2020 to close the vast majority of its operations in the UK and France in the face of the unknown impact on demand arising as a consequence of the severe lockdown restrictions.

The Company subsequently experienced a strong and sustained recovery in demand as its operations reopened and restrictions lessened. This, coupled with greater government clarity on businesses permitted to remain open, led to the Company remaining fully open for the durations of the following lockdown periods.

The recovery in demand and sustained performance in the second-half of 2020 was driven by the residential sector, and industry commentators and supporting data pointed to increased repair, maintenance and improvement ('RMI') spend towards the lower end of the scale. Smaller RMI spend is a key driver of the Company's performance, with the inference for the increased spend being that with limited avenues for discretionary spend due to lockdown measures, consumers increasingly directed it towards home-improvements.

There was strong demand across the DIY market, and independent flooring retailers and smaller flooring contractors, the mainstay of the Company's customer base, were able to continue effectively operating through the latter lockdown periods owing to tradespeople being able to continue working in consumers' homes. As such, many within these customer groups were able to recover lost sales associated with the first lockdown and subsequently report maintained or improved sales for the year compared with 2019[1] due to strong demand in the second-half.

While there were many documented corporate failings during 2020, the home-improvement sector fared well as outlined above, and the Company's principal customer base of independent retailers and smaller flooring contractors proved resilient following the initial impact of COVID-19. As demonstrated during previous periods of economic downturn, they are able to quickly adjust their business models to sustain themselves during difficult times, and are not typically financially encumbered by high overheads or commitments.

Despite the RMI performance within the residential sector, the overall value of the UK floorcoverings market is forecasted by one commentator to decline by 10% in 2020[2]. A factor is the significantly weakened performance of the commercial sector which is characterised by larger-scale construction and refurbishment activity, and as such, has been meaningfully impacted by COVID-19-related deferrals and significant reductions in expenditure with its recovery expected to be more prolonged.

1 Source: The Stocklists, December 2020
2 Source: AMA Research, November 2020

Customer Groups – Developing the offering

The marketplace's customer base is fragmented and diverse, which is reflected in the Company's revenue profile. In 2020, the residential and commercial sectors accounted for 68.2% and 31.8% respectively of the Company's total revenue; 4.2 million orders were fulfilled despite the impact of COVID-19* at an average order value of £146; and the Company's top 10 customers accounted for only approximately 9% of total revenue.

Each customer group, as depicted on page 7, has differing preferences and requirements. It is one of the Company's strategic objectives, as outlined on page 12, to continue developing tailored propositions specific to each customer group to better service their needs and enhance the Company's revenue growth prospects.

Customer insight and segmentation work conducted during 2020 has already led to enhancements to the propositions for the below customer groups, with improved propositions for other groups such as housebuilders and larger contractors to follow in 2021.

Smaller flooring contractors – typically do not have 'shop-fronts' or large storage / warehousing facilities, and preferring to collect their products 'just-in-time' for jobs. As such, the Company's trade counter proposition is of importance to them, and its enhancement and roll-out from 2021 will more ably support this group. See more on page 20.

Independent retailers – typically do not have large storage / warehousing facilities, and preferring to have their products delivered to their premises just prior to a job. The relaunched B2B websites with improved functionality provides them with greater business management support, including order history / tracking and real-time bespoke price lists. See more on page 20.

Larger retailers (incl. online) – typically require more systems integration than other customer groups, and the holding and processing of meaningful levels of product to be delivered to multiple sites. Greater support put in place through the ongoing development of e-commerce infrastructure and dedicated customer service team with whom to have greater collaboration. See more on page 20.

* 2019: 5.3 million customer orders fulfilled

Strategy

Continue building a successful Company positively impacting all stakeholders

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

2020 Progress	2021 Focus
• Sustained recovery from initial impact of COVID-19 demonstrating the resilience of the business, and reflecting the swift mitigating actions taken • New state-of-the-art Ipswich regional distribution centre opened, with increased warehousing and order processing capacity, and a strategically important addition to the network • Plans finalised to enhance the existing trade counter network and expand the national footprint	• Continue with the mitigating actions taken against the impact of COVID-19 which has made the business stronger (see page 19) • New OIP projects introduced and accelerated to more quickly realise cost base improvements and revenue benefits, helping mitigate against ongoing impact and consequences of COVID-19 • Refitting of existing trade counter sites under new 'blueprint', and opening of new sites
• A carefully managed and demand-led reopening of operations following the closure of the vast majority of the business in March 2020, with COVID-19 Secure fully implemented • Accelerated roll-out of the Transport Integration project against the backdrop of COVID-19, with successful implementation over approximately 25% of the Company's UK deliveries • Development of a KPI dashboard (operational toolkit)	• Continue operating during any lockdown periods, subject to government guidance, while prioritising the safety and protection of people • Complete the consolidation of businesses into the Ipswich distribution centre enabling simplification of the network, and improved servicing of customers throughout the South East of England • Transport Integration project roll-out completed
• Comprehensive customer insight and segmentation work conducted, with output improving the service propositions • Increased customer communications, and direct feedback and complaint mechanisms introduced • Enhanced e-commerce capabilities, including relaunched B2B websites with improved functionality	• Expanding a dedicated key accounts team to better support and service larger customers • Continued development of e-commerce infrastructure to provide greater support for customers requiring more systems integration • Sales force effectiveness review to make activities more efficient and effective
• Launch of new 'Unity' range, an own-label range specifically for fitters • Investment in the niche products brands team	• Review of niche products offering, and refreshing of marketing activities • Working with trade bodies on more sustainable product opportunities
• Dedicated resource introduced, with new UK Buying Director implementing a more strategic group-level approach • Increased the partnership approach and benefit to both parties, including through introducing product-specific tender processes • Successfully navigated Brexit with minimal disruption	• Roll-out of joint business plans and product-specific tender processes which will increase the benefit to both the Company and supplier • Continue to work closely with suppliers to ensure minimal disruption to product flow from the EU following Brexit • Work in conjunction with suppliers, and all industry participants, to help address key industry issues of waste product and recyclability
• Increased communication channels, and 'culture capture' exercise undertaken • Implementation of recommendations arising from an independent H&S review, and COVID-19 Secure fully implemented with ongoing support and advice • Accelerated roll-out of the Transport Integration project making meaningful progress in reducing the Company's direct GHG emissions and contribution to climate change	• Implementation of 'culture capture' report recommendations, including launch of 'MyHub' engagement portal dedicated to providing communications, support, and recognition for employees • Complete recommendations arising from the independent H&S review • Completion of the roll-out of the Transport Integration project, and publication of an ESG Strategy Report

Business Model

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

What we do

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

Sales
Our extensive customer base spans both the residential and commercial sectors, with each of our businesses having their own trade brand and sales team to maximise customer reach.

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

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

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

Creating value for:

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

Work in partnership with suppliers to increase supply chain efficiencies, including through improved production scheduling, buying and deliveries.

Shareholders
Commitment to maintaining a strong balance sheet, investing in the business to optimise performance and growth, and providing income through dividend distribution.

Uphold the highest levels of corporate governance alongside an increased focus on ESG strategy to enhance the long-term sustainability of the Company.

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

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

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

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

Chief Executive's Review

The Company's financial performance in 2020 was pleasing given the backdrop created by COVID-19, demonstrating the resilience of the business, and much was achieved operationally despite the disruption caused

Steve Wilson **Chief Executive**

Impact of Covid-19 Timeline

January | **February** | **March** | **April** | **May** | **June**

1 Jan - 24 March:
Trading resilient and broadly in-line with prior year

1 April - 30 June:
Limited delivery services for essential products, followed by demand-led /phased approach to reopening of operations

24 March
Non-essential retail businesses close

24 March:
Vast majority of operations closed following government guidance issued

Mid April:
Commenced a collection service for pre-ordered products in relation to essential works

Late May:
All principal distribution centres reopen under COVID-19 safe operating practises

15 June:
Non-essential retail businesses reopen

19 June:
COVID-19 Secure fully implemented across the remainder of the group

2020 Financial Performance

The Group's revenue profile during 2020 can be categorised into three parts. The first-quarter of the year evidenced consistency, being broadly in-line with the equivalent prior year period. The second-quarter was significantly impacted by the emergence of the COVID-19 pandemic, as detailed below, and the second-half was then characterised by a strong and sustained recovery to comparable 2019 levels.

As a consequence, first-half revenue was down materially on the same period in the prior year, being 30.6% below. However, the recovered performance in the second-half led to total revenue for the year being only 15.3% below 2019 at £609.2 million (2019: £719.2 million).

This pleasing performance, given the backdrop created by COVID-19, was principally due to:

- following the extensive closures during the second-quarter, the Company's UK operations remaining open throughout the second-half of the year and during lockdown periods;
- the responses and mitigating actions put in place, as described on page 19; and
- an exceptional performance from the UK residential sector in the second-half despite ongoing restrictions and lockdown periods.

UK revenue was down 17.3% on the year at £504.7 million, with the second-half residential performance not able to fully recover its shortfall in the first-half, and the commercial sector being materially down for the whole year, albeit with an improvement in the second-half. On the Continent, revenue for the collective four businesses was down only 4.1% on the year at £104.5 million with robust performances in Switzerland and the Netherlands helping to offset weakness in France, which was subject to lockdown measures similar to the UK. Further detail on revenue and segmental performance is given in the Financial Review.

Total underlying[1] profit before tax for the year was £15.9 million (2019: £39.5 million), representing a strong reversal from the £1.2 million underlying[1] loss before tax reported in the first-half. The Company has reported a statutory loss before tax of £17.1 million for the year (2019: £35.2 million profit). As highlighted in the September 2020 interim results announcement, this reflects a significant level of non-underlying items during the year, with the vast majority having arisen as a direct consequence of the impact of COVID-19 and being non-cash in nature. These items are fully detailed in the Financial Review.

July | **August** | **September** | **October** | **November** | **December**

30 June -31 December:
Operations remained fully open during subsequent lockdown periods

30 June:
Operating at largely normalised operations

Beginning July:
Elevated levels of product buying to satisfy customer demand

Mid July:
New Ipswich distribution centre opened following a COVID-19 related delay to plant and equipment commissioning

1 September:
South East network consolidation into Ipswich distribution centre announced

Mid September:
Roll-out of transport integration project in the 'North' accelerated against the backdrop of COVID-19

Early November:
'North' transport integration completed, and B2B websites relaunch complete

31 December:
Total 2020 revenue down only 15.3% against prior year, compared to 30.6% down for H1 2020

[1] Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation.

Chief Executive's Review continued

Strategy

Whilst COVID-19 has caused many disruptions and changes to operating practices, some temporary and others perhaps becoming the new normal, it has demonstrated the validity of the Company's strategic aims and the associated developments to the business model. These strategic aims are centred around improvement, and increasing the success and sustainability of the business through:

- broadening and growing in the industry;
- improving operational and financial performance; and
- investing in the business, people, and the customer service proposition.

A key enabler of the strategic aims is the OIP, with its progress described in detail in this review. Many of the projects also support the anticipated and accelerated changes brought about by COVID-19, including ongoing changes to customers ordering and interaction preferences, and the increased importance of communication and culture.

Employee Wellbeing and Support

Throughout the period, the safety and protection of employees, customers and necessary visitors to sites has remained the Company's absolute priority. Alongside being COVID-19 Secure, the Company has issued a COVID-19 Secure Pack detailing all the guidance for employees to follow as well as the support available, and this continues to be updated as necessary and used in conjunction with employee briefings and ongoing site audits. Furthermore, employees are now working from home where they are able to do so, and investment has been made in infrastructure to support the increased need for home-working.

In addition to protection and safety, the Company increased and improved its internal communications during the year. This was already being instigated following recommendations arising from a Culture Capture exercise undertaken before the impact of COVID-19, but was accelerated following its emergence. An important component of these improved communications is the 'MyHub' engagement portal which is being launched during March 2021, and provides dedicated communications, support, and recognition for employees, and, importantly, features a specific 'wellbeing' section.

Operational Improvement Programme ('OIP')

The primary projects of focus during 2020 under the OIP were:

- Transport Integration focused around more effective delivery fleet utilisation;
- Network Consolidation with the enabler being the opening of the new regional distribution centre in Ipswich;
- Increased E-commerce Capabilities to better support customers; and
- An enhanced Trade Counter Proposition to capture more revenue opportunity.

Against the backdrop of COVID-19, the Company took the opportunity to accelerate the roll-out of the Transport Integration project which centres around the elimination of duplicated delivery routes by different Company businesses, and enables an enhancement to customer service, improved operating and financial performance, and reduction in environmental impact through fewer vehicles needed to service individual areas. By the beginning of November 2020, the project had been successfully implemented over approximately 25% of the Company's UK deliveries, and the roll-out will continue as planned in 2021 aligned with the network consolidation activity detailed below. Full national roll-out is on-track to be complete by early Q4 2021.

The new regional distribution centre in Ipswich opened in July 2020 after a COVID-19 related delay to the commissioning of plant and equipment. In September 2020, the Company was able to commence the employee engagement and operational activities relating to the planned consolidation of businesses and parts of the Company's network into the centre during 2020 and the first-half of 2021. The consolidation which is enabling a simplification of the network, delivery of meaningful overhead and operating cost efficiencies, and improved service to customers throughout the South East of England is progressing to plan. Seven sites and / or businesses have already been consolidated into Ipswich, with the remaining one on-track to be complete by 30 June 2021.

Together, the Network Consolidation and Transport Integration projects detailed above are expected to generate net cost savings in excess of £4 million per annum from 2022.

Impact of COVID-19 and Mitigating Actions

As previously detailed in the interim results announcement, below is a summary of the timeline of events, responses, and mitigating actions taken as a consequence of COVID-19:

- The vast majority of the Company's UK operations temporarily closed on 24 March 2020 following the UK Government guidance issued. The Company then took a demand-led and phased approach to the reopening of its UK operations while becoming COVID-19 Secure, which was fully implemented in June 2020. By the end of the first-half, the Company was operating on a largely normalised basis.

- Overheads were reduced and managed to materially lower levels following the impact of COVID-19. Strict centralised controls were put in place to ensure operating costs were aligned with the recovering revenue profile; product purchasing was limited to specific projects or orders; and non-essential operational and capital spend was deferred.

- Certain projects forming part of the Operational Improvement Programme ('OIP') were accelerated to help more quickly realise revenue benefits and cost base improvements, and mitigate against potential COVID-19 related reduction in demand going forward.

- Other continuing actions include: COVID-19 Secure strictly adhered to, enabling continuation of operations; more centralised approach to managing overheads and operating costs; improved contingency plans; new infrastructure in place, including to support increased working-from-home; improvements to the trade counter network to support increased 'click and collect' activity; and product purchasing in-line with customer demand.

Chief Executive's Review continued

Enhancing e-commerce capabilities was a focus in the year, and many of the improvements made have additionally helped support customers more effectively against the backdrop of COVID-19. One key activity was the relaunch of the B2B websites with improved functionality, making it easier for customers to place and track orders, and additionally advise on availability with their customers. Since their launch, there has been a material increase in the usage of the B2B websites and the number of orders being placed on-line. There was also ongoing development of e-commerce infrastructure to better support larger retailers who typically require more systems integration, and increased digitalisation of processes across the business including paperless invoicing.

The Company has an established trade counter network of 53 UK sites, which have been particularly beneficial since the impact of COVID-19 and able to support the increased need and preference for 'click and collect'. During 2020, the Company finalised its plans to enhance the existing trade counter network and both develop and expand the national footprint, thereby allowing it to capture more revenue opportunity and reduce delivery costs through increased collections. The 'blueprint' format, established following customer insight work, will broaden the offering to all trade customers with flooring needs, and supports the Company's strategic aim of broadening its customer base. By the end of 2021, it is anticipated that there will be 10 sites in the new 'blueprint'. With an accelerating roll-out of the proposition from 2022, a national network of up to 90 sites is currently envisaged by 2025.

Following extensive planning, two new key projects are now being launched this year. These alongside the other ongoing projects will help more quickly realise revenue benefits and cost base improvements, and increase the mitigation against potential reduction in demand due to the ongoing impact and consequences of COVID-19.

The first project centres around Buying, and incorporates a more strategic group-level approach to product purchasing and ranging, and an increased partnership approach with suppliers. This will increase the benefit to both the Company and the supplier through improving supply chain efficiencies, including in the areas of production scheduling, buying and deliveries. The Company has already commenced joint business plans with suppliers and product-specific tender processes, which will be rolled-out. Alongside other benefits, these will reduce the number of SKUs and create warehouse capacity.

The second key project is Customer Focus, and follows from the outputs of the customer insight and segmentation work undertaken in 2020, with the resulting work-streams covering:

- Sales Force Effectiveness;
- Tailored Service Propositions to specific customer groups which will broaden the customer base; and
- Key Account Management of larger retailers and other customers such as housebuilders and contractors.

Collectively they will improve the customer service proposition, maximise revenue growth opportunities, and enable the Company's customer-facing activities to become more efficient and effective.

After all restructuring and delivery costs, and applying prudent revenue growth expectations given the COVID-19 backdrop, the OIP as a whole is anticipated to generate a net benefit in excess of £4 million in 2021, rising to over £8 million in 2022, with the ambition of achieving a 7.5% UK operating margin run-rate during 2023 (unless exceptional or unforeseen circumstances prevail).

The Company has also commenced consultation on restructuring proposals this month to more effectively align overall headcount with the trading volumes experienced outside of the busier trading months when less resource is required to support operations.

Dividend

As detailed in the Chairman's Statement, given the recovered performance in the second-half of the year, the preservation of balance sheet strength supported by the mitigating actions, and confidence in future prospects underpinned by the OIP, the Company will be paying a nominal ordinary dividend of 2 pence per share in May 2021. Details of the payment, alongside the payment timetable for future dividends, are given in the Financial Review.

Brexit and Purchasing

Pleasingly, and as a result of its preparatory work, the Company has continued to experience very limited disruption to product flow to-date from the EU following Brexit, and has continued to purchase product in-line with customer demand. Currently product purchases from suppliers in the EU account for approximately 57% of total purchases, UK 33%, and the rest of the world 10% (based on actual purchase prices from suppliers), with the Company having accounts with over 180 suppliers.

Environmental, Social and Governance ('ESG')

The Company has and is continuing to effectively address many key ESG issues, however, the publication of the ESG Strategy Report in May 2021 will allow an improved focus on, and measurement of, the Company's progress in addressing its significant ESG-related risks and opportunities. A Materiality Assessment, prepared in conjunction with a specialist ESG consultancy and following engagement with representatives from internal and external stakeholder groups, is detailed on page 38. Following on from the ESG Report's publication, the Company will provide an update on progress on a bi-annual basis.

Current Trading

January and February are always typically the Company's quietest trading months. Given lockdowns and non-essential retail businesses being closed across the majority of the Company's operations during January and February 2021, trading was soft in those two months. The Company is looking forward to the busier months with the benefit of lockdown restrictions easing, retail businesses re-opening, and the OIP improving performance and revenue growth opportunities.

Steve Wilson
Chief Executive
9 March 2021

Operational Improvement Programme

Overview

During recent years, it became increasingly apparent that the performance of the Company would be improved by realigning the Company's businesses towards a much more collaborative and unified approach, and underpinning this with the increased implementation of group-wide strategies.

This led to the instigation of various initiatives from 2017 initially aimed at improving margin, with a focus on remedying operating and cost inefficiencies that had built-up over the Company's many years of operating and acquisitive growth strategy.

The first initiative launched in relation to pricing discipline across the group contributed to a subsequent return to historic gross margin levels. Other early initiatives included the introduction of new procurement processes aimed at reducing the cost base, including a group procurement approach to goods-not-for-resale and extension of vehicle leasing contracts.

Initiatives and projects have continued to be completed, progressed and new ones introduced expanding the scope of the improvement programme, with new capability and expertise brought into the business to support the evaluation and implementation of certain projects.

Some projects have necessitated planning and trialling phases before full implementation to enable proof of concept, quantification of potential benefits, and minimise any potential disruption to the business and customer service. Successful planning and trialling has already led to the roll-out of two material projects - inventory management and transport integration - with the former supporting improved working capital investment and inventory profile, and the latter generating significant cost savings.

Other projects have been dependent on considerable workforce engagement, cultural support and related events. The network consolidation project in the South East of England, which will lead to a meaningful simplification of the network during 2021 and associated reduction in overhead and operating costs, was only able to commence following the new Ipswich distribution centre becoming operational in July 2020, and subsequent workforce consultation.

While the improvement programme was initially conceived to focus on efficiency and specific margin improvement, it has been considerably expanded since 2019 to compass additional projects focused on revenue enhancement and improvements to the customer service proposition. This followed comprehensive market research, and customer insight and segmentation work, which identified growth opportunities. These include the extension of channels to market and the tailoring of service propositions to specific customer groups. See more on page 11.

The Company will continue to disclose new projects as they progress through the analysis and planning stage, and currently has over 36 active projects forming part of the programme. Newer projects introduced in 2020 and 2021, running concurrently with existing projects, include an enhanced trade counter roll-out, and a more strategic group-level buying approach (see full detail in Chief Executive's Review on page 16).

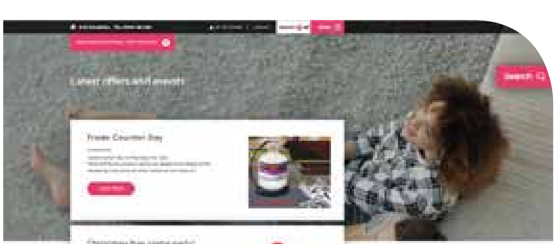
Through the ongoing implementation of the Operational Improvement Programme, it is the Company's strategic objectives to:

- gain and grow market share;
- improve the customer service proposition; and
- enhance margin;

with the ambition of achieving a 7.5% UK operating margin run-rate during 2023.

E-commerce Capabilities

Enhancing e-commerce capabilities was a focus in 2020, and into 2021. A key activity was the relaunched B2B websites with improved functionality, making it easier for customers to place and track orders, and advise on availability with their customers. Increased digitalisation of processes across the business was introduced, including paperless invoicing. An ongoing focus is the continued development of e-commerce infrastructure to provide greater support for customers, including larger retailers, who typically require more systems integration.



Network Consolidation

A consolidation of businesses and parts of the Company's network into the new regional distribution centre in Ipswich is being completed in H1 2021. This will enable a simplification of the network, including through site closures, and create meaningful overhead and operating cost efficiencies. The Ipswich centre will improve service to customers throughout the South East of England through increased warehousing and order processing capacity, greater depth and breadth of product, and integrated delivery operations, whereby customers are not disrupted by potentially receiving multiple deliveries per day.

Timeline of progress

Year	Milestone	Details
2017	**Improvement programme initiated**	• More unified approach implemented across the Company's businesses • Introduction of pricing discipline across the group • Reduction in the inventory aged profile • Warehouse reconfiguration to improve capacity and delivery efficiency
2018	**Initial contributions returning gross margin to historic levels**	• Group procurement approach to GNFR (goods-not-for-resale) • Extension of vehicle leasing contracts • Inventory management and automated stock reordering trials • Planning of new regional distribution centre in Ipswich to enable network optimisation
2019	**Scope of programme enlarged to encompass revenue enhancement opportunities**	• Earlier stage contributions from the programme able to offset general non-employee related year-on-year inflationary pressures • Transport integration trial successfully completed in South Wales • Customer insight work commenced • Roll-out of inventory management complete
2020	**Acceleration of certain projects against the backdrop of COVID-19, and opening of Ipswich**	• Network consolidation into Ipswich announced • Transport integration accelerated • Enhanced trade counter proposition developed • E-commerce capabilities enhanced, including B2B websites relaunched
2021	**New projects introduced and accelerated with the ambition of achieving a 7.5% UK operating margin run-rate during 2023**	• Network consolidation complete • Full nationwide roll-out of transport integration complete • More strategic group-level approach to buying • Customer-facing workstreams, including key accounts focus • Roll-out of enhanced and expanded trade counter proposition begins

Financial Review

During the year, the Company was highly cash generative despite the initial impact of COVID-19, which in part reflects the actions taken to preserve Balance Sheet strength

Chris Payne **Chief Financial Officer**

Capital expenditure

£15.4m

Mainly on the strategically important new Ipswich distribution centre

Cash increased

£27.0m

Reflecting highly cash generative nature despite impact of COVID-19

Nominal dividend

2p

Payable on 28 May 2021 reflecting H2 2020 recovery and future confidence

Revenue

As detailed in the Chief Executive's Review, total revenue was down 15.3% at £609.2 million, with the UK down 17.3% and Continental Europe down 4.1% at £504.7 million and £104.5 million respectively, and the UK accounting for 82.8% of total revenue in the year (2019: 84.8%).

Within the UK revenue performance, the residential sector declined by 10.8% and the commercial sector by 29.5%. However, this overall year performance masks the fact that the second-half represented a material improvement on the first-half in both sectors, with second-half UK residential revenue up 9.3% and commercial revenue down 20.9% compared with the second-half of 2019. In the year, the residential sector accounted for an increased 70.2% of UK revenue (2019: 65.1%). Continental Europe performed markedly better than the UK owing to less overall COVID-19 related restrictions. While commercial sector revenue declined by 9.4%, residential sector revenue was flat on the previous year and accounted for 58.4% of total Continental European revenue (2019: 56.0%).

As a consequence of the above performances, the residential sector accounted for a much increased 68.2% of total revenue in the year (2019: 63.7%).

	£M	%	£M	%
Revenue for the year ended 31 December 2019				
UK	610.2	84.8		
Continental Europe	109.0	15.2		
			719.2	100.0
Incremental items during the 12-month period to 31 December 2020				
UK:				
Like-for-like[3]	(115.5)	(18.9)		
Changes in working days	4.0	0.6		
Acquisitions	6.0	1.0		
			(105.5)	(17.3)
Continental Europe:				
Like-for-like[3]	(7.5)	(6.9)		
Changes in working days	0.5	0.5		
Translation effect	2.5	2.3		
			(4.5)	(4.1)
Total movement			(110.0)	(15.3)
Revenue for the year ended 31 December 2020				
UK	504.7	82.8		
Continental Europe	104.5	17.2		
			609.2	**100.0**

[3] Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2020 and 2019 periods, and is adjusted for any variances in working days.

Gross Margin

Gross margin reduced by 90 basis points in the year from 31.9% to 31.0%. Purchasing was deliberately limited following the impact of COVID-19, and the reduction in purchases in the year led to lower rebates being achieved through the tiered rebate agreements, which was not wholly offset by the benefit of the shift in product mix towards the higher margin residential sector.

Expenses

Underlying[1] distribution costs and administrative expenses totalled £171.0 million in the year (2019: £187.2 million), a reduction of £16.2 million on the prior year, which was supported by the Company's swift actions to temporarily close operations in the second-quarter and manage variable costs to materially lower levels. The reduction is net of grants totalling £11.0 million claimed under governmental job retention schemes but this is partially offset by a £5.5 million increase in the provision for bad and doubtful debts.

[1] Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation.

Financial Review continued

The reduction in expenses could have been greater but for the Company paying its furloughed UK workforce an enhanced form of the Government's Job Retention Scheme ('Scheme') during the year. A total of 93% of the Company's UK workforce were initially furloughed following the March 2020 closures, and employees were subsequently brought back into the business as soon as demand and re-opening in a COVID-19 safe manner would allow. By mid-July 2020, less than 10% of the workforce were still furloughed, with the last few employees leaving the Scheme in October 2020.

Underlying[1] distribution costs and administrative expenses expressed as a proportion of revenue were 28.1% (2019: 26.0%). Whilst variable costs were reduced significantly in the year, a high proportion of the cost base is fixed, particularly within administrative expenses. The relative proportions of underlying[1] distribution costs and administrative expenses as a percentage of total underlying[1] expenses were 70.9% and 29.1%, respectively (2019: 72.5% and 27.5%).

As noted previously, the Company provided for bad and doubtful debts at a higher rate as a result of the perceived higher risk given the economic environment, particularly with respect to the oldest debts being held. The resulting charge equates to 1.1% of total revenue in the year (2019: 0.2%), although cash collections exceeded expectations following the impact of COVID-19. Costs were incurred in the year in support of the OIP, mostly in relation to the Network Consolidation and Transport Integration projects which together are expected to generate net cost savings in excess of £4 million per annum from 2022.

Non-underlying items

As indicated within the interim results announcement, there was a significant level of non-underlying items in the year. Non-underlying items before tax totalled £33.0 million during the year (2019: £4.3 million) and primarily relate to goodwill impairment charges, non-cash in nature, and which occurred as a direct consequence of the impact of COVID-19 on both current and forecast trading. The below table details the individual non-underlying items:

	2020 £M	2019 £M
Non-underlying items		
Goodwill impairment	**28.0**	2.1
Amortisation of intangibles	**1.6**	1.4
Movements and finance costs for deferred and contingent consideration	**–**	0.1
Non-underlying non-cash items	**29.6**	3.6
Acquisitions related fees	**0.7**	0.7
Business restructuring costs	**2.4**	–
GMP equalisation	**0.3**	–
Non-underlying cash items	**3.4**	0.7
Non-underlying items before tax	**33.0**	4.3

£20.9 million of the total £28.0 million goodwill impairment is in relation to Domus, and represents a full write-down of the remaining residual goodwill following its acquisition in 2017. Domus' reliance on larger scale projects with long-lead times, predominately in the London area, causes its financial performance to be highly sensitive to prolonged recessionary market backdrops which result in delays and cancellations to projects, and means the recovery cycle can take longer. As previously announced, a restructuring was undertaken at Domus in 2020 to more align its cost base to its revenue profile.

£1.9 million of the total £2.4 million business restructuring costs relate directly to the Network Consolidation activity under the OIP, with £0.2 million relating to the Transport Integration project also under the OIP.

Operating Profit and Profit Before Tax

The Company has reported an underlying[1] operating profit of £17.9 million (2019: £42.2 million) and, in-line with the guidance given within the January 2021 Pre-close Trading Update announcement, the Company has reported an underlying[1] profit before tax of £15.9 million (2019: £39.5 million). After including the non-underlying items above, this gives a statutory operating loss of £15.0 million (2019: £38.3 million profit) and a statutory loss before tax of £17.1 million (2019: £35.2 million profit).

1 Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation. Total distribution costs and administrative expenses for the year ended 31 December 2020 were £203.6 million (2019: £191.1 million).

	Underlying £M	Non-underlying £M	Total £M
Operating profit 2019	42.2	(3.9)	38.3
Gross margin movement in 2020:	(40.5)	–	(40.5)
Expense changes			
Volume	4.1	–	4.1
Furlough grants	11.0	–	11.0
Bad debt provision	(5.5)	–	(5.5)
People costs (including bonuses)	5.5	–	5.5
Effect of acquisitions	(1.4)	–	(1.4)
Other	2.5	(29.0)	(26.5)
Total decrease	(24.3)	(29.0)	(53.3)
Operating profit/(loss) 2020	**17.9**	**(32.9)**	**(15.0)**

Tax

The underlying[1] effective tax rate for 2020 was 24.5% (2019: 17.4%) which is higher than the headline rate of corporation tax in the UK of 19.0%. The difference is largely due to the impact of the change in UK rate applied to the net deferred tax liability from 17% in 2019 to 19% in the current year, following the reversal of the previously enacted rate reduction by the UK Government.

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'.

Dividend

The declared nominal ordinary dividend of 2 pence per share will be payable on 28 May 2021 to shareholders on the register as at 7 May 2021, and equates to a cash outflow of £1.7 million.

As referenced in the January 2021 Pre-close Trading Update, the Company has also taken the opportunity to accelerate its dividend payment timetable so that final and interim dividends are paid to shareholders in a shorter timescale, namely:

Ordinary Dividend	Declared / Proposed	Approval	Payable
Final (in respect of 12 months ended 31 December)	March	AGM by shareholders in May	May
Interim (in respect of six months ended 30 June)	September	Board in August	November

Capital Expenditure and Investments

Total capital expenditure in the year was £15.4 million (2019: £18.3 million), with the main component being spend of £9.7 million on the new Ipswich regional distribution centre (2019: £15.5 million), which was completed just under budget at a total of £25.7 million. Depreciation on the Ipswich centre commenced in August 2020.

[1] Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation.

Financial Review continued

Cash Flows and Banking Facilities

During the year, the Company was highly cash generative despite the initial impact of COVID-19, with an increase in cash of £27.0 million (2019: £10.2 million decrease) which in part reflects the actions taken to preserve Balance Sheet strength.

	2020 £M	2019 £M
Cash flows from operating activities		
EBITDA	**37.0**	62.5
Change in inventories	**15.3**	(0.6)
Change in receivables	**23.2**	(4.7)
Change in payables	**(4.8)**	(2.0)
Share-based payments and profit on sale of PPE	**–**	0.7
Cash generated from the operations	**70.7**	55.9
Interest and Tax	**(8.2)**	(10.8)
Capital investment	**(15.0)**	(15.8)
Lease payments	**(15.7)**	(14.9)
Dividends	**(6.3)**	(20.9)
Other	**1.5**	(3.7)
Net cash flows	**27.0**	(10.2)

Working capital movements generated a cash inflow of £33.7 million (2019: £7.3 million outflow), largely due to deferred VAT and a reduction in product purchasing. In-line with the focus on cash management, the Company limited product purchasing to specific projects or orders from March 2020 through to June 2020, leading to lower stock levels, and prioritised utilising its existing inventory to satisfy demand. This led to a reduction in the inventory position from £132.4 million as at 31 December 2019 to £119.7 million as at 30 June 2020, with the benefits of a reduction in duplications and slow-moving stock across the network, and increased warehousing capacity for fast-moving products. From July 2020 the Company elevated its purchasing levels in-line with demand and ended the year with inventory of £118.5 million. There was an overall cash inflow for 2020 from a decrease in inventories of £15.3 million, inclusive of the one acquisition in the year and exchange rate movements.

Cash collections exceeded expectations, resulting in a £23.2 million cash inflow from trade and other receivables for 2020, partially offset by a £4.8 million cash outflow from a reduction in trade and other payables.

As shown in the table above, the other main drivers of cash flow movements during the year were interest and tax, capital investment and lease payments. The cash outflow in respect of dividends relates to the 2019 interim dividend which was paid in January 2020. The proposed 2019 final dividend of 17.45 pence was suspended following the impact of COVID-19, and would have totalled £14.6 million payable in July 2020.

As at 31 December 2020, the Company had a net funds position (excluding lease liabilities) of £51.6 million (2019: £27.0 million), which included the benefit of £12.0 million of deferred VAT, payable by 31 March 2021.

	At 1 January 2020 £M	Non-cash Items £M	Cash flows £M	Foreign exchange movements £M	At 31 December 2020 £M
Cash at bank and in hand	**33.4**	**–**	**27.0**	**0.4**	**60.8**
Debt due within one year	**(0.2)**	**–**	**(1.8)**	**–**	**(2.0)**
Debt due after one year	**(6.2)**	**–**	**(0.6)**	**(0.4)**	**(7.2)**
Net funds excluding lease liabilities	**27.0**	**–**	**24.6**	**–**	**51.6**
Lease liabilities	**(44.6)**	**(14.3)**	**15.7**	**(0.1)**	**(43.3)**
Net (debt)/funds	**(17.6)**	**(14.3)**	**40.3**	**(0.1)**	**8.3**

Reflecting the strong cash flow from operations upon the return to more normalised operations in the second-half, average net debt[2] for the year was £8.6 million (2019: £3.3 million), a material reduction on the first-half average net debt[2] of £35.3 million.

[2] Average net debt is calculated by aggregating the net debt position, excluding the impact of IFRS 16 'Leases', for each business day and dividing by the total number of business days.

As at 31 December 2020, the Company had total banking facilities available of £110.3 million, of which £102.8 million was undrawn.

During the year, the Company agreed revised covenant tests with its two principal UK banks, Barclays Bank PLC and HSBC Bank Plc, on the existing facilities which run to 30 April 2023, for both the 30 June 2020 and 31 December 2020 period-ends. The revised covenant tests for 31 December 2020 were positive annual underlying[1] EBITDA and maximum net debt of £45.0 million, both of which were complied with. The original leverage and interest cover covenants, agreed in August 2019, were reverted to from 1 January 2021.

Viability and Going Concern

Updated principal risks and uncertainties, to those published in the 2019 Annual Report and Accounts, are detailed on page 32. The events of the year resulted in one new Principal Risk and updates to the Board's assessment of the level of risk for certain of the Principal Risks detailed within the 2019 Annual Report and Accounts.

The Board reviewed the Company's resilience to the principal risks and uncertainties by considering stress testing forecasts through adverse scenarios including (A) a reduction in market demand whilst there is ongoing inflationary fixed cost pressure; and (B) an economic crisis similar to that experienced in 2008, both modelled over a three-year period from 1 January 2021. The testing indicated that the Company would be able to operate within its current facilities and meet its financial covenants in both scenarios.

A further, less likely, more severe scenario was also considered, where the Company experiences a reduction in revenue, behind plan by 16% in 2021. In this scenario, the Company would be able to operate within its current facilities and meet its financial covenants. However, should the reduction in revenue be greater than this, the Board would need to take mitigating actions to remain within its banking covenants.

Mitigating actions, which are within the management's control, include a reduction in the cost base to better align it with market demand and revenue performance. These actions are not included in any of the scenarios modelled. As at 31 December 2020, the Company had a net funds position excluding lease liabilities of £51.6 million and had total banking facilities available of £110.3 million, of which £102.8 million was undrawn. The Board was, therefore, comfortable that the Company would maintain resilience in the event such scenarios occurred and concluded that there was a reasonable expectation that the Company would continue to operate and meet its liabilities over a three-year period.

Based on the results from these scenarios, and having considered the available mitigating actions, the Board can have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of this assessment. In particular, the Board believes there are reasonable grounds for stating that the Company has adequate resources to continue in operational existence for a period no shorter than twelve months from the date of this Financial Review, and it is appropriate to adopt the going concern basis in preparing the Company's Financial Statements.

Chris Payne
Chief Financial Officer
9 March 2021

[1] Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation.

Key Performance Indicators

The Board believes these Key Performance Indicators ('KPIs') provide a comprehensive and relevant list of measurements with which to assess the Company's financial, operational and social performance towards the achievement of its strategy.

Financial

	Measurement	Why it's important	Performance (3 years)	Initiatives and actions for improvement
Like-for-like* revenue growth	Year-on-year revenue growth as a % adjusted to normalise currency, businesses making a full year's contribution, and consistent working days	Allows a consistent measure of year-on-year performance	2018: (3.8) 2019: 0.7 2020: **(16.3)**	Organic growth focus for regional businesses and universal product coverage.
Gross profit margin	Measured as a % of revenue	Shows the effectiveness of gross profit generation from revenue	2018: 32.3 2019: 31.9 2020: **31.0**	Ongoing pricing discipline, and product expansion.
Underlying selling, general and administrative ('SG&A') costs**	Measured as a % of revenue	Shows how effective the Company is at converting gross profit into operating profit.	2018: 26.1 2019: 26.0 2020***: **28.1**	Cost control to ensure increases remain below revenue growth.
Underlying operating profit margin**	Measured as a % of revenue	Shows the effectiveness of sustainable operating profit generation from revenue	2018: 6.2 2019: 5.9 2020***: **2.9**	Ongoing operational improvement programme to improve operating performance, the customer service proposition and margin.
Statutory basic (loss)/ earnings per share ('EPS')	Profit after tax divided by average weighted number of shares	Demonstrates the level of profit per share attributable to the shareholders	2018: 40.0 2019: 34.0 2020***: **(24.2)**	In-line with statutory profit performance.
Return on capital employed ('ROCE')	Measured as EBIT as a % of capital employed	Demonstrates the relative level of profit generated by the capital employed	2018: 23.2 2019: 20.3 2020***: **9.3**	May be offset in the short-term by infrastructure investment, for example recent investment on the new Ipswich regional distribution centre.
Cash generated from operations	Measured as a % of statutory operating profit	Cash conversion measures the success of the Company in converting operating profit (measured as EBITDA) to cash, which underpins the quality of the Company's earnings and reflects the effectiveness of working capital management	2018: 121 2019: 146 2020***: **(605)**	Should typically be held above 90% to ensure profit growth is cash generative. It is anticipated that improvements in inventory turn (see KPI) will also lead to improvements in cash conversion %.

Non-financial

	Measurement	Why it's important	Performance (3 years)	Initiatives and actions for improvement
Inventory turn	Annual ratio measured by comparing cost of goods sold during the financial period with the average annual inventory level (using averaged data points at 1 January, 30 June and 31 December)	A higher inventory turn is an indicator of efficient revenue generation, reduced risk of inventory obsolescence and more effective utilisation of distribution centre capacity	3.6x 3.6x **3.4x** 2018 2019 2020	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, including joint business plans with suppliers and product-specific tendering processes. This will reduce the number of SKUs and improve inventory turn.
Employee retention	Retention measures the ability to retain employees in the current year compared with previous years. Measured as a percentage of employees retained in the Company between 1 January and 31 December	Retention demonstrates the Company's ability to retain employees. The Company's medium-term objective is to further develop a cultural ethos which attracts and retains the best talent in order to ensure valuable workforce knowledge is retained to support delivery of the strategic objectives and reduce the substantial costs involved in hiring and training employees	76 72 **82** 2018 2019 2020	Continue building on the activities in the areas of workforce engagement and development of a positive workplace culture. Identify future skills gaps and implement learning strategies.
Reportable incidents ('RIDDOR Reports')	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. These regulations require employers, the self-employed and those in control of premises to report specified workplace incidents	By measuring reportable injuries, it is possible to benchmark and identify any deficiencies in the Company's processes, allowing continuous improvement in health and safety standards	18 23 **12** 2018 2019 2020	Completion and embedding of all recommendations arising from an independent review of health and safety management arrangements, with regular compliance assessment visits by the in-house H&S team. Thorough investigation of all incidents, and any necessary corrective action taken as quickly as possible. Followed by a group-wide communication or 'tool box talk', a communication tool used to highlighted any lessons-learnt following an incident.
Recycled packaging	Use of recycled polythene for protective plastic packaging needs across the Company's UK locations. Measured as % of the Company's total UK volume per annum	Protective plastic packaging is one of the main areas of waste arising from the Company's operations. By utilising recycled polythene, the Company mitigates its impact on the environment	69 86 **96** 2018 2019 2020	Group procurement initiative in place for all UK sites to be using regranulated polythene packaging manufactured from 100% recycled polythene (machinery permitting).
Deliveries per commercial vehicle ****	Average deliveries per commercial vehicle per day in area following transport integration project implementation, against 2019 all deliveries average	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, and an overall reduction in fuel consumption and CO_2 emissions.	12 **16** 2019 2020	Ongoing roll-out of the transport integration project under the Operational Improvement Programme.

* Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2020 and 2019 periods, and is adjusted for any variances in working days.

** Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisitions related fees, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation.

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

**** This KPI is an update to the previous year's KPI of 'Customer orders per commercial vehicle', as deliveries is now deemed a more appropriate measure of performance.

Principal Risks and Uncertainties

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

Overview

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

Summarised here are the Principal Risks, not in order of significance, which the Board considers could have a material impact on the Company's reputation, operations or financial performance.

The events of the year have resulted in one new Principal Risk and updates to the Board's assessment of the level of risk for certain of the Principal Risks detailed within the 2019 Annual Report and Accounts. No Principal Risk from the prior year has been deleted.

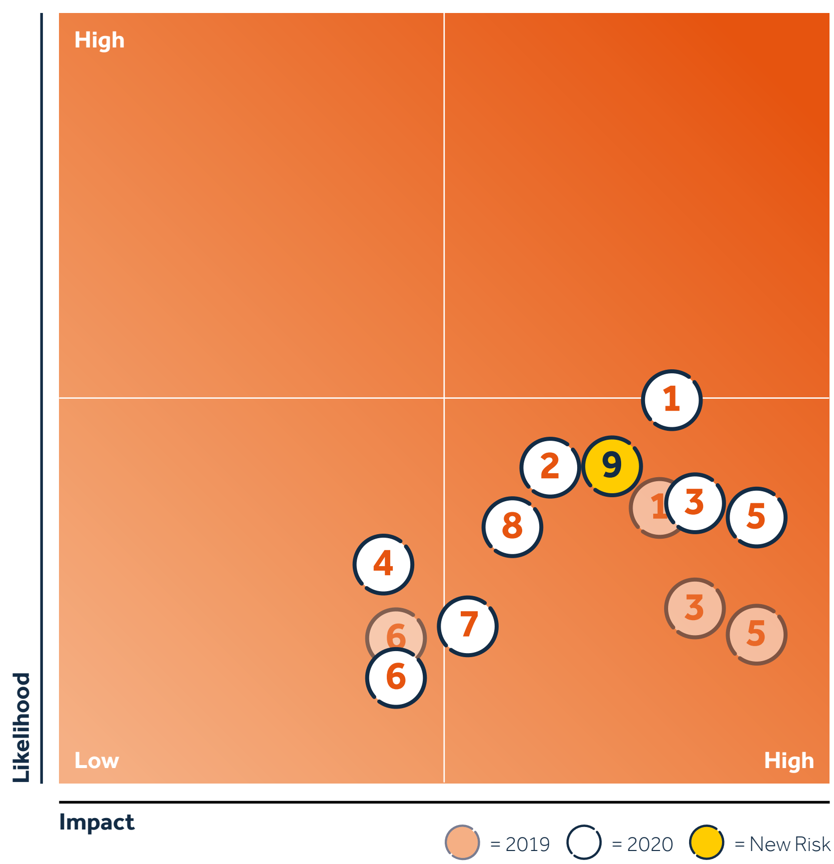
Risk Governance

The Board has overall responsibility for the Company'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.

The Executive Risk Committee meets quarterly to assess the centralised risk register and undertake continual identification of risks. During 2020, the Executive Risk Committee transitioned to reporting its activities directly into the Audit Committee, providing supporting information for the Audit Committee's risk management discussions. Setting risk appetite and monitoring of the Company's Principal Risks is performed by the Board. In-line with good governance, the Board carries out an assessment of the Company's Principal Risks and Uncertainties, and identifies any emerging risks, at least annually.

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

Risk Heat Map



1 Market demand
2 Competitor risk
3 IT resilience and cyber security
4 People
5 Health and safety
6 Supply chain (incorporating Brexit)
7 Legislation and regulation
8 Environmental
9 Change and decision making

	Area of risk	Potential impact	Mitigating actions	Risk change
1	**Market demand**	Market demand for products supplied by the Company is typically influenced by economic conditions and consumer and business confidence. COVID-19 has caused a global economic downturn and recessionary environments in the Company's countries of operations which is likely to have an impact on market demand for an unknown duration. It is also anticipated that there will be likely ongoing changes to customer ordering and interaction preferences as a result of COVID-19 which the Company will need to respond to.	The Company closely monitors market activity on a daily basis at both an individual business and Company level. This visibility allows the Company to take prompt action in response, including in the areas of sales activity, inventory position, and cash management. One of the Company's strategic objectives is to broaden its presence in the industry through growing in underweight product categories, customer groups and market segments which will allow it to capture an increased proportion of overall market demand. The Company has implemented and / or accelerated certain projects under its Operational Improvement Programme which has been designed to make the business more customer focused and operationally efficient to both increase revenue and enhance margin. Additionally, some of these projects support the likely ongoing changes to customer ordering and interaction preferences as a result of COVID-19. Increased use of customer insight surveys and focus groups to ensure the Company's offering remains competitive.	
2	**Competitor risk**	The emergence of a competitor or market disruptor with a strong business model could undermine the Company's growth and financial performance.	The Company seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base, and providing a market-leading service. The Company seeks to improve its market-leading position through: continued investment in management, facilities and systems; the broadest product offering; a knowledgeable selling resource; increased customer insight and tailored service propositions; and efficient material handling and logistics.	
3	**IT resilience and cyber security**	Given it's importance, any prolonged system failure has the potential to adversely affect business performance. COVID-19 highlighted some resourcing capacity restraints, and lack of flexibility of the existing IT infrastructure in areas such as telephone systems and remote working capabilities.	Some critical aspects of the Company's ongoing IT investment plan were accelerated during the year, including a replacement phone system which supports video conferencing. New infrastructure was built to support additional working-from-home, and working-from-home kits supplied to colleagues. An independent security assessment of IT systems, including penetration testing, is conducted every three years, with all previous recommendations actioned and the next audit to take place in 2021, and penetration testing moving to annual from 2021. All critical servers have 24-hour Alert Logic monitoring, and all servers and PCs the latest antivirus software. Implementing recommendations following a cyber security incident in November 2020.	
4	**People**	An inadequate pool of suitably qualified and motivated people can disrupt business development, customer service and undermine the Company's ability to deliver on its strategy.	The Company continues to build on its activities in the areas of workforce engagement, wellbeing support, and development of a positive workplace culture (see page 41). Recruitment, training and development are aimed at ensuring the Company has suitably skilled and qualified people to meet the current and future operational needs of its businesses. The Company additionally has retention and succession plans in place.	

Increasing Decreasing Unchanged

Principal Risks and Uncertainties continued

Area of Risk	Potential impact	Mitigating actions	Risk change
5 **Health and safety**	If the Company were to breach health and safety laws and/or regulations it could have a material adverse affect on reputation, business performance and the welfare of its people. COVID-19 has introduced a considerable new risk to keeping people healthy and safe in the workplace.	COVID-19 Secure was fully implemented throughout the Company's network, with strict social distancing rules, use of PPE, and hand hygiene measures being applied. The risks and control measures associated with COVID-19 / COVID-19 Secure have been incorporated into the Company's Health and Safety Policies and Procedures. All employees completed a COVID-19 Secure induction, and colleagues are working from home where they are able to do so. Health and Safety is a standing agenda item at Board Meetings. The Company has continued implementing the recommendations arising from a commissioned independent audit, and enhancing cultural awareness throughout the organisation including through its dedicated health and safety team (see Health and Safety on page 44).	△
6 **Supply chain (incorporating Brexit)**	The Company operates an international supply chain, with purchases made across EU borders. Brexit has increased administration, tariffs and the likelihood of extended supply chain timelines which may affect the Company's ability to service customers in a timely manner.	The Company has long-standing partnerships with a diverse supplier base across the globe including outside the EU, and low supplier concentration. Additionally, the Company typically holds a significant inventory position which would fulfill customer demand for a relatively long duration if there were supply chain issues. Delivered Duty Paid ('DDP') terms were agreed over a larger proportion of COGs imports from the EU ahead of Brexit, and actions and processes put in place to ensure continuity of deliveries. Very limited disruption experienced to-date to product flow from the EU following Brexit.	▽
7 **Legislation and regulation**	Failure to comply could cause reputational harm and lead to serious civil or criminal proceedings, causing disruption to the Company's operations and leading to financial loss.	The Company manages its obligations through a framework of policies and procedures and, where appropriate, engages the services of competent third-party advisers. (See Corporate Governance Report on page 56).	▷
8 **Environmental**	Ineffective response and management of the Company's and overall industry's impact on the environment and climate change could lead to: accelerating climate change; reputational damage; loss of stakeholder support; reduced demand for products and financial performance; and financial penalties.	The Company is already taking a number of concerted actions to reduce its contribution to Greenhouse Gas ('GHG') emissions and climate change (see Environment on page 46), and engages the services of two specialist consultancies to support its strategy work and reporting in relation to its environmental impact. A newly published Materiality Assessment has identified the Company's most significant ESG-related risks and opportunities (see page 38). An ESG Strategy Report due to be published in May 2021 will detail the Company's approach to addressing these risks and opportunities, and disclose a set of KPIs and metrics to allow measurement of progress in this regard. The Company will be disclosing its Scope 3 GHG emissions for the first time, in accordance with the GHG Protocol guidance, at the same time as the ESG Strategy Report. This process will support the Company in accelerating its work with suppliers to improve supply chain efficiencies and promote more sustainable products.	▷

△ Increasing ▽ Decreasing ▷ Unchanged

	Area of Risk	Potential impact	Mitigating actions	Risk change
9	**Change and decision making**	The impact of COVID-19 during the year required the Company to make a number of material decisions in a limited timeframe, including the closure of the vast majority of its operations in March 2020. During the year a number of projects forming part of the Operational Improvement Programme were implemented and / or accelerated. This increased the level of change and decision making in the organisation which must be sustained without impact on underlying business performance.	Bi-weekly 'COVID-19 Response' meetings were introduced following the first national UK lockdown to consider all areas of actions being undertaken. The Company's operations were fully reopened by July 2020, and remained open for the remainder of the year and during following lockdown periods. Following the initial impact of COVID-19, Board Meetings were instigated at least fortnightly for the Board to conduct a robust assessment of actions undertaken, and were subsequently held more regularly throughout the year. Increased project management and Board oversight of the projects under the Operational Improvement Plan were put in place. Regular communications were made to stakeholder groups regarding proposed and implemented changes to operations.	**New**

Viability Statement

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

A period of three years, to 31 December 2023, was chosen for the purpose of the viability assessment as this represents Headlam's three-year rolling strategy plan normally used to evaluate liquidity. This period also allows for modelling of capital investments planned during the timeframe.

Sensitivity Analysis
Reporting on the Group's viability requires the Board to consider those principal risks that could impair the solvency and liquidity of the Group. In order to determine those risks, the Board considered the groupwide principal risks as set out in the Risk Management and Principal Risks and Uncertainties on page 32.

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

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

The COVID-19 pandemic has led to national lockdowns including temporary closures of non-essential retail businesses, and impacted demand, particularly in the commercial sector. In contrast to the first UK lockdown, the Group has remained fully open for the duration of subsequent lockdown periods, with overall demand in the second half of 2020 marginally down on 2019 levels.

The Board considers that a sustained recessionary environment as a result of COVID-19, following any impact from the current lockdowns, represents a severe plausible threat to the viability of the Group. It is also plausible that an economic crisis, related to or independent of COVID-19, could occur. As a result, two alternative plausible downside scenarios have been modelled which have potential to threaten the viability of the Group.

Scenario A – Sustained Recessionary Environment
Scenario A is modelled on the basis that there is a sustained recessionary environment in both the UK and Continental Europe such that revenues are below plan in 2021 by 4% and then grow by 2% year-on-year, in both 2022 and 2023, with ongoing inflationary fixed cost pressures.

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

Scenario B – Economic Crisis
Scenario B is modelled on the basis of an economic crisis in 2021 similar to that observed in 2008, where revenues decrease sharply in the first year, behind plan by 11%, and reflect the levels in the sustained recessionary environment in 2022 and 2023.

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

The Directors' have also considered a less likely, more severe scenario where the Company experiences a reduction in revenue, behind plan by 16% in 2021. In this scenario, the Group continues to operate within its current banking facilities and covenant restrictions, however, should the reduction in revenue be greater than this, the Board would need to take mitigating actions to remain within its banking covenants.

Mitigating actions, which are within management's control, include a reduction in the cost base to better align it with market demand and revenue performance. These actions are not included in any of the scenarios modelled.

As at 31 December 2020, the Company had a net funds position excluding lease liabilities of £51.6 million, which included the benefit of £12.0 million of deferred VAT payable by 31 March 2021, and had total banking facilities available of £110.3 million, of which £102.8 million was undrawn.

Based on the financial impact of the scenarios analysed and associated mitigating actions that are either in place or could be implemented, the Board has been able to conclude that the Company will be able to operate within its existing bank covenants and maintain sufficient bank facilities to meet its funding needs over the three-year assessment period. In coming to this conclusion, it has been assumed that the Company's existing UK bank facilities, running to 30 April 2023, are refinanced on similar terms and continue throughout 2023.

Confirmation of Longer-Term Viability
Based on the results from these scenarios, and having considered the available mitigating actions, the Board can have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of this assessment. This longer-term assessment process supports the Board's statements on both Viability and Going Concern.

This Strategic Report was approved by the Board on 9 March 2021 and signed on its behalf by:

Steve Wilson
Chief Executive

Chris Payne
Chief Financial Officer

9 March 2021

ESG Report

The Board is committed to developing the Company's ESG strategy and performance, with an ESG Strategy Report to be published in May 2021

Overview

The Board of Headlam is committed to developing the Company's Environmental, Social and Governance ('ESG') strategy and performance in order to i) increase the Company's resilience in the medium and long term by identifying risks and opportunities relating to ESG issues; ii) reduce its contribution to Greenhouse Gas ('GHG') emissions and climate change; and iii) reduce the possibility of ESG-related increases in cost of capital.

The Company has and is continuing to effectively address many key ESG issues, as detailed below and in the following pages. In order to set the foundations for a more structured and concerted approach, and support the development of a comprehensive sustainability strategy, the Company has undertaken and published for the first time a Materiality Assessment (see page 38).

This Materiality Assessment, prepared in conjunction with a specialist ESG consultancy and following engagement with representatives from internal and external stakeholder groups, has identified the Company's significant ESG-related risks and opportunities and will form the basis for a new ESG Strategy Report to be published in May 2021. The Report will detail the Company's approach to addressing these risks and opportunities, in addition to disclosing a set of KPIs and metrics to allow measurement of progress in this regard.

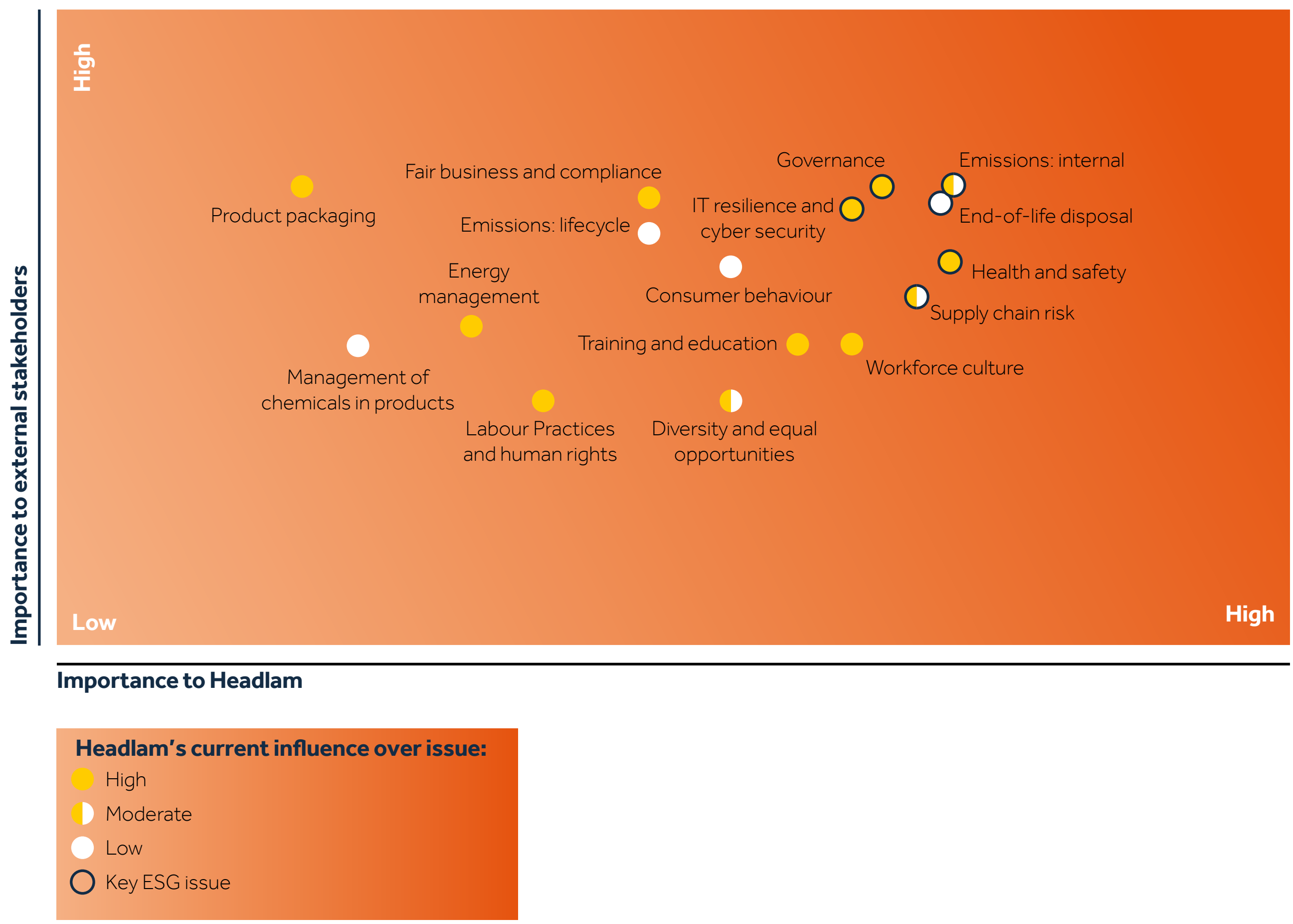
The Company takes its role as a responsible business seriously, and is already engaged in addressing many of the individual risks identified in the Materiality Assessment. These include the following:

Area	Description	Actions and Progress	Further Information
Environmental	The Company's direct environmental risks result from its Scope 1 and 2 emissions, the vast majority of which arise from the transportation of floorcoverings to its customers, and the packaging of those products. Across the full lifecycle of floorcoverings, risks also include manufacturing and sourcing processes within the supply chain, and end-of-life disposal.	The Company is already taking steps to reduce its direct environmental impacts, including through its Transport Integration project, energy savings activities, and the use of recycled plastic packaging across its operations. The Company is also undertaking a Scope 3 emissions assessment to support its work with suppliers to promote sustainable practices within the supply chain.	See page 46
Social	The Company has identified key social issues, which include the health and safety of its people, training opportunities, and diversity and equal opportunity. Given the particular challenges presented by COVID-19, workplace culture and engagement was an area of focus in 2020 and this will continue in 2021.	Throughout the impact of COVID-19, the Company has prioritised the protection of its people. In addition to COVID-19 Secure, the Company commissioned a third-party health and safety review to continue improving its internal processes. A 'capture culture' exercise was also carried out in 2020, to assist in strengthening workplace culture and internal communications.	See page 41
Governance	The Company operates 23 distribution hubs and centres across the UK and Continental Europe, and has 67 business brands. As a result, a strong focus on governance is a vital part of the Company's ability to implement sustainable practices across its operations. In addition to governance processes, specific risk areas include IT resilience and cyber security, and fair business and compliance.	The Board has primary oversight of ESG strategy and performance, with ESG and its associated issues being agenda items at Board Meetings. The Company is now supported by two specialist consultancies in relation to its ESG activities, both of which work alongside members of the Executive Team on a day-to-day basis.	See page 56

ESG Report continued

Materiality Assessment

The below Materiality Assessment has identified the key ESG issues the Company will focus on in 2021 and beyond. These issues include: internal emissions; end-of-life disposal; supply chain risk; governance; IT resilience and cyber security; and health and safety. In-line with best practice, the Company has also considered its current level of influence over these issues. This will help to structure the Company's approach in its 2021 ESG Strategy Report.



At the same time as the publication of the ESG Strategy Report, the Company will additionally disclose its Scope 3 emissions for the first time in accordance with best practice. This process will support the Company in accelerating its work with suppliers to improve supply chain efficiencies and promote more sustainable products. The Company will also be reporting in alignment with the TCFD ('Task Force on Climate-related Financial Disclosures') recommendations in its next Annual Report and Accounts for the financial year ending 31 December 2021.

The Non-Executive Chairman is accountable for overseeing ESG strategy, and the Board has oversight of ESG strategy and performance through ESG (and its related areas including People, Environment, Governance, and Health and Safety) being regular / standing agenda items at Board Meetings. The Company retains the services of two specialist consultancies to support the work in relation to ESG strategy and energy data collation and verification, and who work alongside a member of the Executive Team who is the day-to-day overseer of ESG reporting.

Stakeholder Engagement and Section 172 Statement

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

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

The Company had to make many difficult decisions during the year, some planned, some not, and some which unfortunately had direct negative impacts on certain stakeholder groups:

- Closure of the vast majority of the business in March 2020 due to the impact of COVID-19, and furloughing of 93% of the UK workforce
- Strictly limiting product purchasing for several months to preserve cash, with an immediate impact on suppliers, and customers experiencing reduced product availability in the following months including due to raw material constraints
- Suspension of the ordinary dividend, with a resulting withdrawal of dividend income for shareholders which include many colleagues
- Compulsory redundancies announced as a consequence of the Transport Integration and Network Consolidation projects, with a direct impact on colleagues, their families, and local communities

However, the Board believes that these decisions and the actions taken were firmly in the best interests of all stakeholders as they preserved the financial stability of the Company during the impact of COVID-19 and will additionally support its future success. Due to its size and reach, the Company is pivotal to the industry in the UK and an important conduit for supporting the participants within it. The Company's instability would have had serious ramifications for all participants including its people, customers and suppliers. Additionally, any financial instability would have had negative repercussions for the Company's shareholders, banks and pension providers.

The halting of product purchasing and dividends was vitally necessary to protect the Balance Sheet against the unknown impact, duration and consequences of COVID-19. Furloughing people and drawing financial support through the governmental job retention schemes allowed the Company to preserve employment, prioritise the safety and protection of its people, and take a phased approach to fully reopening while becoming COVID-19 Secure. To better support its people through the period, the Company elected to pay an enhanced form of the UK Government's Job Retention Scheme.

The redundancies arising from the Transport Integration and Network Consolidation projects forming part of the ongoing Operational Improvement Programme did not come as a consequence of COVID-19, having always been anticipated for implementation, albeit Transport Integration was accelerated against the COVID-19 backdrop. It was very unfortunate that the redundancies came amid such an unsettling period, and the Company sought to support all affected people as best it could and offer new vacancies created by the reconfigured network to affected people.

Many lessons were learnt during the year and the impact of COVID-19 exposed some weaknesses, including the need to elevate communication channels with its people and customers and employ more effective methods. Additionally, with hindsight and greater clarity of what the UK Government meant by the word "essential", the Company would have remained more open during the first national lockdown as customer demand and their continued operating exceeded expectations. The Company subsequently remained fully open during the following lockdowns in 2020 to continue supporting its customers and maximise financial performance.

The Board believes it has exited 2020 with a stronger business and improved levels of engagement with its stakeholders through the actions it has undertaken, and will continue to pursue.

The Operational Improvement Programme as detailed on page 22 is making the business more resilient and relevant through the combination of better servicing of customers following increased insight and segmentation work, and material cost savings. This will create an improved financial performance and enhanced growth prospects. Additionally, the Programme has and will continue to introduce: 1) more efficient working practices and, therefore, an improved working environment for people; 2) more strategic and mutually beneficial relationships with suppliers; and 3) a lessening of the Company's carbon footprint and impact on climate change through the Transport Integration project.

The Company has and will continue to put in place more mechanisms to engage with and gain feedback from stakeholders, and is undertaking a far more proactive approach. Many actions were taken as a consequence of feedback received and ongoing review during the year, including those on the following page.

Stakeholder Engagement and Section 172 Statement continued

People

- Lessening the net redundancies under the Transport Integration and Network Consolidation projects having considered feedback from business leaders on the proposed reconfigured network
- Enhancing driver pay and making changes to terms and conditions to reflect the increased deliveries per vehicle under the Transport Integration project
- Launching of an engagement portal in 2021 as another method to deliver communications, and provide support and recognition
- Introducing a complaint escalation process to alleviate pressure and the potential negative impact on customer-facing people
- Supporting wellbeing and promoting collaboration following the unsettling impact on people of the Network Consolidation. Actions included the introduction of a training school of excellence, mentoring, and clearly defined role descriptions at the new Ipswich distribution centre

Suppliers

- Implementing a more strategic group-level approach, with dedicated resource
- Increasing the partnership approach and benefit to both parties through focusing on improving supply chain efficiencies
- Introducing joint business plans with suppliers and product-specific tender processes

Customers

- Introducing direct feedback and complaint mechanisms, and increasing the use of focus-groups to gain greater insight
- Making improvements to customer service in response to feedback, including modifications to the relaunched B2B websites and more tailored marketing and promotions
- Establishing a dedicated key accounts team to better support and service larger customers
- Enhancing the existing trade counter network, and roll-out in an improved configuration in response to feedback and increased preference for 'click and collect'

Shareholders

- Articulating Capital Allocation Priorities having directly sought and considered feedback from larger shareholders (see page 9)
- Publishing a Materiality Assessment, and forthcoming full ESG Strategy Report in May 2021 to provide a clear roadmap on strategy and responses to key ESG issues (see page 37)
- Reinstating the ordinary dividend as swiftly as possible
- Increasing disclosure around the Operational Improvement Plan, including the timing and quantification of the benefits arising (see Chief Executive's Review on page 16)

Through supporting its stakeholders, the above actions will support the delivery of the Company's Strategy (see page 12).

Following thorough consideration of the above and all other activities and undertakings detailed in this Annual Report, the Board considers it has fulfilled its duty in respect of section 172, both individually and collectively, and that it has acted in the way it considers would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a) to (f) of the Act) in the decisions taken during the year ended 31 December 2020.

People

As set out in Strategy on page 12, at the heart of the Company's approach to people management is the provision of a safe and inclusive working environment where everyone can fulfil their potential, and the continued development of a positive workplace culture. Despite a difficult backdrop due to the impact of COVID-19, 2020 saw further progress in these commitments through enhanced workforce engagement and the expansion of people practices as summarised in the following pages.

Workforce Engagement

As detailed in Stakeholder Engagement and Section 172 Statement on page 39, the Company has continued to develop its approach to workforce engagement and increase the channels available to the Company to test ideas and actively seek feedback, making changes and improvements to the working environment in response. During 2021, an engagement portal 'MyHub' is being launched which is dedicated to providing enhanced internal communications, support, and recognition for employees, and, importantly, features a specific 'wellbeing' section.

During 2020, the Employee Forum met virtually on three occasions, with elected employees from across the workforce and Company representatives, including the Chief Executive and Non-Executive Director holding the position of Chair of the Remuneration Committee, discussing matters including health and safety, the impact of COVID-19, and the Transport Integration and Network Consolidation projects as detailed in the Chief Executive's Review on page 16.

Positive Workplace Culture

To continue the development of a positive working environment and culture, in 2020 a 'culture capture' exercise was undertaken. The Company worked with a third-party to carry out a research study using focus groups, interviews and a survey which provided a bespoke report that provided both insight into the Company's culture and detailed recommendations required to prompt a cultural shift towards a more collaborative and unified approach, a key enabler to ensuring the effective implementation of the Operational Improvement Plan. Key areas of focus given in the report were:

- Improving internal communication to support a more unified and collaborative approach underpinned by the Company's values and behaviours (as detailed on page 3)
- Leadership behavioural competence framework, and equipping leaders with the tools to manage change
- Increased collaboration between businesses, with a focus on service and customer journeys

As a result of the challenges presented by COVID-19, some of the initiatives around cultural shift were delayed and, therefore, culture forms the centrepiece of the 2021 people priorities. This will be kickstarted in 2021 with the launch of the engagement portal.

Employee Support

The temporary closure of the vast majority of the business in March 2020 due to the impact of COVID-19, and the furloughing of 93% of the Company's UK workforce, required the Company to engage and support its workforce in unprecedented ways. The Company provided an enhanced form of the UK Government's Coronavirus Job Retention Scheme to its furloughed employees to better support them through the period, and provided regular written updates and communication throughout the period on COVID-19 matters, operations, health and safety, and support available. On the phased re-opening of sites following closures, the safety of employees and customers remained the Company's number one priority, with all sites being designated as COVID-19 Secure by June 2020.

People continued

The Employee Assistance Programme ('EAP') is now an established support mechanism for employees, delivered via an independent company called LifeWorks. It is a confidential telephone, internet, app-based service available to all employees and their immediate families providing advice, information and support on issues spanning work, health, and family issues. During 2020, 48 people benefitted from individual support provided.

Recruitment, Tenure and Vacancies

The Company implemented a recruitment freeze in March 2020 following the emergence of COVID-19 and associated focus on overheads, only hiring to fill business critical vacancies and build capability to support the Operational Improvement Programme and opening of the new Ipswich regional distribution centre. The total number of employees reduced year-on-year to 2,498 (2019: 2,575). Employee retention, which is included as one of the Company's KPIs on page 30, increased in the year to 82% (2019: 72%).

Training and Development

The Company actively encourages all its employees to participant in the training opportunities available to them to support their development and the fulfilment of their potential. In addition to the training detailed in Health and Safety on page 44, during 2020:

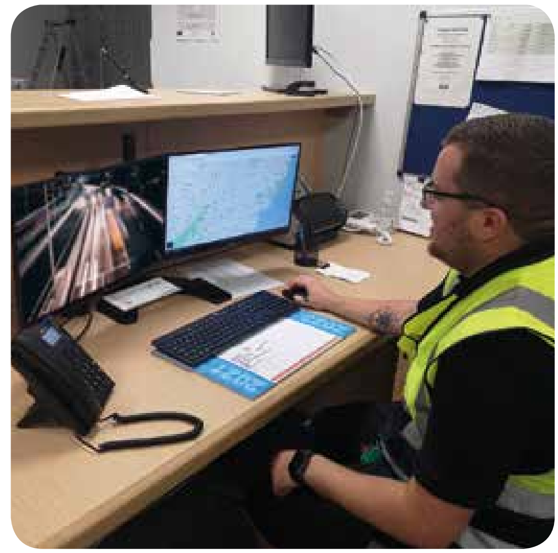
- 15 newly appointed managers attended a 'Step into Management' course designed to equip first-time managers with the skills needed to lead people
- 160 managers attended a virtual training session to support the implementation of the new Attendance Management policy and processes

Employee Benefits

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

The Company operates a HM Revenue & Customs approved Save-As-You-Earn share option scheme ('Sharesave'), a monthly savings scheme facilitating the purchase of shares in Headlam at a discount by eligible employees. The Sharesave not only provides employees with a tax-efficient savings plan but additionally promotes a sense of ownership of the Company. During 2020, 456 eligible employees participated in the Company's Sharesave schemes, equivalent to 22% of the eligible UK workforce.

Approximately 94% of the workforce have a performance-related bonus opportunity available to them without subscription, and bonus opportunities available cover areas including sales and operating profit.



Cost of Living

In January 2020, the Remuneration Committee approved a 2020 cost of living pay increase of 2% to base salary for all UK employees, effective 1 January 2020.

Following the emergence of COVID-19, the Company implemented a pay freeze in-line with the focus on the cost base due to the unknown impact and duration of COVID-19 on demand and operations, and no cost of living pay increase has been awarded for 2021. However, a pay increase amount has been incorporated into the 2021 budget to enable senior managers to make discretionary individual pay increase awards where appropriate. For the Company's employees in Continental Europe, local market practice was followed in 2020 and for 2021.

Diversity and Equal Opportunities

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

The Company is fully committed to the elimination of unlawful and unfair discrimination. The Company recognises and values highly the benefits of diversity in the workplace, of which gender is one important aspect, and maintains a policy of employing the best candidates available in every position, regardless of gender, ethnic group or background, and is committed to fair and equal treatment. The Company recognises there is more to do to improve diversity within its workforce, with the industry as a whole characterised by a lack of diversity. 2021 will see the Company focus on developing a deeper understanding of the make-up of the workforce, and developing a strategy for implementation from 2022 to improve diversity.

Where existing employees become disabled, it is the Company's policy, wherever practical, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate. The Company gives full and fair consideration to applications for employment from disabled persons.

As at 31 December 2020, the Company had 2,498 employees of which 21% were female (2019: 21% female).

Table showing gender diversity:

Employees	Executive Directors	Executive Team	Managers	Other	Total
Male	2	1	263	1,700	1,966
Female	0	3	56	473	532
Number of employees at 31 December 2020	2	4	319	2,173	2,498

As of the date of this Report, the Board comprised two females and four males, equivalent to a 33% female representation.

The Company is continuing to work to improve the male: female ratio across the whole Company which stood at 4:1 as at 31 December 2020 (31 December 2019: 4:1).

Gender Pay Gap Report

In-line with the UK Government's regulations which introduced gender pay gap reporting, the Company has published its most recent report dated 5 April 2020 on the gov.uk website and its own website. The report fully complies with the legislation and an abridged summary is given below which includes the Company's two legal entities required to report ('HFD' and 'MCD') and additionally the ultimate holding company ('PLC') not required to report.

- The Company's overall median pay gap was lower than the UK national average at 6.2% (national average: 15.5%)

- The proportion of men and women receiving bonuses:
  - HFD - men 93%, women 90%
  - MCD - men 98%, women 97%
  - PLC- men 75%, women 91%

Communities and Charitable Donations

The Company actively encourages each of its businesses to build strong relationships with the communities in which they operate, and where they predominately recruit from. As part of this focus, the Company has in place a Charitable Donations Policy which supports locally-focused charitable giving and community involvement by each of the Company's businesses, thereby allowing local communities to benefit directly.

Charitable giving is undertaken through both monetary donations and donations of floorcovering products to identified local good causes. Monetary donations made during the year in support of charitable causes in local communities, nationally, and those of interest to employees amounted to £17,306 (2019: £12,011). This included a donation of £5,000 towards a minibus for a special educational needs school and £10,513 to Pennies from Heaven on behalf of the Company and its employees. Under the Pennies from Heaven payroll giving scheme, of which the Company has been a member since 2011, the Company matches the charitable donation made by its employees.

Human Rights

The Company's approach to Human Rights is detailed in Other Statutory Disclosures on page 105.

Anti-Corruption and Bribery

The Company's approach to Anti-Corruption and Bribery is detailed in Other Statutory Disclosures on page 105.

Health and Safety

Overview

Health and Safety ('H&S') is a standing agenda item at Board Meetings, and the associated report and updates form part of the Chief Executive's Report, who has overall accountability for H&S. Presentations are also made to the Board by the UK Managing Director who leads day-to-day oversight of H&S matters within the UK, and is supported by a dedicated in-house H&S team and the retained services of a specialist third-party health and safety consultancy.

During 2020, there were no prosecutions for breaches of health and safety or enforcement actions.

COVID-19 - Keeping people safe

As detailed in Principal Risks and Uncertainties on page 32, the risk level attached to H&S increased in the year specifically due to COVID-19 introducing a considerable new risk to keeping people healthy and safe in the workplace.

Throughout the impact of COVID-19, the safety and protection of its people, customers and necessary visitors to site has remained the Company's priority. Following the closure of the vast majority of the business in March 2020, the Company took a phased approach to reopening while becoming COVID-19 Secure, with COVID-19 Secure fully implemented throughout the UK network by June 2020. The Company issued a COVID-19 Secure Pack to its businesses supported by management briefings, detailing all the necessary guidance for managers and all employees to follow, and which has continued to be updated as necessary alongside employee briefings and ongoing site audits. All employees completed a COVID-19 Secure induction, and throughout the impact of COVID-19 employees have been working from home where they are able to do so, with new infrastructure built to support increased working from home. The risks and control measures associated with COVID-19 / COVID-19 Secure were additionally incorporated into the Company's Health and Safety Policies and Procedures which are accessible to all employees on the Company's intranet.

The Company's in-house H&S team visits each of the Company's sites on a regular basis, and as part of this process, continue to ensure the sites remain COVID-19 Secure and that social distancing rules, use of PPE, and hand hygiene measures are being strictly applied. Employees are able to raise any concerns they may have either directly, or on a confidential basis, through the Company's whistleblowing process (see page 81).

As of the date of this report, Health and Safety Executive ('HSE') has carried out four inspections on various of the Company's sites to ensure they are COVID-19 Secure, with no further action taken or recommendations made as a result.

Areas of Improvement

The specialist third-party health and safety consultancy supporting the Company was commissioned during 2019 to undertake an independent review of health and safety management arrangements. Their report noted the considerable progress made on process and procedure over the previous two years following the introduction of the in-house H&S team and improved oversight, and additionally made recommendations for improvement, including in the areas of:

- Machinery safety
- Storage of hazardous materials
- Management of hazards associated with pedestrian and vehicle movements
- Enhancing H&S culture - employee training, and local management ownership of health and safety matters

Despite the impact of COVID-19 necessitating site closures and a subsequent focus on COVID-19 Secure, good progress has been made in implementing some of the recommendations arising from the independent review:

- Pedestrian and Mechanical separation – further clearly marked dedicated walkways, setting apart vehicle and pedestrian routes, established at the Company's four largest sites, with roll-out to other sites during 2021
- Machine Guarding and Racking – improved machine guarding and interlocking systems to reduce the risk of injury installed at two sites, with ongoing roll-out. Continuation of racking safety inspections by a specialist independent company
- Culture and Training - H&S increasingly used as a performance measure with employees, and training to be undertaken in the areas of mental health first-aiders and hazard area classification in 2021
- Planned Preventive Maintenance ('PPM') – a more structured PPM approach is being rolled-out across the group as a preemptive measure against any failings or failures
- Other actions continue to be taken in the areas of improved fire protection; lighting protection; and flammable storage

The completion and embedding of all the recommendations from the independent review is the main focus for 2021.

ISO 45001:2018

Following certification in 2019, the Company was pleased to be re-certificated as meeting the requirements of ISO 45001:2018 during 2020, the international standard for occupational health and safety management.

Reportable Incidents and Industry Benchmarking

In 2020, there were 12 employee injury incidents reportable under the provisions of the Reporting of Incidents, Diseases and Dangerous Occurrences Regulations 2013 in Great Britain ('RIDDORs') (2019: 23), none of which resulted in a serious or ongoing life-changing injury, and detail on the incidents is given below. Year-on-year comparisons are difficult to make due to the COVID-19 related site closures during 2020, however, certain month-on-month comparisons show an improving trend, and analysis of incidents over the last few years indicate no trends or areas of particular concern.

	RIDDORs	
Type of Incident	2020	2019
Handling	3	12
Struck by moving vehicle	2	2
Slip, trip, fall	6	5
Struck by stationary object	-	1
Fall from height	-	1
Other	1	2
Total	12	23

All incidents are thoroughly investigated, root cause analysis undertaken to establish any failings in risk assessment and/or safe system of work, and any necessary corrective action taken as quickly as possible. This is followed by a group-wide communication or 'tool box talk', a communication tool launched in 2019 used to highlight any lessons-learnt following an incident.

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

- Headlam's RIDDORs incidence rate - 600 RIDDORs per 100,000 employees (compared against an HSE benchmark (from 2019/20) of 696 RIDDORs per 100,000 employees for the Transportation and Storage sector)
- Headlam's RIDDORs frequency rate - 3.07 RIDDORs for every 1,000,000 hours worked (compared against a HSE benchmark of 4.05 RIDDORs per 1,000,000 hours worked in the Transportation and Storage sector)

Road Traffic Accidents

Transport safety is a high priority for the Company due to the large element of product transportation within the Company's operations and activity undertaken by sales representatives. There were 880 vehicles as at 31 December 2020, including personal cars driven for business usage. 197 'at fault' Road Traffic Accidents ('RTAs') relating to vehicles being driven on Company business were reported in 2020. Actions being undertaken to reduce the number of accidents and prompt good driving behaviours / best practices include: training; fitting of Autonomous Emergency Braking ('AEB') systems; and further applications for Fleet Operator Recognition Scheme ('FORS') accreditations.

ISO 45001 CERTIFIED

UKAS MANAGEMENT SYSTEMS 8289

British Assessment Bureau

Environment

Overview and ESG Strategy Report

As detailed in the ESG Report on page 37, the Board is committed to developing its strategy and performance in relation to its environmental impact, and has engaged two specialist consultancies to support the strategy work and reporting. The newly published Materiality Assessment on page 38 has identified the Company's most significant ESG-related risks and opportunities, and an ESG Strategy Report due to be published in May 2021 will detail the Company's approach to addressing these risks and opportunities, and disclose a set of KPIs and metrics to allow measurement of progress in this regard.

GHG Emissions and Climate Change

One of the Company's commitments is to reducing its contribution to Greenhouse Gas ('GHG') emissions and climate change. As detailed to the right, the Company's transport activities account for the vast majority of its direct (Scope 1) emissions and, therefore, transport is the Company's most immediate area of focus. The Transport Integration project, focused around more effective and efficient utilisation of the delivery fleet, is currently in the roll-out phase and is already making meaningful progress in this area. Benefits to-date are detailed on page 48.

To-date, there has only been a negligible direct impact on the Company's operations and performance from climate change, and while it presently remains difficult to accurately model the impact of climate change projections on the business and its' business model, the ESG Strategy Report will provide a roadmap for reducing the Company's environmental impact.

Scope 1 and 2 GHG Emissions

The Company's SECR ('Streamlined Energy and Carbon Reporting') Disclosure is provided on page 110 and details its Scope 1 and 2 energy consumption and associated GHG emissions for 2020 and the prior year. Meaningful comparison to 2019 is difficult due to the significant impact COVID-19 had on the Company's business particularly in the second-quarter when the vast majority of the Company's operations were temporarily closed.

The Company's direct (Scope 1) GHG emissions predominantly arise from fuel sources used in its transport activities, which typically account for approximately 90% of its Scope 1 emissions, with the remainder due to natural gas usage at various sites. Its indirect Scope 2 GHG emissions arise mostly through electricity consumption at sites. Notwithstanding the upcoming ESG Strategy Report, the Company is continuing to develop its approach to reducing its Scope 1 and 2 GHG emissions, as outlined in the table below:

Focus area	Ambition	Approach
Direct (Scope 1) emissions		
Transport vehicle emissions	• Compliance with emission standards	All commercial vehicles being compliant with the latest Euro 6 emission standards
	• More efficient delivery fleet utilisation	Continued roll-out of the Transport Integration project, with more deliveries per vehicle and fewer vehicles needed to service individual ares (see page 48)
	• Adopt industry best practices	Adoption of good driver behaviours, and further applications of FORS accreditations
Company car emissions	• Reduce emissions	Continuing to improve the availability of hybrid and low emission vehicles
Natural gas combustion	• Reduce energy usage	Promotion of energy saving activities and actions across all sites, and newer sites incorporating more energy efficient technologies and equipment
Indirect (Scope 2) emissions		
Office and warehouse emissions	• Reduce energy usage	Promotion of energy saving activities and actions across all sites, and upgrading of sites with more energy efficient technologies and equipment

Scope 3 GHG Emissions

The Company's indirect Scope 3 GHG emissions arise predominately from global supply chains and end-of-life treatment of sold product.

The Company will be disclosing its Scope 3 GHG emissions for the first time, in accordance with the GHG Protocol guidance, at the same time as the ESG Strategy Report in May 2021.

This process will support the Company in accelerating its work with suppliers to improve supply chain efficiencies and promote more sustainable products.

Notwithstanding the forthcoming disclosure, the Company is already taking steps to reduce its Scope 3 GHG emissions through the following actions:

Focus area	Ambition	Approach
Indirect (Scope 3) emissions		
Supply chain emissions	• Engage with suppliers to reduce their emissions	Work in partnership with suppliers to increase supply chain efficiencies, including through improved production scheduling, buying and deliveries
End-of-life treatment of sold product	• Proactively participate with industry bodies to reduce flooring waste and promote recycling/re-use	Continue to support and work in partnership with industry bodies, including Carpet Recycling UK and Recofloor, and help increase awareness across the industry
Sustainable product set	• Increase the proportion of sustainable products available to customers	Work in partnership with suppliers to support the development, production and marketing of sustainable and recyclable products into the marketplace

One of the Company's General Managers is a Non-Executive Director of Carpet Recycling UK, a not-for-profit membership association working to reduce the amount of carpet waste being sent to landfill, and has insight into the recyclability and waste issues facing the industry which he reports on to members of the Executive Team who report to the Board. The Company is a core funder member of Carpet Recycling UK, and 16 of the Company's sites are signed-up to Recofloor, the national vinyl flooring recycling scheme.

Waste Arising from Operations

Plastic packaging, cardboard poles and wooden pallets make up the bulk of the waste arising from the Company's operations. These packaging ancillaries are currently a necessity in order to protect products during transit through the distribution network. The below table outlines the actions the Company is taking in relation to waste arising from its operations:

Focus area	Ambition	Approach
Sustainability of product packaging	• Use only recycled plastic packaging across its operations	Initiative in place for all sites to be using regranulated polythene packaging manufactured from 100% recycled polythene
Waste management	• Recycling of all waste arising from its operations	Send zero floorcovering products or packaging waste to landfill

Environment continued

Recycling and Waste

Outside of GHG emissions, recyclability and waste is a key issue for the industry, and, as a consequence, will be a key area of focus for the Company's long-term sustainability strategy. Plastic is used in the manufacturing processes of many floorcovering products, and whilst many manufacturers are now producing product lines utilising recycled plastic, the end-of-life recycling processes and uses for waste product remain limited. Increasing waste management regulation beginning to be applied across many industries will likely lead to future cost increases around collection, disposal and recycling R&D for participants in those industries. The Company supports this increasing focus on waste management and expects to play an important role within its industry, working in conjunction with all participants.

TCFD and Other Disclosures

In-line with FRC recommendations, and the FCA requirement for premium listed companies, the Company will be reporting in alignment with the TCFD ('Task Force on Climate-related Financial Disclosures') recommendations in its next Annual Report and Accounts for the financial year ending 31 December 2021.

The Company's Environmental Policy, which is reviewed and updated annually, is publicly available on its website (www.headlam.com) and accessible to all employees via the intranet.

The Company is not a large consumer of water, which it primarily uses for cleaning its commercial vehicles, and is actively engaged in limiting usage where possible. Water consumption in 2020 was 36,640 cubic metres (2019: 38,431), with year-on-year comparisons not meaningful due to the impact of COVID-19 as detailed above.

Transport Integration project
Reducing direct impact on the environment

Following trials in 2019, the Company commenced the roll-out of its Transport Integration project in 2020, and by the end of the year it had been implemented across an area that accounted for approximately 25% of the Company's UK deliveries.

The project results in increased deliveries per vehicle, a reduced number of vehicles needed to serve local areas, and a meaningful reduction in fuel consumption and CO_2 emissions across the group.

The below data demonstrates the success of the project in Headlam's 'North' operating region which was completed in 2020, with full national roll-out scheduled to be complete by early Q4 2021.

Average deliveries per vehicle:

2019 (weeks 1 - 52) > all business delivery runs > average deliveries per vehicle = 12

2020 (weeks 44 – 52) > 'North' delivery runs following transport integration > average deliveries per vehicle = 16

+33% improvement

Non-Financial Information Statement

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

Reporting Requirement	Section and page number
Matters	
Environmental matters	ESG Report (page 37) Environment (page 46) Corporate Governance Report (page 56) SECR Disclosure (page 110)
Employees	Stakeholder Engagement and Section 172 Statement (page 39) People (page 41) Health and Safety (page 44) Corporate Governance Report (page 56)
Social matters	ESG Report (page 37) Stakeholder Engagement and Section 172 Statement (page 39) People (page 41) Corporate Governance Report (page 56)
Respect for Human Rights	Other Statutory Disclosures (page 105)
Anti-Corruption and Anti-Bribery matters	Corporate Governance Report (page 56) Audit Committee Report (page 73) Other Statutory Disclosures (page 105)
Information disclosed in support of the Matters	
Business model	Business Model (page 14)
Policies pursued, due diligence processes implemented, and outcomes	People (page 41) Environment (page 46) Corporate Governance Report (page 56) Audit Committee Report (page 73)
Principal risks, impact and mitigation	Risk Management and Principal Risks and Uncertainties (page 32)
Non-financial key performance indicators	Key Performance Indicators (page 30)

Board of Directors

Philip Lawrence
Non-Executive Chairman

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

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

Philip is the Non-Executive Director accountable for overseeing ESG strategy.

Committees

■ ◆

Steve Wilson
Chief Executive and Executive Director

Steve joined Headlam in 1991 as Group Finance Director and was highly involved in the Company's acquisitive growth strategy that resulted in it becoming the UK market leader. In 2016, he was appointed Chief Executive and has overseen the move to a more unified operating structure and the implementation of an operational improvement programme to improve both financial and operational performance. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

In addition to his 28 years' experience within the floorcoverings industry, Steve has also previously held Non-Executive positions within the distribution and healthcare industries. Since his appointment as Chief Executive, he has established dedicated in-house HR and Health and Safety teams and an increased focus on ESG strategy and reporting.

Steve is the Director at Board level who has overall accountability for H&S.

Committees

■

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

See Strategy on page 12

See Risk Management and Principal Risks & Uncertainties on page 32

Chris Payne
Chief Financial Officer and Executive Director

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

Chris has broad operationally-based finance experience across a number of listed businesses. He chairs the Company's Risk Committee, and as part of this remit has lead oversight of the identified risks relating to IT and change management amongst others.

Keith Edelman
Independent Non-Executive Director and Senior Independent Director

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

Keith brings extensive commercial experience to the Board coupled with a background in consumer facing businesses. In his executive career he was a director of consumer, retail and leisure companies including Ladbroke Group Plc, Carlton Communications Plc and Storehouse Plc. Following Alison Littley stepping down from the Board on 31 March 2021, he will assume the role of interim Chair of the Remuneration Committee until the new appointment is made.

Committees
● ■ ◆

Amanda Aldridge
Independent Non-Executive Director

Amanda was appointed a Non-Executive Director in February 2018 and appointed Chair of the Audit Committee on 1 June 2018. Amanda is currently a Non-Executive Director and Chairs the Audit Committee of two other listed companies, Impact Healthcare REIT plc and The Brunner Investment Trust PLC. She also chairs the Audit Risk and Assurance Committee of The Low Carbon Contracts Company, an entity owned by BEIS. Amanda spent her executive career of some 30 years with KPMG (as a partner for 20 years) before retiring form the firm in 2017. During this time she held a number of strategic and line management roles. She is a Fellow of the Institute of Chartered Accountants in England and Wales.

In addition to her non-executive experience, Amanda has significant experience as an external auditor, working predominately with quoted clients in the retail and distribution sectors, and has advised quoted companies on corporate transactions and the assessment and remediation of internal controls.

Committees
● ■ ◆

Alison Littley
Independent Non-Executive Director

Alison was appointed a Non-Executive Director in January 2019, and appointed Chair of the Remuneration Committee on 1 June 2019. She is stepping down from the Board on 31 March 2021. Alison is currently a Non-Executive Director and Chair of the Remuneration Committee at Norcros plc, a supplier of high quality and innovative bathroom and kitchen products, a Non-Executive Director at Xaar plc, the inkjet printing technology group, and a Non-Executive Director at Geoffrey Osborne Group. In her executive career, Alison held a variety of senior management positions in Diageo plc and Mars Inc, and was Chief Executive Officer at an agency to HM Treasury.

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

Committees
● ■ ◆

Overview
Strategic Report
Governance
Financial Statements

Executive Team

Adrian Harris
UK Managing Director

Adrian was appointed UK Managing Director in 2019 having previously been Chief Operating Officer at Yodel, one of the UK's largest delivery companies for B2B and B2C orders serving many of the UK's leading retailers. Prior to that, Adrian held roles in the areas of logistics, e-commerce fulfilment and supply chain management at Marks and Spencer, Amazon, Tesco and Home Retail Group. He initially spent 10 years in the Royal Logistic Corps of the British Army, latterly as a Major.

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

Sue LaVerne
People Director

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

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

See Strategy on page 12

See Risk Management and Principal Risks & Uncertainties on page 32

Catherine Miles
Director of Communications

Catherine was appointed Director of Communications in 2017 having previously been Corporate Broking Director at the stockbroker Arden Partners, where she was an adviser to Headlam. Catherine worked in Corporate Broking for six years advising on transactions and regulatory matters, and raising money for a broad spectrum of public companies predominately in the small and mid-cap space. Prior to this she was Corporate Communications Director and Company Secretary at an AIM listed company, and initially worked in the Financial PR industry.

Catherine is involved in ensuring regulatory compliance and heads up the Company's investor relations function. She is highly involved in all stakeholder engagement activities, including workforce communications, and additionally is the day-to-day overseer of ESG reporting and strategy.

Karen Atterbury
Company Secretary

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

Karen is focused on governance and compliance in all areas of the Company's activities and operations. She additionally manages the Company's insurance and is a trustee of the Company pension schemes.

Chairman's Introduction to the Corporate Governance Report

Philip Lawrence **Non-Executive Chairman**

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

I am pleased to present the approach your Board has taken on Corporate Governance for the year under review. We are not alone in the significant impact that the COVID-19 pandemic has had on our people, operations and financial performance. Throughout this period the Board met more frequently to steer the Group through the rapidly changing environment, to ensure everything possible was being done to protect our people, customers and suppliers and to preserve the Company's financial position, including the suspension of the final dividend for the year-ended 31 December 2019.

As announced in December 2020, Alison Littley will be stepping down from the Board as a Non-Executive Director on 31 March 2021, we wish to thank her for her valuable contribution, including her oversight and development of the Company's Remuneration Policy in her role as Chair of the Remuneration Committee. Following a Board evaluation, it was agreed to bring further skills on to the Board and increase oversight of the Company's strategic and corporate aims. We have therefore announced our intention to appoint two new Non-Executive Directors during 2021. The Board evaluation was facilitated by the independent consultancy Independent Audit and further information on the outcomes are set out on page 66.

We have further strengthened our approach to Governance during the year as set out below:

Capital Allocation

The Board, having directly sought and considered feedback from larger shareholders, has subsequently articulated its Capital Allocation Priorities (see page 9), having prioritised a strong financial balance sheet and investment in the business to optimise performance and growth.

Strategic Priorities

The Board has continued to oversee progress in the Operational Improvement Programme outlined in the Strategic report. Programme reviews, in addition to deep-dive discussions on certain projects, have been undertaken and the Programme adjusted as the needs of the business changed. We commissioned a bottom-up culture evaluation exercise to support our move towards a more collaborative and unified business and undertook a full customer insight exercise which has informed our strategy and customer offering. This work is ongoing and the results have and will continue to assist the Board in defining its priorities for the business and areas to be addressed. More information on this is set out on page 12.

Our people are at the heart of everything we do and are our main contact with customers, suppliers and communities. Despite the challenges posed by arranging physical meetings during 2020, we felt it was especially important to engage with our employees throughout the pandemic. Whilst one meeting of our Employee Forum had to be cancelled, we held the other meetings virtually during the year. Further information on the work of the Employee Forum is outlined in the pages that follow, and additionally on page 41 of the Strategic Report.

Skills and Succession

The Nomination Committee undertook a full skills assessment and succession planning exercise which informed the Board effectiveness review.

Remuneration Policy
Following our commitment to shareholders in 2020, the Remuneration Committee has performed a full follow-up review of the Remuneration Policy in line with the outcome of the strategic review. Further detail of this review is outlined in the Remuneration Committee report commencing on page 82. The Committee, will not be presenting the Remuneration Policy to shareholders for formal approval in 2021 as the changes which are proposed enhance protection for shareholders and can be delivered within current policy limits.

Risk Management Framework
We have continued to develop our approach to the risk management framework including: transitioning oversight of the Executive Risk Committee to the Audit Committee; the identification and rating of emerging risks; and considering our risk appetite.

Environment and Sustainability
As a socially responsible business, we are aware that our operations can have an impact on the environment and the communities we serve and some of those impacts will not be as positive as we would like. We are committed to managing any negative externalities associated with our operations, therefore we have chosen to partner with a specialist Environmental, Social and Governance ('ESG') consultancy to assist us in understanding and delivering a comprehensive ESG Strategy. We have published our first materiality assessment (see page 38) which will form the basis of a ESG Strategy Report for publication in May 2021.

Full information on ESG matters are given on pages 37 and 38.

Key areas of focus for 2021
During 2020, amidst the pandemic, we have proved ourselves to be a flexible Board, coming together in a spirit of entrepreneurial leadership to deal with a rapidly changing environment whilst keeping a clear line of sight to ensure progress towards achieving our strategic goals. We exited 2020 with a deeper understanding of our stakeholders' needs and knowledge as to how we can strengthen our key relationships to deliver our strategy. 2021 will see the delivery of tangible business benefits arising from our Operational Improvement Programme, improved stakeholder engagement and the embedding of the cultural change programme across the organisation. We will continue our focus on corporate governance improvement and the pursuit of long-term sustainable value for all of our stakeholders.

I am confident that we have the correct strategy and governance arrangements in place and that we will continue the progress we have begun in driving performance and operational improvement throughout 2021.

Philip Lawrence
Non-Executive Chairman
9 March 2021

Corporate Governance Report

Board Leadership and Company Purpose

Our Board is ultimately responsible for the strategy, management, performance and long-term sustainable success of the Group. Good governance is simply good business practice and how we underpin long-term sustainable success.

Compliance statement

It is the Board's view that, throughout the financial year ended 31 December 2020, and as at the date of this report, the Company complied with all the relevant principles and provisions set out in the UK Corporate Governance Code 2018 (the 'Code') with the exception of provisions 36, 40 and 41. The Code is published by the Financial Reporting Council and is available on its website at www.frc.org.uk.

Provision 36 of the Code states that the Remuneration Committee, "should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares". In the Directors' Remuneration Report for the year ended 31 December 2019 we noted that such a policy would be developed as part of the Remuneration Policy review. During 2020, the Remuneration Committee has developed such a policy which is due to be adopted from the date of the 2021 AGM and is not retrospective. The Policy is fully outlined in the Remuneration Committee Report on page 82.

Provision 40 of the Code requires that remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce and provision 41 of the Code states that the Remuneration Committee should describe in the annual report what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy. The Board notes that detailed discussion on executive remuneration did not take place during the year with the Employee Forum as these meetings had to be held remotely due to the COVID-19 pandemic. However, the Remuneration Committee details on page 85 the process it intends to use to engage with the workforce on executive remuneration during 2021.

This Corporate Governance Report, together with the Nomination Committee Report on pages 68 to 72, the Audit Committee Report on pages 73 to 81, the Directors' Remuneration Report on pages 82 to 104, and the Other Statutory Disclosures section on pages 105 to 109 provides a description of how the main principles of the Code have been applied by the Company during 2020.

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 105 to 109. The Company has also complied with the relevant requirements of the Disclosure Guidance and Transparency Rules, the Listing Rules, Directors' Remuneration Reporting regulations and narrative reporting requirements.

Leadership and Purpose

The Board is the Company's principal decision-making body and is responsible for promoting the long-term sustainable success of the Group, generating value for shareholders and contributing to wider society. This includes: setting the Company's purpose, values and strategy; reviewing and promoting the desired organisational culture; and ensuring the necessary resources are available to meet the objectives that have been set. The Company's purpose, as set out on the inside front cover, is to provide the distribution channel between suppliers and trade customers of floorcoverings.

During the Covid-19 pandemic the Board has demonstrated Group culture by putting the safety of its colleagues, customers and other stakeholders first in the difficult decisions which have had to be taken.

Culture

The Board is responsible for monitoring and assessing culture. The Chair sets the culture for the Board ensuring it is operating appropriately, effectively and with integrity. This in turn forms the culture which the Chief Executive, supported by the Chief Financial Officer and the Executive Team, is responsible for embedding throughout the business. The Board recognises that people are key to business success and every colleague is encouraged to voice their opinion and contribute ideas. Culture is an important element of every strategic and operational discussion.

The performance of the Group has and will be improved by realigning the Group's businesses towards a much more collaborative and unified approach from the one that has arisen though historic acquisitions. The Board wishes to preserve the local, customer focused attributes of the culture, whilst encouraging collaboration between the Group's businesses to deliver greater growth, operational efficiency and margin enhancement.

Vital to the effective achievement of operational improvements across the Group is a detailed understanding of the culture of the organisation. For this reason, a full bottom-up culture evaluation capture exercise was carried out during the year, which involved interviews at senior management level, targeted focus groups from different geographic and functional parts of the business, and a company-wide survey.

The results of the culture evaluation have been fundamental in developing a deeper understanding our workforce and the prevailing culture. Our colleagues have told us that they value recognition for a job well done, being part of the flooring industry and that our organisational culture has been changing over the past few years to a more collaborative, inclusive culture where ideas can be expressed and considered. The Company is undergoing a period of significant operational change and the culture must adapt accordingly. We recognise that we have work to do, especially in finding more modernised and accessible ways of communicating with our colleagues and that only through harnessing the imagination and engagement of our people can we truly hope to work collaboratively in the best interests of our stakeholders and fulfil our promises to our customers.

The Board has influenced Group culture in a variety of ways:

- increasing the focus on the health, safety and working practices of our colleagues, see page 44;
- the requirement to observe good business practice and abide by applicable laws and legislation;
- overseeing the completion of the culture capture exercise;
- ensuring a sound system of internal controls including a fully implemented delegation of authority matrix which details responsibility for decision making;
- the undertaking of internal control audits by Group Finance with oversight by the Audit Committee;
- the implementation of group-wide policies such as Anti-Corruption and Bribery, Fraud and Money Laundering. Group businesses are required to confirm compliance with these policies as part of the half year and full year reporting process; and
- the encouragement of disclosures in line with the Group's Whistleblowing Policy and the thorough investigation of any such disclosures.

Our work to embed the Company's values and behaviours during 2020 was impacted by the COVID-19 pandemic however, this will be an area of continued focus during 2021. The Board will continue to monitor culture in a number of ways. It will consider employee retention figures and Health and Safety performance at each Board meeting in addition to specific updates from the People Director and the Employee Forum.

Environmental and Social Responsibilities

The Board takes its commitment to the environment very seriously and is committed to developing the Company's ESG strategy in order to:

- increase the Company's medium and long-term resilience by identifying the most significant ESG risks and opportunities;
- reduce its contributions to greenhouse gas emissions and climate change; and
- reduce the possibility of ESG related cost of capital.

During the year it has approved and published an Environmental Policy (the 'Policy'). The Policy sets out the Company's ambition and approach to each of the Company's major areas of impact, and is available on the Company's website (www.headlam.com).

The Company has initiatives in place to minimise its impact in each area as detailed in the Environmental section of the Strategic report in this document (page 46).

The Board is overseeing the Company's pursuit of continual improvement in its actions and disclosure of ESG related matters. It is pleased to announce that the Company's first ESG Strategy Report will be published during 2021. Philip Lawrence, the Non-Executive Chairman, is accountable for overseeing ESG matters and the Board will continue to monitor progress in this area.

COVID-19

The COVID-19 pandemic may have delayed some actions relating to culture and values but it has allowed us to demonstrate culture from the top:

During the year we:

- temporarily closed the majority of our business locations to protect our colleagues, customers and other visitors to our sites;
- took time to thoroughly understand all government guidance;
- produced a COVID-19 site-operational plan which contained comprehensive guidance and controls to be implemented in all business locations. These guidelines were subsequently audited by the health and safety team. Sites were only reopened when COVID-19 Secure status was achieved;
- topped up furlough payments ensuring that colleagues received 80% of their pay with no maximum whilst on furlough; and
- offered support and advice to colleagues including assisting them with their wellbeing and reiterating the Company's assistance programmes which are made available to all colleagues.

Relations with shareholders

Information on stakeholder and shareholder interaction is contained within the Section 172 statement and stakeholder engagement section of the Strategic Report on pages 39 to 40.

The Board places considerable importance on communication with shareholders. Ongoing engagement with shareholders and the wider investment community, including analysts and investors who are not currently shareholders, is essential to investors' understanding of the Company and their ability to appraise its performance and management and consider it as an investment proposition. The principal communication methods used to provide information to shareholders are regulatory announcements (including results announcements) and investor presentations, in addition the Annual General Meeting ('AGM').

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 and other matters, and obtain feedback. These meetings are typically hosted by the two Executive Directors and the Director of Communications. The Company also retains a Financial PR and IR adviser to further facilitate interaction and support its communication with the investment community.

Corporate Governance Report continued

Due to the COVID-19 pandemic, the Company has been unable to offer shareholders meetings at Company locations during the year. Ordinarily, these are offered to help bring the Company's operations to life and aid with understanding of the business. The Company is looking forward to offering these visits again when circumstances allow. Non-Executive Directors, including the Chairman, attend either in person or virtually certain meetings, events and briefings where shareholders are present in addition to the AGM. The Non-Executive Directors are committed to facilitating a direct channel of communication with the Company's larger shareholders to hear any views and concerns, and attend meetings with shareholders without Executive Directors present as appropriate and when circumstances allow.

The Company actively seeks shareholder feedback. Feedback is collated by both the Company and its advisers, discussed at Board level and considered in relation to all aspects of the Company's performance and strategy whilst also helping to inform its future communications. A structured engagement programme was undertaken during the year the results of which were taken into consideration by the Board in its decision-making process. In addition, the Company directly sought the views of its top 10 shareholders in November 2020 when reviewing its Capital Allocation Priorities which are detailed on page 9.

Annual General Meeting

For the first time in 2020, in line with the Government's stay at home measures to reduce the spread of COVID-19, the Company was unable to admit shareholders to its AGM. Instead, the Company made arrangements to allow shareholders to submit questions by email in advance and to receive a written answer in respect of frequently asked questions. This facility was put in place to ensure that shareholders were able to have their say and ask questions of the Board. Voting on all resolutions was conducted by poll, which was considered to be more representative of shareholders' intent. The 2020 AGM was held on site with a quorum present. The Chairman, Chief Executive and Company Secretary attended in person, whilst practicing social distancing, with all other Board members attending via video conference.

The Company was looking forward to being able to open its doors again to welcome shareholders to its 2021 AGM. However, given the national lockdown in place at the time of writing and expectation of continued social distancing measures imposed by the Government as a result of COVID-19, we strongly advise that you do NOT attend the AGM in person, but instead appoint the Chairman of the meeting as proxy to vote on your behalf. Indeed, while government guidance remains in place prohibiting such public gatherings, the AGM may once again have to be held without shareholders present. We are proposing a resolution at this year's AGM which would give the Company powers under its articles of association to allow shareholders to attend and vote remotely alongside the usual physical meeting (often referred to as a 'hybrid' meeting). We do not currently intend to hold shareholder meetings in this way as a matter of course but the amendments would enable the Company to allow remote attendance and voting should there be any need in the future to do so.

A resolution on each substantially separate item will be proposed and voting on each resolution will be taken by a poll as the Board believes that this is more representative of shareholder 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 on the day of the AGM.

For the 2021 AGM we will be providing an online facility for shareholders to access and follow proceedings remotely. The Chairman of the Board and the Chairs of each Committee will be available to answer shareholders' questions which can be asked via the online platform. Questions can also be asked in advance in writing. More information on how to attend and ask questions, is set out in the Notice of AGM issued as a separate document to this report, and which is also available on the Company's website.

Employee Forum

The Board is keen to understand the views of its stakeholders, which importantly includes its people. Every day invaluable knowledge of stakeholders' needs is amassed by our people that we, as a business, need to understand in order to feed our strategy and service proposition. It is equally important that the Board understands the views of its colleagues on areas that affect them directly. As a direct result of the focus we place on gathering this information and the involvement of our workforce in decision making, we continued to run our workforce advisory forum ('Employee Forum') remotely throughout the year, although regrettably one meeting had to be cancelled due to the emergence of COVID-19. The Employee Forum is discussed further in the People Section on page 41.

The Forum has proved to be an invaluable opportunity to discuss business ideas and plans and for assisting with keeping colleagues up to date. In addition, members of the Employee Forum are called upon to be involved in groupwide projects such as the design of the colleague engagement portal and to provide opinions on the Company's ESG approach. Following each meeting, an update is provided to the Board by the Chief Executive.

Dealing with Directors' conflicts of interest
Procedures are maintained by the Board whereby potential conflicts of interests are reviewed regularly and upon appointment to the Board or prior to taking on an external appointment. Following a refresh of these procedures in 2019 and subsequent review in 2020 they continue to be appropriate and effective and have therefore been re-approved. The operation of these procedures mean that the Board may be reasonably assured that any potential situation where a Director may have a direct or indirect interest which may conflict, or may possibly conflict, with the interests of the Company will be identified and, where appropriate, dealt with in accordance with the Companies Act 2006 and the Company's Articles of Association.

Directors holding significant commitments outside of the Company are required to disclose them prior to appointment and on an ongoing basis where there are any changes. Actual and potential conflicts of interest are included on a register which is maintained by the Company Secretary and reviewed annually. Under the Company's Articles of Association, the Board has authority to authorise potential conflicts of interest and to impose any limits or conditions it sees fit. In addition, the Board has delegated approval of new appointments where no conflict exists to a committee of two Directors, or where a potential conflict could exist, this is referred to the Nomination Committee for consideration.

During the year two Non-Executive Directors have accepted additional outside commitments. In line with Board policy, for each additional role, approval was requested in advance of accepting the position. In considering each request, the Director's other commitments were taken into account, in addition to whether or not a conflict or potential conflict would exist. In each case during the year, it was agreed that no potential conflict existed and that the Director would continue to be willing and able to dedicate sufficient time to their role with the Company. The new roles were subsequently approved. The Board does not consider that any of its Directors are overboarded.

Division of Responsibilities

The Board operates within a corporate governance framework designed to support the achievement of long-term sustainable success of the business. This governance framework consists of the Board which has reserved matters to its own judgement and delegated responsibilities to its committees and management. The schedule of matters reserved for the Board has been reviewed and updated during the year and is available from the Governance section of the Company's website, www.headlam.com. It includes matters relating to strategy and management, structure and capital, financial reporting and controls, risk management and internal controls, contracts, board membership and delegation of authority, acquisitions and risk management. An overview of the main duties, roles and responsibilities of the Board are also available on the Company's website. The Statement of the Responsibilities of the Chairman, Chief Executive and Senior Independent Director have been reviewed during the year and are also available on the Company's website.

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

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

Board balance
The Board currently consists of the Non-Executive Chairman, two Executive Directors and three Non-Executive Directors (one of whom is the Senior Independent Director). As such at least half the Board, excluding the Chairman, is made up of Non-Executive Directors in accordance with the Code. The Chairman was considered independent upon appointment. The Executive Directors are responsible for the implementation of the decisions of the Board. The Non-Executive Directors are responsible for evaluating and challenging management's proposals and their mix of skills and experience bring a broader perspective to the Board's dialogue and decision-making process.

The Board undertook a review of the size and balance of the Board and whilst the balance achieved between Executive and Non-Executive Directors was considered appropriate and in compliance with the Code during the year, it was agreed that a further Non-Executive Director would be appointed during 2021 to strengthen oversight of the Company's strategic and corporate aims and broaden the skills and experience on the Board. The Directors as a whole bring strong judgement to the Board's deliberations and increasing the size of the Board from six to seven during 2021 will further support the effective control and direction of the business going forward. It is not anticipated that increasing the size of the Board will have any impact on board balance or that any one individual or small group of individuals will dominate the Board's decision-making. The Nomination Committee will keep this under review.

Corporate Governance Report continued

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

Nomination Committee
To monitor the size, diversity and composition of the Board and its Committees and ensure a formal, rigorous and transparent procedure for the appointment of new directors and to plan for succession.

To take an active role in monitoring the Company's diversity strategy and approach and monitoring its effectiveness.

Page 68

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.

Page 73

Remuneration Committee
To determine and agree the remuneration policy for Executive Directors and Executive Team, and to monitor and report on it.

To review wider workforce remuneration and related policies in accordance with the Code.

Page 82

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

Executive Risk Committee
To identify, monitor and assess operational risks and oversee their mitigation in accordance with the risk appetite of the business.

Independence

The Company recognises the importance of its Non-Executive Directors remaining independent of executive management in character and judgement in order for them to effectively support and challenge management's proposals. The Board has considered the independence of the three Non-Executive Directors and, taking into account the Board's review of the Conflict 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. Philip Lawrence was considered independent upon appointment to the Board in 2015 and continued to be so upon taking up his role as Non-Executive Chairman. The Senior Independent Director is available to shareholders if they have concerns which are not resolved through the normal channels of the Chairman, Chief Executive or Chief Financial Officer, or for which such contact is inappropriate.

The Non-Executive Chairman and Non-Executive Directors do not participate in any bonus, share option or pension scheme of the Company 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 and will do so at the 2021 AGM.

Board Roles

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

Non-Executive Chairman Philip Lawrence	• Manage and provide leadership to the Board and set its agenda; • Ensure high standards of corporate governance and set the cultural tone from the top; • Act as a liaison between the management of the Company and the Board; • Provide independent advice and counsel to the Chief Executive; • Responsible for the effectiveness of the Board and its decision-making process and enable an annual review of its effectiveness; • Facilitate effective contribution of all Directors and constructive relations between Executive and Non-Executive Directors; • Ensure appropriate induction training for each Director; • Ensure effective communication with shareholders and other stakeholder groups; • Participates in corporate relations activities, including with shareholders as appropriate; and • Non-Executive Director accountable for overseeing ESG matters and strategy.
Chief Executive Steve Wilson	• Lead and manage the Group; • Develop Group strategy for the enhancement of long-term stakeholder value taking into account the needs and views of each stakeholder group; • Lead the Executive Team in the implementation of Group Strategy agreed by the Board; • Run the businesses in accordance with the policies and plans approved by the Board; • Maintain relationships with shareholders and advise the Board accordingly; • Set an example to the workforce and communicate the Board's expectations particularly with regard to culture, diversity and compliance; and • Responsibility for Health and Safety at Board level.
Chief Financial Officer Chris Payne	• Responsibility for managing the Group's financial affairs; • Support the Chief Executive with his corporate relations responsibilities, including with shareholders; • Chairs the Executive Risk Committee; • In conjunction with the Executive Team and Executive Risk Committee, oversee the Company's risk profile and risk management process; • Responsible for managing the Group's I.T. department and infrastructure; and • Responsible for implementing the Group's corporate development strategy.
Senior Independent Director Keith Edelman	In addition to his role as Non-Executive Director: • Act as a sounding board for the Chairman on Board related matters; • Lead the effectiveness evaluation of the Chairman; • Act as an intermediary for other Directors, when necessary; • Be available to shareholders who wish to discuss matters which cannot be resolved otherwise; and • Work with the Chairman, other Directors and/or shareholders to resolve significant issues and to maintain Board and Company stability in periods of stress.
Independent Non-Executive Directors Amanda Aldridge Alison Littley	• Provide effective and constructive challenge; • Particular responsibility to critically assess the strategy proposed by management and provide strategic guidance; • Offer specialist advice to management using their experience and expertise; and • Scrutinise the performance of management in the implementation of the approved strategy.

The Role of the Company Secretary

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

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

Corporate Governance Report continued

Attendance at Board meetings

The Board met ten times during the year to discuss the latest operating and financial information, key strategic items and other topics requiring discussion or decision. Board papers are issued where possible, 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. The Chairman holds meetings of the Non-Executive Directors without the Executive Directors being present on the day of each board meeting. The Non-Executive Directors have also met without the Chairman or the Executive Directors present, led by the Senior Independent Director.

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

Directors	Role	Meetings attended	Eligible to attend
Philip Lawrence	Non-Executive Chairman	10	10
Steve Wilson	Chief Executive	10	10
Chris Payne	Chief Financial Officer	10	10
Keith Edelman	Senior Independent Director	10	10
Amanda Aldridge	Independent Non-Executive Director	10	10
Alison Littley	Independent Non-Executive Director	10	10

In addition to the pre-scheduled meetings above, the Board held a further nine meetings throughout the year following the emergence of COVID-19 to discuss targetted agenda including the performance of, and risks to, the business arising from COVID-19 and the wider operating environment at which all directors were in attendance. Additionally, an offsite strategy day (held in a COVID-19 Secure environment) was also held with the Executive Team to assist with the development of the Company's strategy and strategic objectives.

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

Board Activities in 2020

The key activities of the Board during 2020 are outlined below. The Board paid specific attention to assisting management in the delivery of the Company's strategic objectives and the approach that it takes to governance in general. Each Board meeting follows a tailored agenda agreed in advance by the Chairman, Chief Executive, Chief Financial Officer and Company Secretary. At each scheduled meeting, the Board received updates from the Chief Executive, the Chief Financial Officer and Company Secretary in addition to reports on health and safety, consideration of the views of stakeholders (including employees, suppliers, customers and shareholders), HR and corporate governance.

Specific activities of the Board during the year under review included:

COVID-19

The Board closely monitored the impact of COVID-19 on the business and in particular the impact of the Group's employees, customers and suppliers. Measures taken include:

- The temporary closure of the vast majority of the business following the government's announcement of a national lockdown on 23 March 2020 and the programme to re-open;
- Consideration of the impact on customers, suppliers and wider society of the Company's actions;
- Cessation of all non-essential purchasing and recruitment;
- Considered scenario analysis supporting the Group's financial position and challenged assumptions made by management;
- Active cash flow management to preserve the Company's financial position in the light of increased uncertainty;
- Suspension of the 2019 final dividend;
- Negotiation and amendment of the Group's banking covenants; and
- Monitored the implementation of Covid-19 Secure business practices throughout the Group.

Governance, culture and stakeholder engagement

- Reviewed in detail the findings of the culture capture exercise and used its findings to inform decision making;
- 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;
- Considered supplier updates;
- Considered the findings of an in-depth customer insight review and its impact on strategy and operations;
- Participated in and reviewed the results of an external interview-based Board and Committee evaluation exercise and agreed areas of focus for 2021;
- Approved the Statement of the Responsibilities of the Chairman, Chief Executive and Senior Independent Director, the Schedule of Matters Reserved for the Board and the terms of reference of each Board Committee;
- Listened to feedback from the Employee Forum via the Chief Executive and the Chair of the Remuneration Committee;
- Reviewed and approved the Board's principal policies, including the Modern Slavery Statement;
- Reviewed the Company's business impact on the environment and approved its Environmental Policy; and
- Reviewed the Company's Register of Conflicts.

Strategy and management

- Through detailed interaction at Board meetings with the Executive Team in attendance, review of operational, people and IT plans that underpin the Company's strategy;
- Considered prioritisation and acceleration of projects within the Operational Improvement Programme; and
- Considered the impact on culture of initiatives and projects within the Operational Improvement Programme.

Operations and material transactions

- Detailed review and approval of the proposal to consolidate the Company's businesses in the South East and its impact on stakeholders;
- Reviewed the Company's overall Operational Improvement Programme and the planning, trialling and roll out of each particular project, including e-commerce approach, transport integration, South East consolidation and customer insight projects;
- Reviewed the Company's trade counter proposition;
- Approved the acquisition of the business and assets of Supertex Furnishing Limited (see page 170); and
- Conducted assessments of potential acquisitions, whilst being cognisant of the market and general economic background.

Areas of Focus for 2021

The Board have identified that its areas of focus for 2021 will be:

- Continued oversight of the delivery of the Operational Improvement Programme;
- Oversight of the delivery of the Board's ESG Strategy in 2021;
- The implementation of recommendations arising out of the cyber incident; and
- Overseeing the adoption of a more collaborative and unified culture as outlined in the People section on page 41.

Internal controls and risk management

- Provided oversight of the Executive Risk Committee until its transfer to the Audit Committee;
- Completed an assessment of the Company's emerging and principal risks, risk appetite, mitigating actions and residual risk exposure;
- Approved an updated Health and Safety Policy for the business and monitored progress towards the implementations of the recommendations arising out the externally undertaken Health and safety audit.
- Monitored progress towards the milestones in the Company's IT update programme;
- Discussed the Company's IT and cyber resilience in the light of the cyber security incident experienced in November 2020;
- Monitored progress towards the completion of the Ipswich regional distribution centre;
- Approved the Company's viability statement and the timeframe over which it should be measured;
- Approved the Company's Anti-Corruption and Bribery policy, procedures on gifts & hospitality, and Fraud and Anti-money Laundering policy;
- Received and considered reports on compliance with financial, regulatory, corporate responsibility and environmental commitments; and
- Approved the Company's insurance programme.

Brexit

- Considered the impact of Brexit on the Company, its workforce, customers and supply of product, and agreement of plans to mitigate associated risk (see pages 21 and 34).

Financial and performance reporting

- Approved the Company's annual and half-year results and trading updates;
- Reviewed the Company's capital allocation priorities following a shareholder consultation exercise;
- Approved share allotments to complete the deferred consideration obligations relating to the acquisition of Domus and approved the write down of the carrying value of the Domus Group of Companies;
- Reviewed and approved the Company's dividend policy, and the approval and subsequent suspension of the proposed final dividend in the light of uncertainty caused by the COVID-19 pandemic;
- Approved the UK Tax Strategy and Treasury Policy;
- Reviewed the Company's performance against KPIs, 2020 budget, operating and project milestones; and
- Reviewed and approved the Company's 2021 budget.

Corporate Governance Report continued

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.

The Executive Risk Committee meets quarterly to assess the centralised risk register and undertake continual identification of risks. During the year the Executive Risk Committee has transitioned to reporting its activities directly to the Audit Committee, providing supporting information for the Committee's risk management discussions. Setting risk appetite and monitoring of the Group's principal risks is performed by the Board. In line with good governance, the Board carries out an assessment of the Company's principal risks and uncertainties and identifies any emerging risks at least annually. Further information on the Company's approach to risk management is available in the strategic report on page 32 and in the Audit Committee report on page 79.

The Directors confirm that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. A description of these risks, together with details of how they are managed or mitigated, is set out on pages 32 to 35. The system of risk management and internal control can only provide reasonable and not absolute assurance against material error, loss, fraud or breaches of laws and regulations. The system of internal control does, however, provide reasonable assurance that potential material issues can be identified promptly. The Audit Committee, on behalf of the Board, also monitors the Company's system of risk management and internal control and conducts a review of its effectiveness at least once a year.

Board Oversight

Non-Executive directors perform a key role in scrutinising and holding management and individual Executive Directors to account against agreed performance objectives. During the year the Board has continued to oversee progress in the Operational Improvement Programme and its implementation. It received regular programme updates and performed deep dives into specific projects such as: the building of a new Ipswich facility and the wider South East network consolidation; and the digital enhancement programme including the B2B websites upgrade. At each meeting the Board challenged management on pace and progress towards previously agreed targets. In December 2020, the Board discussed the overall Operational Improvement Programme, noting the progress made during 2020 and the strong foundations for significant improvements in 2021. The Board challenged management on the pace of the programme requesting that various elements be delivered faster due to the importance to the long-term success of the business. Due to the importance placed on various elements of the individual projects covered by the programme, the Remuneration Committee has based the annual bonus strategic targets on the elements of the agreed 2021 plan.

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 on page 70.

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 to aid with deep understanding of the Group's business operations. The Director is also able to accompany a salesperson and a driver for a day to help develop an all-round understanding of the roles and the day-to-day challenges faced at all levels of the organisation.

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

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

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

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

Training and Development

Training and development planned for the year had to be amended, due to the backdrop of the pandemic. Instead, virtual seminars and online courses run by professional bodies on various commercial, operational and regulatory matters were attended. Directors additionally receive regular updates appropriate to the business throughout the year as part of the Board meeting programme, which develops and refreshes their knowledge and capabilities. During 2020, training also included presentations by the Executive Team to the Board on items within their remit. Topics included Company culture, customer insight, operational effectiveness and gender pay gap. In addition, the Company Secretary provides regular updates on developments in Corporate Governance.

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

The Non-Executive Directors are encouraged to further their knowledge of the Company by spending time with the Executive Directors, the Executive Team and senior managers of the Company's businesses where appropriate. Non-Executive Directors are also encouraged to engage with colleagues to further enhance their understanding of the culture and business. Much of this engagement has had to be virtual during the year under review.

Corporate Governance Report continued

Composition Succession and Evaluation

Board Effectiveness Evaluation

Progress on 2019 Evaluation
In the 2019 Annual Report and Accounts we reported on the external questionnaire-based board evaluation that had been conducted by Board Evaluation Limited. The Board reviewed progress against these actions midway through the year to ensure they were being progressed. Details of progress on the actions arising out of the 2019 evaluation are detailed below:

	Succession Planning	Monitor performance	Cultural alignment with strategy	Risk Management
2019 Outcomes	Succession plans to be re-reviewed with the new strategic objectives in mind.	The updated strategy and operational efficiency programme will require new metrics to monitor progress and performance.	To ensure that the Group's culture is recognised throughout the business and aligned with Company strategy.	Further evolve the Company's approach to risk management.
Actions for 2020	Update and refresh succession plans that align with the skills requirements of the Company going forward.	Monitor the revised operational and project metrics that align with the updated strategy.	Oversee the bottom-up culture evaluation and monitor cultural developments to assess its alignment with strategy.	Strengthen the risk management reporting framework by further assessing the Board's risk appetite.
Progress made in 2020	Succession plans for the Board, senior management and key operational roles were reviewed and refreshed taking into account skill requirements to achieve Company strategy.	Board monitoring of the operational improvement programme strengthened with additional oversight implemented.	Culture evaluation completed and considered by the Board with the outcomes, informing board decision-making and priorities.	Risk appetite considered and defined by the Board. Risk framework reviewed with the oversight of the Executive Risk Committee being assumed by the Audit Committee to strengthen risk oversight.

2020 Board Evaluation
The Code recommends that an evaluation of the effectiveness of the Board and its Committees is conducted annually and that this process is externally facilitated at least every three years. Under the Code, companies outside the FTSE 350 Index are not required to complete externally facilitated Board evaluations; however, it is recommended that they be considered. The Board agreed to undertake a full interview-based effectiveness evaluation in 2020 conducted by an external evaluator.

The Company Secretary led the search for a board evaluator and approached a number of potential board evaluation specialists who each provided a written proposal for the conduct of the evaluation. Following various discussions and a meeting with the Chairman it was agreed to appoint Independent Audit Limited ('Independent Audit') to perform the review. Independent Audit have no connection to the Company or its Directors.

Preparation for the evaluation included various scoping discussions between Independent Audit and the Chairman together with the Company Secretary. Independent Audit conducted a review of the board packs for the previous year and subsequently observed the October Board and Committee meetings. Individual interviews were conducted with each director and member of senior management on a non-attributable basis and a final interview was then held with the Chairman. The resulting report was discussed in draft with the Chairman and Company Secretary, and Independent Audit then presented the report to the Board meeting in December 2020 to discuss the outcomes of the review and answer directors' questions. Each Committee reviewed the results of the evaluation as it related to them at their next meeting.

The effectiveness review noted the positive evolution in Board performance highlighting that the Board and its committees have the following strengths:
- Meetings are well structured and well run;
- Strategy definition;
- Strong financial oversight; and
- Committees have a well-defined mandate and are performing well.

In line with the business and strategic plans of the Company, the following areas were highlighted as opportunities to further enhance Board performance:

	Risk Management and non-financial controls	Culture and People	Succession Planning	Skills and Experience
2020 Outcomes	To further develop the risk management framework and processes.	To take a more holistic approach to organisational culture.	To continue the focus on succession planning.	To broaden the skills and experience on the Board to support the implementation of future strategy.
Actions for 2021	To develop further the conversation around strategic risks (especially with respect to ESG) and consider a broader view of emerging risks.	Continue to oversee the development of culture and the implementation of Group values and behaviours.	To further develop the Company's approach to succession planning and talent management.	Appoint an additional Non-Executive Director with the skills to support various aspects of long-term Group strategy.

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.

Independent Audit have reviewed the disclosures made regarding the board evaluation exercise.

Performance Review of the Chairman
The Senior Independent Director following discussion with the external evaluator provided feedback to the Chairman on his performance review. The Board effectiveness review noted that the Chairman was engaged and dedicated to his role. He strives to operate the Board in a culture of trust, openness and debate, facilitating an atmosphere of challenge whilst encouraging the effective contribution of all Board members.

Individual Director Performance
As part of the annual effectiveness review of the Directors, the Chairman provided feedback to each Director.

Following the results of the evaluation, the Board confirms that all directors, including the Chair of the Board, continue to be effective and demonstrate commitment to the role, including having time to attend all necessary meetings and to carry out other appropriate duties.

Nomination Committee Report

Composition Succession and Evaluation continued

Philip Lawrence
Non-Executive Chairman

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 2020. The Nomination Committee continues to play a vital role in the stewardship of the Company. The Committee has reviewed its membership and continues to believe that each member, including the Chief Executive, provides valuable input to the Committee's decision making. The majority of the members are independent Non-Executive Directors as required by the Code.

There have been no director changes during the year under review. We announced in December 2020 that Alison Littley will step down from the Board on 31 March 2021 and the Committee has already commenced a search for a new Non-Executive Director. In addition to this, to bring further skills on to the Board and increase oversight of the Company's strategic and corporate aims, the Board has announced its intention to appoint a further Non-Executive Director during the year, increasing the size of the Board to seven Directors.

In the 2019 Annual Report, we confirmed our priorities for 2020 and I am pleased to outline our progress below:

Skills

Given the importance of having the right mix of skills and experience to achieving Group strategy, a full skills and succession review has been undertaken during the year. Further information on this assessment can be found later in this report.

Succession

The Group's succession plan for Board roles has been confirmed covering both contingency and long-term succession planning. Additionally, by understanding our talent below senior management level, we can more easily understand the quality of our people and how the business supports their career development. The Committee has therefore considered the succession plans in place for key operational roles and the Board intends to invite operational leads to its meetings where opportunities present themselves.

Key Priorities

Over the coming year, our focus will be to:

- Strengthen the skills and experience of the Board through the appointment of an additional Non-Executive Director based on the alignment of skills with strategy, risk exposure and marketplace;
- Review diversity indicators throughout the business and assess the policies and strategies in place throughout the business as a whole to increase diversity and assist in providing a more diverse pipeline for senior management roles; and
- Continue the focus on the Company's succession planning.

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

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

Philip Lawrence
Chair of the Nomination Committee
9 March 2021

Main role

The Nomination Committee met on three occasions in order to fulfil its responsibilities delegated to it by the Board. The key areas of focus for the Committee are: to review the structure, size and composition of the Board (taking into consideration the outcome of the Board evaluation exercise) and recommend to the Board any changes required; to plan for succession taking into account diversity of gender, social and ethnic backgrounds, cognitive and personal strengths; and to identify and nominate for the approval of the Board, candidates to fill vacancies as and when they arise. The Committee is also responsible for making recommendations to the Board concerning the Board's committees and the re-election of Directors at the AGM. Full details of responsibilities delegated to the Nomination Committee by the Board are set out in the written terms of reference which are available on the Company's website.

Membership and attendance at meetings held in 2020

The Nomination Committee is chaired by Philip Lawrence. It comprises a majority of Independent Non-Executive Directors as required by the Code and their biographies are set out on pages 50 and 51. The Committee met on three occasions during the year under review and the table below set out its members and their attendance.

Members	Meetings attended	Eligible to attend
Philip Lawrence	3	3
Alison Littley	2[1]	3
Amanda Aldridge	3	3
Keith Edelman	3	3
Steve Wilson	3	3

1 Alison Littley did not attend the meeting which was dealing with her successor.

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

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

Key activities of the Nomination Committee during the year

The Nomination Committee agrees annually a workplan which is designed to cover its terms of reference across its meetings. This has been followed throughout the year and the Committee, therefore, confirms that it has completed the items delegated to it during the year under review. 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:

Key activities of the Nomination Committee during the year

Skills assessment and succession

- Reviewed the structure, size and composition of the Board and its Committees.
- Reviewed the skills and experience of both Executive and Non-Executive Directors to fully support the achievement of the Company's strategic objectives.
- Reviewed succession plans for Board, senior management and key operational roles.
- Considered the skills, experience and personal attributes required, and produced a specification for the search agent, for candidates for a new Non-Executive Director.
- Assessed the tenure of Board members to inform the succession plan.

Governance

- 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 was being 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.
- Review the role descriptions of the Chairman, Chief Executive and Senior Independent Directors.
- Considered, and recommended to the Board, the Nomination Committee Report for inclusion in the Annual Report and Accounts.
- Following the approval of the Diversity Policy in 2020, commissioned a review of diversity.

Evaluation

- Reviewed the results of the Board effectiveness in relation to its own performance and the composition of the Board and succession planning.

Nomination Committee Report continued

Board changes and appointment and re-appointment of Directors

The Committee has procedures in place with regard to maintaining a formal, rigorous and transparent process for Board appointments, ensuring that appointments to the Board are made on merit, against objective criteria, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The standard procedure which the Committee has in place for appointment to the role of Chairman or a Non-Executive Director position, is being followed during the current recruitment process. The procedure is set out below:

- The Committee meets to confirm what additional skills and experience would best support the achievement of the Company's strategy and agree a clear specification for the search agent, which takes into account the outcome of that skills assessment;
- Appoint and brief an independent recruitment consultancy with no other connection to the Company or its directors to carry out a market appraisal and to present potential candidates with the particular skills required. Recruitment agencies for Board and senior management positions are selected on the basis that they will put forward a diverse list of candidates. In the case of the current appointment, Ridgeway Partners LLP have been appointed to run the search and they have no other connection with the Company or individual directors;
- Consider each candidate on merit against the comprehensive candidate brief developed by the Committee;
- Interviews and meetings with other directors;
- Committee meet / debate and agree candidate for recommendation to the Board; and
- Board discuss and confirm appointment.

All Non-Executive Directors are appointed to the Board for an initial three-year term which may be extended by two further three-year terms, subject to independence and effectiveness assessments by the Committee and annual re-election by shareholders at annual general meetings. The letters of appointment of all Non-Executive Directors (alongside the service contracts for the Executive Directors) are available for inspection by any person at the Company's registered office during normal office hours. Copies are also made available at each of the Company's Annual General Meetings for 15 minutes prior to the meeting and throughout. The letters of appointment clearly set out the time commitment expected from each Non-Executive Director and this is reviewed annually by the Committee to ensure it remains appropriate. Each Non-Executive Director confirms at the time of their appointment, and each year thereafter, that they can continue to dedicate sufficient time to the Company's business.

Skills assessment

The Committee leads the process to regularly assess whether there is an appropriate blend of skills and experience on the Board to enable the implementation of Group strategy. A full skills assessment has been undertaken during the year, which mapped skills available to those required for the successful implementation of Group Strategy defined by the Board. This assessment was further updated as the Committee was considering the specification for the new Non-Executive Director.

A detailed matrix-based review was undertaken of the existing skills and experience of the Executive Directors mapped against those desired for the effective implementation of the Group's strategic priorities and the factors affecting the long-term success and future viability of the Company. The Executive Directors, completed the matrix engaging fully and openly in a rigorous discussion facilitated by the People Director. The Committee then challenged specific aspects of the matrix which was discussed in detail.

Completion of the skills assessment coincided with a review of cognitive and personal strengths present around the Board table. It was agreed that the Board operates in an atmosphere of openness and honesty, with each director demonstrating the ability to listen and analyse and showing the strength of character and integrity required to appropriately challenge and support the Executive Directors.

The Committee and the Board, based on work completed and the evidence from Board meetings, have concluded that the skills and experience were sufficient for the implementation of Company strategy during 2020. However, the recruitment of an additional Non-Executive Director with a PLC background and skills in transformation, modernising and upskilling a business in a related sector or customer centric business would assist in supporting several aspects of Group strategy.

Succession planning

The Committee continues to believe that planning for succession is of vital importance to ensure the long-term effectiveness and smooth operation of the business. It additionally provides the opportunity to further the Group's diversity objectives as appropriate candidates present themselves. Succession planning is therefore a key area of focus for the Committee with detailed consideration given to both contingency and long-term succession planning.

Contingency succession planning

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

Long-term succession planning

Executive Directors and the Executive Team

The Committee has performed a succession planning exercise for the Executive Directors and Executive Team. With the aim of ensuring that the business's leadership needs are met, the Committee considered suitable individuals who were identified as being able to fill each Executive Director and Executive Team position on a short- or long-term basis.

Chairman and Non-Executive Directors

The Committee annually reviews the length of service and independence of the Chairman and Non-Executive Directors to ensure compliance with the Code and plan for the progressive refreshment of the Board in a controlled manner. The Committee considered the changes on the Board during the previous two years, in conjunction with the change to be undertaken in 2021, and following this change, it was agreed that no further progressive refreshment of the Board was necessary.

Succession Planning throughout the organisation
The succession planning process in the broader organisation allows active steps to be taken towards monitoring and increasing diversity not just at board and senior management level. It additionally provides the Committee with an insight into the strength and breadth of talent throughout the organisation and how this is likely to affect the ability to promote to board and senior management roles internally. During the year, the Committee conducted a review of succession planning for key operational roles below senior management level and how talent is managed throughout the Group. When meetings are able to be held on site once more, local management will be invited to present to the Board, providing a greater understanding of the breadth of talent across the business. The Committee will continue to oversee the Company's talent strategy during 2021.

The Committee has focussed on succession planning over the past few years. The detailed, written succession plan will assist in building diversity in the executive pipeline and strength of management experience throughout the UK Group as a whole.

Board Size and Composition

The composition and performance of the Board and its Committees were considered and it was concluded that the Board and each Committee continue to function effectively.

The Committee considers that the balance of the Board, consisting of the Chairman, three Non-Executive Directors and two Executive Directors not only meets the provisions of the Code but would continue to be appropriate for the Company's size and listing. However, to further augment the skills and experience on the Board an additional Non-Executive Director will be recruited. The Committee reviewed the increase in the size of the Board and confirmed that, after taking into account the increase in to seven Directors, the Board size would continue to be appropriate.

Retirement and Re-election of Directors

The Company's current Articles of Association provide that each Director will retire from office and shall be eligible for re-election at the third annual general meeting after the general meeting at which he or she was appointed or last re-elected. In line with the 2019 AGM and the Code, all Board members with the exception of Alison Littley, will stand for re-election at the 2021 AGM. Each director has been subject to a performance evaluation.

The Committee conducted its own annual review of the appropriateness of the Directors' skills and experience, their time commitment to the Company and their contribution to the Board during the year. As part of this review, each Director has confirmed that they continue to allocate sufficient time to discharge their responsibilities effectively and the Committee evaluates their ability to do so taking into consideration other external commitments in addition to their individual performance throughout the year and their skills and experience (outlined on pages 50 and 51) set against agreed strategy. The Committee was particularly pleased to note that during 2020 each Director made themselves available to attend all additional Board meetings to oversee the Company's response to the COVID-19 pandemic despite the increase in frequency and demands on their time. This helped to support the assessment that no Director was or is overboarded.

Following review, the Board, supported by the Nomination Committee, is of the opinion that each Director continues to make an effective and valuable contribution and demonstrates commitment to their role. It therefore recommends that shareholders approve the resolutions to be proposed to the forthcoming AGM relating to the re-election of each director standing for re-election.

Diversity and Inclusion

The Company is committed to developing a diverse workforce and equal opportunities for all. The Board recognises the valuable contribution that diversity, including gender and ethnicity, can bring to board discussions and the decision-making process. The role of diverse perspectives in quality decision making is widely understood by reducing the risk of groupthink. The Committee understands that developing a more diverse executive pipeline throughout the Group, is important in its aim to increase levels of diversity at senior management and Board level. Further work will be undertaken in this area during 2021. Steve Wilson has been appointed as champion of the Company's diversity and inclusion initiatives.

Board Policy
In accordance with DTR 7.2.3A, the Committee confirms that a Board Diversity Policy is in place. It remains the policy that all appointments to the Board and Executive Team should be made on merit and against objective criteria. However, whilst adopting this approach, the Board's diversity objective is to have a broad range of age, gender, approach, skills, experience and educational / professional backgrounds represented at Board level and in senior management positions. Recruitment agents engaged by the Company for Board and senior management positions are selected on the basis that they will put forward a diverse range of candidates including female candidates and candidates from ethnic minority backgrounds in order to assist with the furtherance of the Company's diversity agenda. As additional vacancies arise, the Board will consider further addressing diversity considerations. Although the Board does not currently set gender targets, preferring instead to appoint on merit, at the date of this report, 33% of the Board is represented by female directors (2 out of 6 board members).

Gender Diversity
The Company continues to take note of the guidance provided by the Hampton-Alexander Review on FTSE Women Leaders which recommended a voluntary target of 33% female directors in FTSE 350 companies. Whilst the Company is a constituent of the FTSE SmallCap sitting below the FTSE 350 and not currently covered by this voluntary target, it is pleased to confirm that as at 31 December 2020, 33% of the Board, 75% of the Executive Team (excluding Executive Directors) and 40% of the Executive Team and their direct reports were female.

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

Nomination Committee Report continued

Ethnic Diversity

The Committee is also mindful of the best practice recommendations of the Parker Review that each FTSE 250 Board should have at least one director of colour by 2024, and the recommendations of the McGregor-Smith Review which include the publication of 5-year diversity targets. While fully supporting the aim of increasing diversity across the Board and wider workforce, the Board does not currently publish specific targets on ethnicity. The Board does not currently have any Director of colour or from an ethnic minority background but is fully supportive of increasing diversity on the Board as suitable candidates present themselves.

The Committee recognises that there remains more that can be achieved in relation to diversity across the Group. To this end, the Committee is working with the Chief Executive and People Director to undertake a review of diversity across the business during 2021.

Committee Evaluation

The effectiveness of the Committee was evaluated as part of the Board performance evaluation process (see page 66). The review found that the Committee was operating effectively and that its role and remit remained appropriate. The Committee discussed the output of the Board evaluation exercise as it related to its own effectiveness and priorities for 2021 were agreed. The Committee additionally discussed any aspect of the 2020 Board evaluation as it related to succession planning and diversity.

Advice

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

Appointments to the Nomination Committee are made by the Board.

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

Philip Lawrence
Chair of the Nomination Committee
9 March 2021

Audit Committee Report

Audit, Risk and Internal Control

Amanda Aldridge
Independent Non-Executive Director

Statement from the Chair of the Audit Committee

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended 31 December 2020. This report describes how the Audit Committee (the 'Committee') has carried out its responsibilities in relation to independent scrutiny of the Group's financial reporting, risk management and internal control, during 2020, and whether these remain appropriate for the strategic aims of the business. It also sets out the Committee's priorities for 2021. The COVID-19 pandemic has had a significant impact on the business and the work of the Committee, more of which is set out below.

As well as our four scheduled meetings, one additional meeting was called to ensure that the impact of the COVID-19 pandemic was appropriately reflected in the half year statement. I have also been in frequent contact with the Chief Financial Officer and the Lead Audit partner to discuss relevant issues throughout the year. The Committee meets with the Auditor without management present for a part of each Committee meeting.

Role and Responsibilities

The Audit Committee is given its authority by the Board and acts in accordance with written terms of reference which are available in full on the Company's website. The Committee reviewed its terms of reference in October 2020 which are now more detailed, specifically in areas such as reporting responsibilities, compliance and narrative reporting. The main change to its responsibilities is assuming the oversight role of the Executive Risk Committee. We considered this to be appropriate in order to strengthen the Committee's detailed review of the risk management process and assist in its deliberations of the effectiveness of the Group's risk management and internal control framework, and the Board agreed. The Committee is satisfied that its terms of reference as updated remain appropriate.

The annual calendar, which allocates the Committee's responsibilities to one or more Committee meetings, was also reviewed and approved in October 2020. In addition to the Committee's terms of reference, the annual calendar, takes into account the external environment, internal operations of the business and any planned accounting and regulatory changes, to ensure that all of the areas we need to prioritise are included.

We also ensure that the programme is sufficiently flexible to permit the Committee to respond quickly to any major changes in circumstances should this be necessary, as it has done with the COVID-19 pandemic.

An important part of our role is to monitor the integrity of the Group's financial reporting and management. In performing this role we scrutinise the full and half yearly financial statements and review in detail the work of the external auditor (the 'Auditor') and any significant financial judgements made by management to ensure they are appropriate. Another important part of our role is to review the risk management and internal control framework operating across the Group to ensure that risks are being carefully identified; assessed; appropriately mitigated; and that sound systems of internal control are operating effectively.

This year we have also considered the implications for the business of the COVID-19 pandemic, taking account of external guidance as the situation has evolved and as the Company's reporting cycle demanded. Of particular focus was the impact of the pandemic on the Company's risk management and going concern disclosures at the half-year and the year-end. The scenario planning exercise that was undertaken by management was reviewed in detail and underlying assumptions challenged to support the Company's financial reporting disclosures. The Committee has also considered the strength and qualifications of the finance team to ensure the Company has adequate support in this important area.

External audit

We are mindful that the quality of the Company's external audit is important in providing assurance to stakeholders of the integrity of the Company's financial reporting. The Committee continues to monitor the external market reforms designed to enhance the quality of audits and recognises that this may impact upon the evolution of its duties. The Committee is fully supportive of these changes but it is important to note that they have resulted in additional costs for the Auditor in conducting the audit. For the FY20 year-end audit we have agreed a base audit fee of £413,000 (2019: £325,000). The Audit fee increase reflects not only annual inflationary increases but also the impact of changes in the regulatory environment during the year. Specifically, in order to ensure a high quality audit for our stakeholders, further audit procedures are required both as a result of COVID-19 and in order to comply with the revised ISA 570 on going concern and revised ISA 540 on accounting estimates. The Committee continues to perform its annual effectiveness review of the external audit and is satisfied with the independence, objectivity and effectiveness of the Auditor.

Committee Effectiveness

An externally facilitated evaluation of the Committee's effectiveness was undertaken as part of the Board Performance evaluation during the year. Results were initially considered by the Board at its December 2020 meeting with those relating specifically to the Committee formally being considered at its meeting in March 2021. The evaluation results confirmed that the Committee was functioning well, addressing the right topics and that meetings were well run, structured and well prepared. Further information on the evaluation of the Audit Committee is set out on page 66.

Audit Committee Report continued

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

Priorities for 2020
Last year I outlined the priorities for the Audit Committee in 2020. I am pleased to share with you how we addressed those priorities during the year which are set out in the table below:

Key Priorities for 2020	How they were addressed
• To continue to monitor changes in accounting and governance standards, assess their impact on the Group, and evolve internal control procedures to test operational compliance.	The Group adopted IFRS16 during 2019 and the Committee continued to monitor its implementation and associated disclosures. No further changes in accounting standards affected the Group during the year. The Committee monitored closely guidance released by the UK regulatory authorities, including the FRC, in relation to reporting during the COVID-19 pandemic (specifically the two Financial Reporting Lab Reports on COVID-19) and took account of this guidance when drafting its reporting to stakeholders.
• To continue our focus on developing the overall assurance and risk management framework, including links with the Executive Risk Committee.	During the year, the Committee continued its focus on developing the assurance and risk management framework. It was agreed that the Executive Risk Committee would report directly into the Audit Committee (rather than the Board as previously), with minutes being presented to Committee meetings. This change is designed to strengthen the Committee's ability to review the effectiveness of the risk management and internal control systems.
• To ensure that the finance function is evolving to include the talent and skills required to support the strategic and operational objectives in the business, through the attraction, development and retention of team members with the appropriate skill set.	The Committee has received updates on the evolution of the finance function which has included recruitment of team members across seniority levels to increase the strength and breadth of experience and the creation of an additional senior role, Director of Group Finance. The Chair of the Committee met the preferred candidate for the role of Director of Group Finance prior to appointment.
• To consider the impact of the FRC revised Ethical Standard 2019 and the implications for our policy on non-audit services.	The Committee noted and considered the revised ethical standard and has incorporated its recommendations in its revised policy on non-audit services.

The Committee intends, over the next year, to build on the progress made during 2020. Our main areas of focus during 2021 will be:
- To continue the Committee's focus on the development of risk management processes and internal controls throughout the business including review and monitoring of internal and external assurance reporting and relevant recommendations for improvement; and
- To continue to ensure that the finance function is evolving to meet the needs of the business as the operational changes outlined on page 22 are implemented.

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

I would be pleased to answer any questions that shareholders may have about our work.

Amanda Aldridge
Chair of the Audit Committee
9 March 2021

Main role

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

Membership and attendance at meetings held in 2020

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

Members	Meetings attended	Eligible to attend
Amanda Aldridge	5	5
Keith Edelman	5	5
Alison Littley	5	5

The Code additionally requires that at least one member has recent and relevant financial experience and Amanda Aldridge has fulfilled that role throughout the year under review. In addition, all members of the Committee are financially literate and have expertise relevant to the Company's sector, gained through a variety of corporate and professional appointments (see biographies on pages 50 and 51).

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

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

Audit Committee Report continued

Key activities of the Audit Committee during the year

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

Key activities of the Audit Committee during the year

Financial Reporting

- Reviewed the half year and annual financial statements and reports, and the significant financial reporting estimates and judgements.
- Considered the impact of COVID-19 and additional risk disclosures in the half year financial statements and for the year end.
- Reviewed the process established for ensuring that (and opined upon whether) the annual report and accounts is fair, balanced and understandable, and provides information necessary for shareholders to assess the Group's performance, business model and strategy.
- Reviewed and approved the Audit Committee Report to be published in the annual report and accounts.
- Reviewed Audit findings and management's response.

Going Concern and Viability Statement

- Considered liquidity risk and the basis for preparing the Group's half yearly and full year accounts on a going concern basis and reviewed the related disclosures in the annual report and accounts.
- Considered the impact of COVID-19 pandemic on the going concern and viability of the Company and challenged management's assumptions in its scenario planning.
- Assessed the long-term prospects of the Company, and agreed the timescale to be covered by the long-term viability statement for disclosure in the Annual Report and Accounts.
- Reviewed the viability statement included in the annual report and accounts in the context of the Group's three-year financial plan which had previously been considered by the Board.

External Audit

- Considered and approved the audit approach and scope of the audit work to be undertaken by the Auditor, and the audit fee.
- Reviewed reports on audit findings.
- Assessed and confirmed the independence of the Auditor.
- Reviewed the policy for provision of non-audit services.
- Assessed the effectiveness of the external audit.
- Considered audit succession planning.

Governance

- Progressed actions arising from the 2019 externally facilitated effectiveness review.
- Participated in the 2020 externally facilitated evaluation of its performance.
- Received updates on general corporate governance requirements relevant to its responsibilities.
- Reviewed the Committee's Terms of Reference and annual workplan.
- Considered compliance with the UK Corporate Governance Code.

Internal Controls and Risk

- Considered reports from management and the Auditor on their assessment of the control environment.
- Assessed the effectiveness of the Group's internal control environment and the need for an internal audit function.
- Reviewed the effectiveness of the risk management framework and considered the systems and processes for identifying, managing and mitigating risks.
- Reviewed output from the Executive Risk Committee and challenged management on its activities.
- Reviewed reporting disclosures in relation to internal controls, risk management, principal risks and uncertainties and the work of the Audit Committee.
- Reviewed the Whistleblowing, Fraud and Anti-Money Laundering and the prevention of Bribery Policies.

COVID-19

The Audit Committee reviewed in detail the scenario planning conducted by management relating to the impact of COVID-19 on the business in reviewing its going concern status and its viability over the agreed three-year term. The Audit Committee challenged management on the assumptions of the analysis which were subsequently refined and re-presented. Following the amendments, the Audit Committee used the analysis as the basis for their recommendation of the use of going concern and risk disclosures in the half year statement and the Annual Report and Accounts. The Committee also reviewed in detail the impact of COVID-19 on the financial reporting issues and areas of estimate and judgement as outlined below.

Significant financial reporting issues and areas of estimate and judgement

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

Significant issues and areas of estimate and judgement	How they were addressed
Carrying value of acquired assets The Domus business, acquired in December 2017, had £20.9m of remaining goodwill allocated to it at 1 January 2020, along with intangible assets, property, plant and equipment and right-of-use assets. The assessment of the recoverable amount of these and other acquired assets and goodwill involves a significant judgement and any impairment has the potential to be material.	Management performed an impairment review at June 2020, comparing the recoverable amount of the Domus business with the carrying value of its assets, including the remaining goodwill. Management concluded that the remaining goodwill of £20.9m should be fully impaired. A further impairment review was performed at December 2020 and management concluded that no further impairment was necessary to the intangible assets, property, plant and equipment or right-of-use assets. Similar reviews were carried out on the goodwill and assets of other acquired entities and impairments totalling £7.1m were recognised. The key assumptions used in an impairment review are the level of revenue growth, gross margin and the discount rate. The Audit Committee considered the impairment reviews carried out by management and discussed the basis of the key assumptions and the sensitivities performed. The Committee also considered the Auditor's findings and discussed this matter with the Auditors. Based on this the Committee was satisfied that the approach taken by management was robust and that the assumptions made were reasonable.
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. In 2020, the disruption to trading caused by COVID-19 has impacted the level and timing of purchases from suppliers which has increased the level of risk in this judgement.	Management explained to the Committee the process of calculating the amounts expected to be received and confirming these balances with suppliers and discussed the assumptions made in the calculations. The 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 Auditor in relation to supplier rebates was discussed by the 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.

Audit Committee Report continued

Significant issues and areas of estimate and judgement	How they were addressed
Inventory valuation Inventory amounts to £118.5 million and is held across a broad and diverse product range. The valuation of inventory involves judgements about the level of provision required in respect of inventory lines which have become slow-moving or obsolete, such that the recoverable amount is less than the carrying value. Disruption to normal trading patterns because of the pandemic has had an impact on these judgements in the year under review.	The Audit Committee discussed the Group's management of its inventory position and calculation of net cost and gave careful consideration to the gross carrying value and related provisions. This included discussion of the process of determining the appropriate valuation of inventory including the review of the ageing profile and consideration of inventory sold for less than its carrying value. Changes in the process to appropriately reflect the impact of disrupted trading patterns in the year were also discussed. The Audit Committee reviewed the valuation basis and challenged management's assumptions. The Committee also considered the work of the Auditor in relation to inventory and the Auditor's conclusions in this area. The Committee was satisfied that the significant assumptions used for determining the valuation of inventory had been appropriately scrutinised and challenged and were sufficiently robust.
Valuation of employee benefit liabilities In the UK, the Company operates a defined benefit pension scheme (the 'Scheme'), further details of which are set out in note 23 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 Auditor, which entailed a benchmarking of management's assumptions with the Auditor's expectations. The Audit Committee were satisfied that the assumptions had been appropriately selected.
Recoverability of Trade Receivables The Group uses the forward-looking expected credit loss approach to measure the impairment required against its trade receivables. This estimation requires the use of historical experience together with forward-looking adjustments, which require management to exercise judgement. The need to assess recoverability in the context of the economic downturn caused by the pandemic has increased the level of risk in this estimation.	Management assess the macro-economic factors which are likely to affect the future recoverability of trade receivables and use these assumptions to determine the forward-looking adjustments applied to the impairment calculations. The Audit Committee reviewed management's assumptions used in estimating the impairment of trade receivables and discussed with the Auditor the work they undertook in this area. Based on this the Committee was satisfied that the approach taken was appropriate.
Non-underlying items The Group accounting policy for non-underlying items states that performance measures will be presented which exclude items which by virtue of their nature, size or expected frequency, warrant separate disclosure in the financial statements in order to fully understand the underlying performance of the Group. Management must exercise judgement in deciding whether items should be treated as non-underlying by reference to this policy.	The Committee considered the presentation of non-underlying items in accordance with the Group accounting policy. The Committee received reports from management and the Auditor, outlining the judgements applied. The most significant items treated as non-underlying are in respect of the impairment of goodwill, amortisation of acquired intangible assets, business restructuring costs, and acquisition related expenses. The Committee concluded that the disclosure of non-underlying items was sufficient and appropriate for the user of the accounts to understand the nature of the items and reason for their treatment as non-underlying.

Misstatements

Management reported to the Audit Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The Auditor reported to the Audit Committee the misstatements that had been found in the course of the audit work and no material amounts remain unadjusted. The Audit Committee confirmed that it was satisfied that the Auditor's responsibilities had been fulfilled with diligence and professional scepticism.

Risk management and internal control

During the year, the risk management framework has been reviewed. In a change to previous years, and in order to further strengthen the Audit Committee's oversight of the internal control and risk management systems, the Group's Executive Risk Committee now reports directly to the Audit Committee.

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, including their effectiveness. The Executive Risk Committee, provides day to day oversight of the significant risks facing the business and the Audit Committee reviews and considers assurance provided by the Executive Risk Committee as part of its assessment of the effectiveness of the risk management framework.

An overview of the risk management framework and the principal risks, and uncertainties it identifies, is set out on pages 32 to 35. The Health and Safety risks are reviewed and monitored by the Board.

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 including reports provided by management and the Executive Risk Committee; and the assurance provided by the Auditor and other third parties in specific risk areas. The Committee also receives reports from the Auditor on matters identified during the course of its statutory audit work. The Committee takes into account the resources within the finance team including the structure of the team, and the qualifications, experience and competence of the people within it in forming its view.

The Committee received reports on and/or considered the following in respect of the year:

(i) The overall Risk Management Framework and minutes of the Executive Risk Committee;
(ii) Management's response to control recommendations raised by the Auditor;
(iii) The financial impact of COVID-19 and sensitivity analysis presented by management;
(iv) The outcome and effectiveness of internal control review work undertaken by the finance team at each of the Group's UK business locations;
(v) Group policies and responses to its self-assessment half-yearly compliance responses from the businesses;
(vi) Structure and competence of the finance team; and
(vii) A summary of internal and external assurance activity linked to the principal risks.

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 and can only provide reasonable and not absolute assurance against material misstatement or loss. The control framework is evolving in line with the strategic objectives outlined on page 12 and monitoring and strengthening this has been a key element of the Committee's focus in 2020.

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

Internal audit

The Audit Committee undertook an assessment of the need for a Group internal audit function during the year. In the absence of a formal internal audit function, assurance was provided to the Committee in the form of internal control audits undertaken by the Group finance team; various additional reports provided by management including a summary of all sources of assurance in place throughout the Group and internal self-certification reports relating to the compliance with regulation and Company's policies. The Committee has also considered management's plans for internal and external assurance activity for 2021. Following consideration of the assurance available and planned, the Audit Committee considers that the control systems and associated procedures are adequate for the business and therefore does not currently propose to introduce a formal internal audit function.

External Auditor

Independence and Objectivity

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

PwC was appointed as Auditor in 2016 following a full tender exercise. Following the conclusion of the FY19 audit, Gill Hinks replaced Mark Smith as the lead audit partner for Headlam Group plc. She will serve as lead audit partner for a maximum of five years, in accordance with current professional standards.

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

Non-audit services

The Audit Committee has the specific task of keeping the nature and extent of non-audit services provided by the Auditor under review in order to ensure that objectivity and independence are maintained. The Audit Committee recognises that there are occasions when it is advantageous to use the Auditor to undertake non-audit services, as it may improve the quality of the audit and reduce cost and complexity for the Company. The Committee has reviewed its policy for the provision of non-audit services in the light of the outcome of the FRC's review of ethical and auditing standards. Under the revised policy and in line with the EU Audit Directive, non-audit fees paid to the Auditor should not exceed 70% of the average audit fee for the preceding three periods. During the year under review no audit services were provided by the Auditor and therefore no fees were paid to the Auditor for non-audit services.

Audit Committee Report continued

Under the policy, all non-audit services must be approved by the Audit Committee. The Auditor is not permitted to provide any services other than those specifically detailed in the policy which have been taken directly from section 5B of the ethical standard. A full breakdown of audit and non-audit fees is provided in note 3 to the Financial Statements.

Effectiveness of External audit

The scope of the external audit for the 2020 Annual Report was presented by the Auditor to the Committee in October 2020. The Committee had the opportunity to discuss and rigorously challenge the audit plan to gain a good understanding of its key elements. It specifically requested that the auditor give particular focus to those accounting centres in the business subject to structural change in the year.

Following the year end, feedback on the effectiveness of the audit process in addressing areas of key audit risk was obtained from members of the Committee, regular attendees and members of the finance team. The responses were then considered by the Committee together with an assessment of the responsiveness of the Auditor during the audit process. The results showed a favourable view of the audit process and of PwC as the external Auditor, of particular note were the smooth transition to a new audit partner, the constructive relationship and the effectiveness of the communication.

The Auditor specifically demonstrated professional scepticism and challenged management assumptions with regards to the revenue growth assumptions used in impairment testing, in the context of the trading disruption experienced in 2020.

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

Consideration of Auditor appointment

During the year, the Audit Committee considered conducting a tender of its external audit whilst recognising that under current FRC guidance it will not be due to retender its audit until the 2026 year-end. In determining whether to recommend the Auditor for reappointment this year, the Committee considered the Audit firm's internal control procedures, the quality and effectiveness of the most recent audit which confirmed that audit processes were effective and that the appropriate independence criteria continues to be met.

The Audit Committee notes that an increasing number of audits by PwC have failed to reach the FRC's quality standard since 2017/18 and it is keeping the effectiveness of the Company's audit under strict review. However, following its own investigation into the effectiveness of the Company's audit and specifically the Auditor's handling of sensitive judgements, it is satisfied with the Auditor's effectiveness.

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

Interaction with the FRC

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

Fair, balanced and understandable

The Audit Committee undertook a detailed review of the drafting and preparation process of the Annual Report and Accounts to support its deliberations on whether the 2020 Annual Report and Accounts were fair, balanced and understandable. The drafting and preparation process involved various teams and individuals within the Group including Executive Directors, Finance Team, Director of Communications, senior managers of the businesses and Company Secretary working together with support and advice from the Company's advisers. This collaborative approach helped to ensure a consistent and detailed approach between the Strategic Report, the Governance section and the Financial Statements. At its meeting in March 2021, the Audit Committee deliberated on whether the 2020 Annual Report and Accounts were fair, balanced and understandable. Following detailed consideration of all sections, the Audit Committee concluded that the 2020 Annual Report and Accounts contained an accurate reflection of the Company's performance and business model, correctly reflected its strategy, and included consistent messaging throughout. It, therefore, recommended to the Board that the 2020 Report and Accounts reflect a fair, balanced and understandable assessment of the Company's position and prospects and contained sufficient information for shareholders to assess the Company's position, performance, business model and strategy.

Viability statement

The Audit Committee assessed the Group's resilience to the principal risks and uncertainties by consideration of a paper which included stress testing forecasts through the application of adverse scenarios. These scenarios included (A) a sustained recessionary environment as a result of COVID-19 following any impact from the current lockdowns with ongoing inflationary fixed cost pressure and (B) an economic crisis, related to or independent of COVID-19, and similar to that experienced in 2008, both modelled over a three-year period. The testing indicated that the Group would be able to operate within its current facilities and meet its financial covenants in both scenarios. A further, less likely, more severe scenario was also considered, where the Company experiences a reduction in revenue, behind plan by 16% in 2021. In this scenario, the Group would be able to operate within its current facilities and meet its financial covenants. However, should the reduction in revenue be greater than this, the Board would need to take mitigating actions to remain within its banking covenants. The Audit Committee was therefore comfortable that the Group would maintain resilience in the event such scenarios occurred and concluded that there was a reasonable expectation that the Group would continue to operate and meet its liabilities over a three-year period. The Audit Committee agreed that the long-term viability assessment should continue to be performed over a three-year timespan. This conclusion was communicated and recommended to the Board for approval.

The viability statement is shown on page 36.

Whistleblowing policy, Fraud and the Bribery Act

The Group has in place a whistleblowing policy that sets out the formal process by which an employee of the business may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Under the Whistleblowing Policy colleagues have direct access to the Chair of the Audit Committee should they feel they are unable to raise their concern with management. During the year, the Audit Committee and the Board reviewed the Whistleblowing Policy and found that it remained appropriate and was operating effectively.

The Group also has in place a procedure for detecting fraud and systems to prevent a breach of anti-bribery legislation. The Group is committed to a zero-tolerance position with regard to bribery. The Anti-Corruption and Bribery, and Fraud and Anti-Money Laundering policies were each considered by the Committee during the year and recommended to the Board for approval in October 2020, which it subsequently did.

Committee effectiveness review

The effectiveness of the Audit Committee was evaluated this year as part of the externally facilitated Board Performance evaluation process. Details of this can be found on page 66. The review found that the Committee is operating effectively and that its role and remit remained appropriate for the current needs of the business. The Committee discussed the findings of the evaluation to identify opportunities for further improvement.

Summary

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

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

Amanda Aldridge
Chair of the Audit Committee
9 March 2021

Directors' Remuneration Report

Remuneration

Alison Littley
Chair of the Remuneration Committee

Statement from the Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2020. The Report includes my Annual Statement, a summary of the Directors' Remuneration Policy ('Policy'), which took effect from the date of our 2020 AGM and the Annual Report on Remuneration for the financial year ended 31 December 2020. The Directors' Remuneration Report will be subject to an advisory shareholder vote at the AGM on 21 May 2021.

Remuneration Policy Review

Shareholders approved our current Policy at the 2020 AGM, with 93% of votes cast in favour. However, due to the timing of last year's review of strategy, the Committee was unable to take account of its full conclusions when reviewing the Policy ahead of the expiry of its three-year term. As such, the Committee rolled forward the existing Policy largely unchanged albeit with a commitment to conduct a further review during the course of 2020.

This review of the Policy was completed during the year just ended and the Committee's conclusions are summarised as follows:

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

- **Reduction in pension provision –**
  The maximum pension contribution allowed for in the Policy for incumbent Executive Directors will be reduced from 15% to 11% of salary (see details in respect of the implementation of the pension policy in 2021 below). No changes will be made to the pension policy in respect of new Executive Directors, which will continue to be workforce aligned from appointment.

- **Introduction of post-cessation shareholding guidelines –**
  From the 2021 AGM, post-cessation guidelines linked to the 'in-employment' guidelines will be introduced. As such, 100% of the in-employment shareholding guideline (200% of salary) will apply up to the first anniversary of the date of cessation, reducing to 50% of the shareholding guideline (100% of salary) between the first and second anniversary of cessation. In determining the relevant number of shares to be retained post-cessation, only share awards granted after the 2021 AGM will be counted (i.e. past grants and shares acquired from own purchases will be excluded).

- **Toughening of in-employment shareholding guidelines–** Shareholding guidelines will be toughened to further encourage the retention of Headlam shares. As such, rather than requiring 50% of the net of tax shares which vest from the PSP and Deferred Bonus Plan to be retained against the shareholding guideline, 100% of the net of tax shares will be required to be retained until such point as the shareholding guideline has been achieved.
- **Enhanced clawback provisions –** The malus and clawback provisions in respect of the annual bonus, Deferred Bonus Plan and PSP have been updated and enhanced to include corporate failure and insolvency triggers.

These changes are designed to further align our arrangements with the provisions of the Code and as they strengthen shareholder protections, increase alignment, and reduce the pension contribution policy limit, we are therefore not seeking formal shareholder approval to adopt them at the 2021 AGM.

Business performance and incentive out-turn for 2020

For 2020, the Executive Directors had a maximum annual bonus opportunity equal to 125% of base salary, with the bonus assessed against the Company's underlying profit before tax performance as shown in the table on page 96. Threshold performance was not achieved and no bonus was therefore payable.

Awards granted under the PSP in 2018 were assessed on the basis of performance over the three-year period to 31 December 2020. The awards were subject to two performance conditions, the first based on underlying EPS growth (80% of the award) and the second relative TSR (20% of the award). The combined assessment of the two performance conditions resulted in 0% of the awards vesting, as shown on page 96.

Discretion

The Remuneration Committee is conscious of its role in ensuring that remuneration is appropriate when considering the performance of the business and the individual directors. During the year it considered the formulaic outcomes of the annual bonus plan and the Performance Share Plan and was satisfied that the outcomes under these incentive schemes were appropriate. Therefore, no discretion has been exercised during the year.

Remuneration for 2021

Base salary

The Executive Directors did not receive an increase in base salary for 2021, in line with the 2021 award for UK employees. Additionally, neither the Chairman, nor the Non-Executive Directors received a fee increase for 2021.

Pension

The Chief Executive does not currently receive any pension provision and there is no plan to change this. The Chief Financial Officer currently receives an 11% of salary pension contribution which is aligned to that available to those employees participating in the Defined Contribution pension scheme (which is offered to approximately half of the workforce), where Company contributions range from 4% of salary to 16% of salary depending on both age and earnings. While the Chief Financial Officer will shortly be eligible to receive an age-related increase from 11% to 16% of salary, the Committee has agreed not to award this increase and to maintain his pension at 11% of salary in line with the remuneration policy change for incumbent Executive Directors outlined above. Should the Defined Contribution scheme be closed in the future, or Company contribution levels to this arrangement be reduced, the Committee will revisit the Chief Financial Officer's pension provision to ensure it aligns with that offered to the workforce.

Annual bonus and PSP

The framework for operating our annual bonus and PSP in 2021 will be largely consistent with our approach in 2020, albeit with some important changes to the performance measures in order to align with the conclusions of the recent review of strategy and with post-pandemic planning.

Maximum bonus potential will remain at 125% of salary. The FY2020 bonus was based solely on PBT targets. However, following the conclusion of the strategic review in 2020 the Committee is now in a position to reintroduce strategic measures for a minority of the bonus in order to align the plan to a number of key non-financial deliverables. As such, 70% of the bonus will be based on PBT and 30% will be based on strategic targets. The strategic measures relate to the Strategy as detailed on page 18 and the delivery of specific projects under the Operational Improvement Programme as detailed within the Chief Executive's Review on page 21. The bonus targets are currently considered to be commercially sensitive but they will be disclosed in full in next year's Directors' Remuneration Report together with level of achievement. In line with the Remuneration Policy a third of any bonus award will be deferred into shares under the Deferred Bonus Plan.

The PSP awards will be made at 80% salary and vesting will be based 80% on EPS and 20% on relative TSR. This is consistent with how we have, in normal circumstances, operated our PSP over recent years except for the awards made in 2021. Reflecting the low base year for 2020, the EPS target will be based on absolute EPS rather than percentage growth targets.

As disclosed in last year's Remuneration Report, the Committee had intended to make PSP awards in 2020 in line with our normal approach of basing vesting 80% on EPS and 20% on relative TSR. However, given the onset of the pandemic, the full impact of which only became apparent after approval of the 2019 Annual Report and Accounts, the Committee concluded that due to the uncertainty surrounding the full impact of COVID-19, the awards should be delayed by six months. It was also agreed that the EPS performance metric should be removed for the 2020 awards, and relative TSR should apply to 100% of awards. In addition to the TSR assessment, the Committee will consider the overall financial performance of the Company over the three-year period when deciding on the level of vesting and will have full discretion to ensure that the final outcome is warranted, based on the performance of the Company, in light of all relevant factors, to ensure outcomes are appropriate including the risk of windfall gains.

The combination of a holding period requirement under the PSP, the deferral of bonus into shares under the Deferred Bonus Plan and the shareholding guidelines will continue to provide alignment between the interests of Executive Directors, the shareholders and delivery of the strategy.

Directors' Remuneration Report continued

Taking account of the 2018 UK Corporate Governance Code

In implementing our Policy during the course of 2020 and in planning for its implementation in 2021, we have been careful to take account of the provisions of the Code and it will continue to be a key touchstone for the Committee.

In summary, with regard to how we have sought to comply with the six factors outlined in Provision 40 of the Code, we believe the following are worthy of particular note:

- **Clarity** – Our remuneration framework is structured to support financial delivery, shareholder returns and the achievement of strategic objectives, clearly aligning interests of Executive Directors with those of our shareholders, as well as with those of our other key stakeholders. Our Policy is transparent and well understood by our senior management team. It has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation when changes are being made).
- **Simplicity** – A key objective of the Committee is to ensure that our remuneration framework is straightforward to communicate and operate and we have operated the same simple and transparent overarching structure for many years.
- **Risk** – Our Policy has been designed to ensure that it is aligned with the Board's risk appetite. Any inappropriate risk-taking is discouraged and mitigated through (i) the operation of arrangements that provide an appropriate balance of fixed pay to short- and long-term incentive pay and with multiple performance measures operating based on a blend of financial targets, key strategic objectives, and shareholder return targets, (ii) the significant proportion of long-term share-based pay in our packages (together with the operation of significant in-employment and the planned post-cessation shareholding guidelines), (iii) the deferral of a proportion of annual bonus 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 Company culture and values. We strive to instil a sustainable performance culture at the management level that can cascade down 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 a UK all-employee share scheme arrangement in pursuit of this objective.

Shareholder views and voting outcomes

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

Whilst feedback on the Committee's approach was generally very positive, the Committee noted the comments received in relation to pension provision and the implementation of post-cessation shareholdings. In light of these comments, the Committee considered these features of the Policy carefully and continued to monitor the evolving expectations of investors and market practice throughout 2020. This has resulted in some changes for 2021, as described earlier in this Annual Statement.

The provisions of the Companies Act 2006 require the Company to present its Remuneration Report annually to shareholders for an advisory vote and to present its Policy for approval every three years (binding vote). The Committee was pleased with the level of support received for the remuneration-related resolutions at the 2020 AGM with over 99% of votes cast in favour of the advisory Remuneration Report resolution and 93% in favour of the binding Remuneration Policy resolution. We hope we will again receive your support at the forthcoming AGM.

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

On a personal note, as previously announced, I shall be stepping down from the Board and as Chair of the Remuneration Committee at the end of March 2021. Keith Edelman will take over from me as the interim Chair of the Remuneration Committee and will continue the development of our remuneration strategy, and align it with the best interests of our shareholders. On behalf of the Remuneration Committee, I would like to thank you all for your continued support.

Alison Littley
Chair of the Remuneration Committee
9 March 2021

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 22 May 2020. The Policy took formal effect from the date of approval and is intended to apply until the 2023 AGM unless a new version is presented to shareholders in the interim.

Although we are not seeking shareholder approval for a new Policy in 2021, as described in the Annual Statement on pages 82 to 84, the Committee has sought to introduce some additional safeguards to operate from 2021 aimed at further aligning our arrangements with the provisions of the Code and with the evolving expectations of shareholders. The key changes are (i) a reduction in the maximum pension contribution, (ii) an increase in the net number of vested shares from the PSP and DBP required to be retained until the shareholding guideline is met and (iii) the introduction of a post-cessation shareholding requirement.

In the interests of clarity, the report includes some minor annotations to include these changes and to additionally show, where appropriate, how the Policy will be implemented in 2021. A full version of the original shareholder approved Policy can be found in the 2019 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 the delivery of value to shareholders;
- To promote appropriately the long-term success of the Group, and to not pay more than is necessary in doing so; and
- To have a competitive mix of base salary and short and long-term incentives, with an appropriate proportion of the package determined by the rigorous application of stretching targets linked to the Group's performance.

When designing the policy, the Remuneration Committee takes into account the provisions of the 2018 UK Corporate Governance Code and other good practice guidelines from institutional shareholders and shareholder bodies.

Consideration of employment conditions elsewhere in the Group

In setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group. Salary increases will ordinarily be (in percentage of salary terms) no higher than those of the wider workforce. Whilst employees are not formally consulted on executive remuneration, a number of them are shareholders and as such are able to exercise their influence along with other shareholders. Additionally, the Company operates an Employee Forum at which aspects of remuneration across the Group will be discussed. The Chair of the Remuneration Committee is a member of the Employee Forum and as such receives feedback on remuneration matters directly from other Forum members. The Group People Director updates the Remuneration Committee periodically on remuneration arrangements and employment conditions across the Group.

Shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration. The Committee will seek to engage directly with larger shareholders and their representative bodies should any material changes be made to the Policy. The Committee also considers shareholder feedback received in relation to the remuneration-related resolutions each year following the AGM. This, plus any additional feedback received from time to time, is then considered as part of the Committee's annual review of remuneration policy and its implementation.

Directors' Remuneration Report continued

Policy table for Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To provide a competitive base salary for the market in which the Group operates to attract and retain Executives of a suitable calibre.	Salaries are usually reviewed annually, with any increases typically effective 1 January. Salaries are typically set after considering: • pay and conditions elsewhere in the Group; • overall Group performance; • individual performance and experience; • progression within the role; and • competitive salary levels in companies of a broadly similar size and complexity and market forces.	While there is no maximum salary, increases will normally be in line with the typical range of salary increases awarded (in percentage of salary terms) to the wider workforce. Larger salary increases may be awarded to take account of individual circumstances, such as: • where an Executive Director has been promoted or has had a change in scope or responsibility; • where the Committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance; • where there has been a change in market practice; or • where there has been a significant change in the scale of the role or the size and/or complexity of the business. Increases may be implemented over such time period as the Committee deems appropriate.	Although there are no formal performance conditions, any increase in base salary is only implemented after careful consideration of individual contribution and performance and having due regard to the factors set out in the Operation column of this table.
Benefits	To provide broadly market competitive benefits as part of the total remuneration package.	Executive Directors receive benefits in line with market practice, and these include life assurance, private medical insurance, company car or car allowance and, where relevant, relocation expenses. Executive Directors are also provided with the opportunity to join any HMRC approved all-employee share plan arrangements on the same basis as other employees. Executive Directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and other benefits might be provided from time to time based on individual circumstances and if the Committee decides payment of such benefits is appropriate. Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit).	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level that the Committee considers appropriate against the market and provides a sufficient level of benefits based on individual circumstances.	Not applicable.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Retirement benefits	To provide employees with long-term savings to allow for retirement planning.	The Group may offer participation in a defined contribution pension plan or may permit Executive Directors to take a cash supplement in lieu of pension up to the same value.	For newly appointed Executive Directors, maximum defined contribution or cash allowance in lieu of pension is limited to the contribution level available to the majority of the workforce (in percentage of salary terms) prevailing at the time of hire or promotion. Incumbent Executive Directors may receive a defined contribution or cash allowance of up to 11% of base salary (reduced from 15% of salary from the 2021 AGM).	Not applicable.
Annual bonus	Rewards performance against targets which support the strategic direction of the Group. Bonus deferral provides a retention element through share ownership and direct alignment with shareholders' interests.	Awards are based on performance typically measured over one year. Pay-out levels are determined by the Committee after the year end based on performance against pre-set targets. Executive Directors will defer at least one-third of any bonus award into shares, typically for a two-year period. The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred would, in the opinion of the Committee, be so small as to make deferral administratively burdensome. Deferred shares will typically take the form of nil-cost share options but may be structured as an alternative form of share award. Deferred bonus awards may be granted on the basis that the participant shall be entitled to an additional benefit (in cash or shares) in respect of dividends paid over the deferral period, calculated on such basis as the Committee shall determine. The vesting of the deferred shares is not subject to the satisfaction of any additional performance conditions.	Maximum annual bonus opportunity is 125% of base salary.	Targets are set annually with measures linked to the Group's strategy and aligned with key financial, strategic and/or individual targets. The majority, if not all, of the annual bonus will be assessed against key financial performance metrics of the business and any balance will be based on non-financial strategic/personal objectives. A graduated scale of targets is set for each measure, with up to 10% of each element payable for achieving the relevant threshold performance level and 100% of maximum potential for achieving stretch performance. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance.

Directors' Remuneration Report continued

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus continued		The Committee has the right to apply malus and/or clawback (in respect of both the cash and deferred elements of bonuses) in the event of certain defined circumstances. The annual bonus plan includes provisions which enable the Committee (in respect of both the cash and the deferred elements of bonuses) to recover or withhold value in the event of certain defined circumstances.		
Performance Share Plan ('PSP')	To incentivise Executive Directors, and to deliver genuine long-term performance-related pay, with a clear line of sight for Executives and direct alignment with shareholders' interests.	Awards will be in the form of nil-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the Committee, with performance normally measured over at least a three-year performance period. Awards will usually be subject to a two-year holding period following the end of the performance period, and shares will typically not be released to participants until the end of any such holding period. Awards under the PSP may be granted on the basis that the participant shall be entitled to an additional benefit (in cash or shares) in respect of dividends paid over the holding period. This amount shall be calculated on such basis as the Committee determines. The PSP includes provisions which enable the Committee to recover or withhold value in the event of certain defined circumstances.	The normal maximum PSP award is 100% of salary in respect of a financial year. The normal maximum award limit will only be exceeded in exceptional circumstances such as on the recruitment of an Executive Director and is subject to an overall limit of 200% of salary in respect of a financial year. PSP awards to the current Executive Directors in respect of 2020 will be 80% of salary.	PSP awards currently vest based on performance against a mix of financial targets and relative TSR performance targets set and assessed by the Committee in its discretion. Financial targets currently determine vesting in relation to at least 50% of awards. A maximum of 25% of any element vests for achieving the threshold performance target and 100% for maximum performance. Any vesting is also subject to the Committee being satisfied that the Company's performance on the headline measures is consistent with underlying business performance and the vesting outcome may be reduced if deemed appropriate. Performance metrics and weightings are reviewed annually and may be varied for future award cycles as appropriate to reflect the prevailing strategic priorities of the Group at that time.

Non-Executive Directors (including the Chairman)

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual Fee	To attract individuals with appropriate knowledge and experience.	Fees are normally reviewed annually taking into account factors such as the time commitment and contribution of the role and market levels in companies of comparable size and complexity. The Chairman is paid an all-inclusive fee for all Board responsibilities. Fees for the other Non-Executive Directors may include a basic fee and additional fees for further responsibilities (for example, chairmanship of Board committees or holding the office of Senior Independent Director). In exceptional circumstances, if there is a temporary yet material increase in the time commitments for Non-Executive Directors, the board may pay extra fees on a pro rata basis to recognise the additional workload.	Neither the Chairman nor the Non-Executive Directors participate in any of the Group's performance related schemes (i.e. annual bonus or incentive arrangements). Nor do they receive any pension or private medical insurance or taxable benefits, other than the potential to receive gifts at the end of a long-standing term of appointment. Non-Executive Directors may be eligible to receive benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate and the Company repays any reasonable expenses that a Non-Executive Director incurs in carrying out their duties as a director, including any tax liabilities thereon, if appropriate.	Not applicable.

Explanation of performance measures chosen

Performance measures for the annual bonus are selected annually to align with the KPIs and prevailing strategic imperatives of the Group, and the interests of shareholders and other stakeholders. Financial measures (e.g. underlying profit before tax) will be used for a majority of the bonus with any remainder based on key strategic and/or personal objectives designed to ensure that Executive Directors are incentivised to deliver across a range of objectives. 'Target' performance is typically set in line with the business plan for the year, with threshold to stretch targets set around this based on a sliding scale which takes account of relevant commercial factors. Only modest rewards are available for delivering threshold performance levels, with rewards at stretch requiring material outperformance of the business plan. Details of the specific measures used for the annual bonus are set out in the annual report on remuneration.

Performance measures for the PSP are selected in order to provide a robust and transparent basis on which to measure the Group's performance, to demonstrably link remuneration outcomes to delivery of the business strategy over the longer term, and to provide strong alignment between senior management and shareholders. In achievement of these aims, PSP awards granted in respect of 2021 will be based on underlying basic Earnings Per Share ('EPS') and relative Total Shareholder Return ('TSR'). EPS is currently a critical KPI for the Group, supporting a focus on profitability and growth. TSR is aligned with the Group's focus on creating value for our shareholders. However, the policy provides for Committee discretion to alter the PSP measures and weightings to ensure they can continue to facilitate an appropriate measurement of performance over the life of the policy, taking account of any evolution in the Group's strategic ambitions.

When setting performance targets for the bonus and PSP, the Committee will take into account a number of different reference points, which may include the Group's business plans and strategy, external forecasts and the wider economic environment.

The Committee retains discretion to amend the bonus pay-out and to reduce the PSP vesting level if any formulaic outcome is not reflective of the Committee's assessment of overall business performance over the relevant performance period.

Directors' Remuneration Report continued

Discretion retained by the Committee in operation of the incentive plans

The Committee will operate the Company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards. These include making awards and setting performance criteria each year, dealing with leavers, and adjustments to awards and performance criteria following acquisitions, disposals, special dividends, changes in share capital and to take account of the impact of other merger and acquisition activity, and to settle awards in cash. The Committee also retains discretion within the policy to adjust the targets, set different measures and/or alter weightings for the annual bonus plan and PSP, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the long-term incentive plans to adjust performance conditions to ensure that the awards fulfil their original purposes (for example, if an external benchmark or measure is no longer available).

All assessments of performance are ultimately subject to the Committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the Annual Remuneration Report.

Differences in pay policy for Executive Directors compared to employees more generally

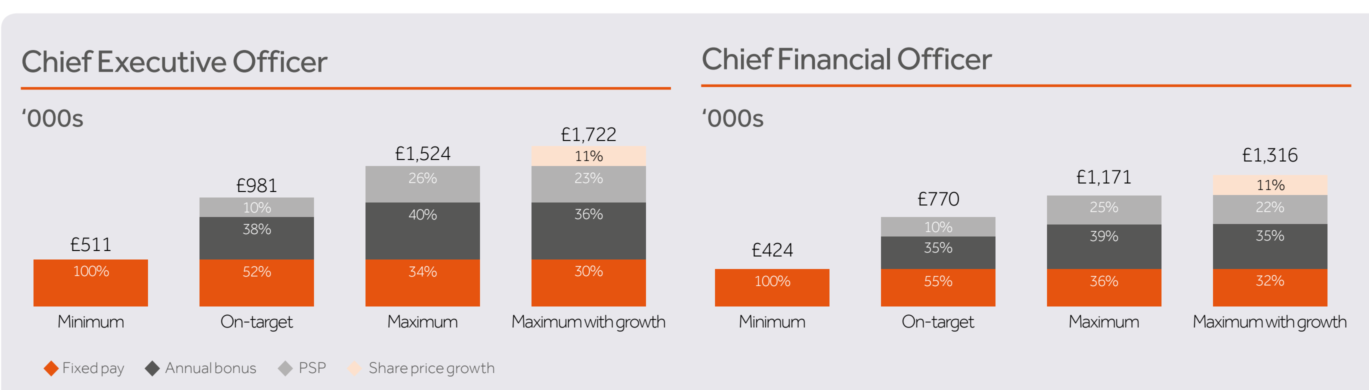
The Remuneration Policy applied to the Executive Directors is similar to the policy for the wider senior management team in that a significant element of remuneration is dependent on Group performance and the key principles of the remuneration philosophy are applied consistently across the Group below this level, taking into account seniority and market practice. Key features include:

- We aim to provide market competitive levels of remuneration across the workforce in order to recruit and retain high calibre employees at all levels;
- We have aligned pension contributions for new Executive Directors going forward with those of the majority of the workforce;
- All UK employees have the opportunity to participate in an HMRC-approved employee share scheme arrangement; and
- Employees at selected levels participate in an annual bonus arrangement.

At senior levels, remuneration is increasingly long-term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

Illustrations of application of remuneration policy

The charts below set out for the Chief Executive and Chief Financial Officer an illustration of the application for 2021 of the remuneration policy set out above. The charts show the split of remuneration between fixed pay and annual bonus and PSP on the basis of minimum remuneration, remuneration receivable for performance in line with the Group's expectations, maximum remuneration (not allowing for any share price appreciation) and maximum remuneration (assuming 50% share price growth).



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

	Fixed pay	Annual bonus (including any amount deferred)	PSP
Minimum performance	Fixed elements of remuneration only – base salary (being the salary effective 1 January 2021, benefits in respect of 2020 and cash in lieu of pension of 11% of salary for the Chief Financial Officer only (the current Chief Executive receives no pension contribution or cash equivalent allowance).	No annual bonus award.	No vesting.
Performance in line with expectations		75% of salary awarded for achieving target performance.	25% of maximum award vesting (equivalent to 20% of salary) for achieving target performance.
Maximum performance		125% of salary awarded for achieving maximum performance.	100% of maximum award vesting (equivalent to 80% of salary) for achieving maximum performance.
Maximum performance plus 50% share price growth			100% of maximum award vesting (equivalent to 80% of salary) for achieving maximum performance plus hypothetical share price growth of 50%.

Notes to the scenarios methodology:

- Annual bonus includes amounts deferred into shares.
- PSP is measured at face value, i.e. no assumption for dividends or share price growth (other than in the fourth scenario).
- Any potential amounts relating to all-employee share schemes have been excluded.

Recruitment remuneration

The policy aims to facilitate the appointment of individuals of sufficient calibre to lead the business, to execute the Group's strategy effectively and to promote the long-term success of the Group for the benefit of shareholders and other stakeholders. When appointing a new Executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Group and not to pay more than is appropriate.

The Committee will take into consideration a number of relevant factors, which may include the calibre and experience of the individual, the candidate's existing remuneration package, and the specific circumstances of the individual, including the jurisdiction from which the candidate was recruited.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above policy. The Committee may include other elements of pay which it considers are appropriate; however, this discretion is capped and is subject to the principles and the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed and the circumstances of the appointment. This may include agreement on setting the salary at below the market rate with a series of future staged increases planned in order to bring the salary up to a market level, in line with progression in the role, increased experience and/or responsibilities, and subject to satisfactory performance, where it is considered appropriate.
- Retirement benefits will be workforce aligned and other benefits will be provided in line with the above policy.
- If the Executive Director will be required to relocate in order to take up the position, it is the Group's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- If an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance, subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.
- The Committee may also alter the performance measures, performance period, vesting period, deferral period and holding period of the annual bonus or PSP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 325% of salary.
- The Committee may make additional payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited. Any such payments or awards are limited to the expected value of the forfeited awards. Where considered appropriate, such buyout awards will be liable to forfeiture or 'malus' and/or 'clawback' on early departure.

Directors' Remuneration Report continued

- Any share awards referred to in this section, including any buyout awards, will be granted as far as possible under the Group's existing share plans. If necessary, and subject to the limits referred to above, awards in relation to a recruitment may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.
- Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.
- Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts and letters of appointment

Executive Directors' service contracts are on a rolling basis and may be terminated on up to 12 months' notice by the Group or by the Executive.

All Non-Executive Directors have letters of appointment providing for fixed-term agreements with the Group which may be terminated by the giving of three months' notice by either party (Chairman six months' notice). The agreements last for an initial period of three years and may then be extended for two additional periods of three years, subject to re-election by shareholders at the relevant AGM.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office during normal hours of business.

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below:

	Policy
Payment in lieu of notice	If notice is served by either party, the Executive Director can continue to receive basic salary, benefits and pension for the duration of their notice period, during which time the business may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Group has discretion to make a payment in lieu of notice. Such a payment would include base salary and, at the election of the Committee, compensation for benefits and pension contributions (if applicable) for the unexpired period of notice.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will normally be prorated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
Deferred bonus awards	The extent to which any unvested deferred bonus award will vest will be determined in accordance with the rules of the Deferred Bonus Plan ('DBP'). If a participant ceases employment for any reason (other than summary dismissal, in which case his award will lapse), his award will ordinarily continue until the normal vesting date. The Committee retains discretion to release awards when the participant leaves. Awards (in the form of nil cost options) which have vested and been released but remain unexercised at the date of cessation may be exercised, for such period as the Committee determines, if a participant leaves for any reason (other than summary dismissal).

	Policy
PSP	The extent to which any unvested award will vest will be determined in accordance with the rules of the PSP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will be released at cessation or on the normal release date or at some other time (such as following the end of the performance period). In any case, the extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards may then be exercised during such period as the Committee determines. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a 'holding period'), his award will ordinarily continue until the normal release date when it will be released to the extent it vested. The Committee retains discretion to release awards when the participant leaves. Awards (in the form of nil cost options) which have vested and been released but remain unexercised at the date of cessation may be exercised, for such period as the Committee determines, if a participant leaves for any reason (other than summary dismissal).
Change of control	The extent to which unvested awards under the DBP and PSP will vest will be determined in accordance with the rules of the relevant plan. Awards under the DBP will vest in full in the event of a takeover, merger or other relevant corporate event. Unvested awards under the PSP will vest early on a takeover, merger or other relevant corporate event. The Committee will determine the level of vesting taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period. Awards under the PSP which have vested but not been released (i.e. awards which are subject to a holding period) will be released, to the extent vested.
Mitigation	If an Executive Director's employment is terminated, any compensation payment will be calculated in accordance with normal legal principles including the application of mitigation to the extent appropriate to the circumstances of the termination. Payments will be made in instalments and reduced to the extent employment is taken up elsewhere.
Other payments	Payments may be made either in the event of a loss of office or a change of control under any of the Group's HMRC-favoured all-employee share plans in line with the associated plan rules. There is no discretionary treatment for leavers or on a change of control under these schemes. In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees and other benefits that may be considered appropriate taking into account the circumstances of the termination. The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Where a buy-out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

Where the Committee retains discretion, it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

There is no entitlement to any compensation in the event of Non-Executive Directors' fixed-term agreements not being renewed or the agreement terminating earlier.

Directors' Remuneration Report continued

Existing contractual arrangements and historical awards

The Committee retains discretion to make any remuneration payment or payment for loss of office outside the policy in this report (including exercising any discretions available to it in connection with any such payment):

- where the terms of the payment were agreed before the policy came into effect (including the satisfaction of options granted under the CIP), provided in the case of any payment whose terms were agreed after the previous Directors' Remuneration Policy was approved and before the policy in this report became effective, the remuneration payment or payment for loss of office was permitted under that former policy;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Group.

External appointments

The Board believes that experiences of other companies' practices and challenges is valuable both for the personal development of its Executive Directors and for the Group. Any external appointments are subject to board approval (which would not be given if the proposed appointment would lead to a material conflict of interest). Fees received by Executive Directors in respect of external non-executive appointments are retained by the individual Director. Details of such appointments are included in the Annual Report on Remuneration.

Shareholding guidelines

In order to further align the Executive Directors' long-term interests with those of shareholders, the Group operates share ownership guidelines. The guidelines provide that the Executive Directors are required to build up and maintain (as relevant) a certain level of shareholding in the Group equivalent in value to 200% of annual salary. Until the guideline has been reached Executive Directors are required to retain all of the net number of vested shares from the PSP and DBP (increased from half of the net number from the 2021 AGM). 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).

As described in the Annual Statement on page 82, post-cessation shareholding guidelines will also be introduced from the 2021 AGM. As a result, Executive Directors will now normally be required to hold shares at a level equal to the lower of their shareholding at cessation and 200% of salary for one year and 100% of salary for a second year post cessation in respect of any share awards granted after the 2021 AGM and excluding own shares purchased.

ANNUAL REPORT ON REMUNERATION

Certain information provided in this part of the Directors' Remuneration Report is subject to audit. This is annotated as audited. Any information not annotated as audited is unaudited.

Single total figure of remuneration for each Director

The table below reports the total remuneration receivable in respect of qualifying services by each of the Executive Directors for the years 2020 and 2019.

Executive Directors' remuneration as a single figure – 2020 (audited)

Executive Directors	Base salary/ fees £000	Non-salary benefits[1] £000	Pension related benefits[4] £000	Annual performance bonus £000	Share-based incentive schemes[2,3] £000	Total £000	Total fixed £000	Total variable £000
Steve Wilson	**494**	**17**	**–**	**–**	**3**	**514**	**511**	**3**
Chris Payne	**364**	**20**	**40**	**–**	**3**	**427**	**424**	**3**
	858	**37**	**40**	**–**	**6**	**941**	**935**	**6**

1 Non-salary benefits include the provision of a company car or car allowance, private medical insurance and other benefits deemed to be an employment benefit such as some fuel costs.
2 Performance conditions for the PSP were tested after 31 December 2020 and 0% of the award will vest in March 2021.
3 Includes the grant of options under the Sharesave Scheme on 5 October 2020, calculated on an intrinsic value basis.
4 The amount of employer contribution to a scheme or paid as cash in lieu of retirement benefits based on a fixed percentage of base salary.

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

Executive Directors	Base salary/ fees £000	Non-salary benefits[1] £000	Pension related benefits[3] £000	Annual performance bonus £000	Share-based incentive schemes[2] £000	Total £000	Total fixed £000	Total variable £000
Steve Wilson	484	16	–	276	22	798	500	298
Chris Payne	357	20	39	203	12	631	416	215
	841	36	39	479	34	1,429	916	513

1 Non-salary benefits include the provision of a company car or car allowance, private medical insurance and other benefits deemed to be an employment benefit such as some fuel costs.
2 PSP awards vested in respect of the performance to the year ended 31 December 2019 and approximately 5.7% of the award vested in March 2020. The long-term incentives figure for the year ended 31 December 2019 has been restated to reflect the market value of the shares on the date of vesting (429.5p). Given that the share price at grant was 536p, neither of the amounts presented for Steve Wilson or Chris Payne include any amount in respect of share price appreciation. Figures for Steve Wilson also include the grant of options under the Sharesave Scheme calculated on an intrinsic value basis.
3 The amount of employer contribution to a scheme or paid as cash in lieu of retirement benefits based on a fixed percentage of base salary.

The following tables report the total remuneration receivable in respect of qualifying services by each of the Non-Executive Directors for the years 2020 and 2019.

Non-Executive Directors' remuneration as a single figure – 2020 (audited)

Executive Directors	Base salary/ fees £000	Non-salary benefits £000	Pension related benefits £000	Annual performance bonus £000	Share-based incentive schemes £000	Total £000	Total fixed £000	Total variable £000
Philip Lawrence	**143**	**–**	**–**	**–**	**–**	**143**	**143**	**–**
Amanda Aldridge	**53**	**–**	**–**	**–**	**–**	**53**	**53**	**–**
Keith Edelman	**55**	**–**	**–**	**–**	**–**	**55**	**55**	**–**
Alison Littley	**53**	**–**	**–**	**–**	**–**	**53**	**53**	**–**
	303	**–**	**–**	**–**	**–**	**303**	**303**	**–**

Directors' Remuneration Report continued

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

Non-Executive Directors	Base salary/ fees £000	Non-salary benefits £000	Pension related benefits £000	Annual performance bonus £000	Share-based incentive schemes £000	Total £000	Total fixed £000	Total variable £000
Philip Lawrence	143	–	–	–	–	143	143	–
Amanda Aldridge	53	–	–	–	–	53	53	–
Keith Edelman	55	–	–	–	–	55	55	–
Alison Littley	49	–	–	–	–	49	49	–
Andrew Eastgate[1]	19	–	–	–	–	19	19	–
	319	–	–	–	–	319	319	–

1 Stepped down 31/5/19

Annual performance bonus

For 2020, the Executive Directors had a maximum annual bonus opportunity equal to 125% of base salary. The bonus was assessed against the Company's underlying profit before tax as shown below:

Performance metric	Proportion of bonus determined by metric	Threshold performance	Target performance	Maximum performance	Actual performance	Bonus earned (% max)
Underlying Profit Before Tax	100%	£36.04m	£40.05m	£48.06m	£15.9m	0%

The remuneration policy states that one-third of the bonus earned will be deferred into shares for a two-year period. For the year ending 31 December 2020 no bonus was earned and therefore there will be no deferral into shares.

Share-based payments vesting in the financial year

Awards granted under the PSP in 2018 were assessed on the basis of performance over the three-year period to 31 December 2020. The awards were subject to two performance conditions, based on EPS growth (80% of the award) and relative TSR (20% of the award) each measured over a three-year period. The performance outcome and consequent vesting was as follows:

Vesting (% of maximum)	EPS growth (80% of award)	TSR Relative performance against FTSE SmallCap Index (20% of award)
0%	Less than 5% p.a.	Below median
25% (threshold)	5% p.a.	Median
100% (maximum)	8% p.a.	Upper quartile
Outcome	-30.0% p.a.	Below median
Vesting (% of each element)	0%	0%
Proportion of total award vesting	0%	0%

	Shares granted	Shares vesting	Value of shares vesting
Steve Wilson	86,187	0	£0
Chris Payne	63,506	0	£0

PSP awards granted during the financial period (audited)

PSP awards were granted to Executive Directors in 2020 as follows:

	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
Steve Wilson	140,694	395	80	25	11 Sept 2020	3 years
Chris Payne	103,669	291	80	25	11 Sept 2020	3 years
	244,363	686				

The share price used to determine the number of shares under the PSP was 281 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 a relative Total Shareholder Return ('TSR') performance condition. The Company's TSR for the period of three years commencing with the date of grant will be calculated for both the Company and a comparator group consisting of the companies making up the FTSE SmallCap Index (excluding investment trusts) at the start of the relevant period. If, at the end of the three years, the Company's TSR is below the median TSR for the comparator group then none of the award will vest. If the Company's TSR is equal to the median of the TSR of the comparator group then 25% of the award shall vest. If the Company's TSR is between median and upper quartile of the TSR of the comparator group then between 25% and 100% of the award shall vest on a straight-line basis. If the Company's TSR is above the upper quartile of the TSR of the comparator group then 100% of the award shall vest.

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.

As described in the annual statement on page 83, the Committee had originally intended to make PSP awards in 2020 in line with our normal approach of basing vesting 80% on EPS and 20% on relative TSR. However, given the onset of the pandemic; the full impact of which only became apparent after approval of the 2019 Annual Report and Accounts; the Committee concluded that due to the uncertainty surrounding the full impact of COVID-19, the awards should be delayed by six months and that relative TSR should govern 100% of the headline level of vesting.

Dilution

The Remuneration Committee supports the Investment Association ('IA') guidelines regarding dilution and regularly monitors compliance with these requirements. The Company's share plan rules limit the number of newly issued shares which can be granted in a ten-year period to 10% of the issued share capital under all-employee share plans, and 5% under the discretionary share plans.

As at the date of this report, the Company's usage of shares against the limits detailed above in respect of the all-employee schemes was 2.41% of the issued share capital (excluding treasury shares) and in respect of grants under discretionary plans was 0% of the issued share capital (excluding treasury shares). It is the Remuneration Committee's intention that options exercised under the SAYE scheme will continue to be satisfied by shares held in treasury.

Further information on share-based payments is set out in note 24 to the financial statements.

Pension-related benefits (audited)

The only Executive Director to receive any pension benefit during the year was Chris Payne, who received pension contributions from the Company equivalent to 11% of his base salary which is aligned to that available to those employees participating in the Defined Contribution pension scheme of similar age and earnings.

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

No payments for loss of office were made during the financial period and there are no payments to past directors to be reported for the year under review.

Directors' Remuneration Report continued

Executive Directors' share awards outstanding

Steve Wilson

Scheme	Number of shares / options as at 31 December 2019	Shares / options granted	Shares / options lapsed	Shares / options exercised	Number of shares/ options at 31 December 2020	Date of grant	Share price at grant (pence)	Exercise price (pence)	Market price on exercise date (pence)	Vesting date	Expiry date
PSP	–	140,694	–	–	140,694	11 Sept 2020	281	Nil	–	Sept 2023[1]	Sept 2030
DBP[2]	–	32,675	–	–	32,675	11 Sept 2020	281	Nil	–	Sept 2022	Sept 2030
PSP	86,459		–	–	86,459	10 April 2019	448	Nil	–	Mar 2022[1]	April 2029
PSP	86,187	–	–	–	86,187	9 April 2018	441	Nil	–	Mar 2021[1]	April 2028
DBP[3]	29,514	3,371[5]	–	–	32,885	9 April 2018	441	Nil	–	Mar 2020	April 2028
PSP[4]	70,789	–	66,740	–	4,049	5 July 2017	536	Nil	–	Mar 2020[1]	July 2027
CIP[3]	21,860	–	–	–	21,860	6 May 2016	477	Nil	–	May 2019	May 2026
SAYE	–	7,929	–	–	7,929	5 Oct 2020	271	227	–	Nov 2023	April 2024
SAYE	5,013	–	5,013	–	–	3 May 2019	443	359	–	July 2022	Dec 2022

1 Award vests on date shown but is subject to a further two-year holding period during which the option may not be exercised.
2 Award granted in the year in respect of the 2019 bonus albeit the grant date was delayed in line with the approach adopted for the PSP.
3 Vested awards.
4 Award vested but subject to holding period.
5 Dividend equivalents applied on vesting.

Chris Payne

Scheme	Number of shares / options as at 31 December 2019	Shares / options granted	Shares / options lapsed	Shares / options exercised	Number of shares/ options at 31 December 2020	Date of grant	Share price at grant (pence)	Exercise price (pence)	Market price on exercise date (pence)	Vesting date	Expiry date
PSP	–	103,669	–	–	103,669	11 Sept 2020	281	Nil	–	Sept 2023[1]	Sept 2030
DBP[2]	–	24,076	–	–	24,076	11 Sept 2020	281	Nil	–	Sept 2022	Sept 2030
PSP	63,707	–	–	–	63,707	10 April 2019	448	Nil	–	Mar 2022[1]	April 2029
PSP	63,506	–	–	–	63,506	9 April 2018	441	Nil	–	Mar 2021[1]	April 2028
PSP[3]	48,435	-	45,665	–	2,770	25 Sept 2017	536	Nil	–	Mar 2020[1]	Sept 2027
SAYE	–	7,929	–	–	7,929	5 Oct 2020	271	227	–	Nov 2023	April 2024
SAYE	5,084	–	5,084	–	–	3 May 2018	442	353	–	July 2021	Dec 2021

1 Award vests on date shown but is subject to a further two-year holding period during which the option may not be exercised.
2 Award granted in the year in respect of the 2019 bonus albeit the grant date was delayed in line with the approach adopted for the PSP.
3 Award vested but subject to holding period.

Shareholding guidelines

In employment

In order to align the interests of the Executive Directors with those of the Company's shareholders, the Remuneration Committee encourages Executive Directors to increase their shareholdings in the Company. The Executive Directors are required to build up and maintain a beneficial interest (including interests of connected persons) in the ordinary shares of the Company equivalent in value to two times annual base salary. In a change to the previous policy, from the 2021 AGM Executive Directors are required to retain all of the net of tax shares vesting under the PSP and DBP until the guideline is met (previous policy was to retain half of net of tax vesting shares).

Post cessation

From the 2021 AGM, post-cessation guidelines linked to the 'in-employment' guidelines outlined above, will be introduced. As such, 100% of the in-employment shareholding guideline (200% of salary) will apply up to the first anniversary of the date of cessation, reducing to 50% of the shareholding guideline (100% of salary) between the first and second anniversary of cessation. In determining the relevant number of shares to be retained post cessation, only share awards granted after the 2021 AGM will be counted (i.e., past grants and shares acquired from own purchases will be excluded).

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 2020 were as set out below. There have been no changes to those interests between 31 December 2020 and the date of signing of these financial statements and reports.

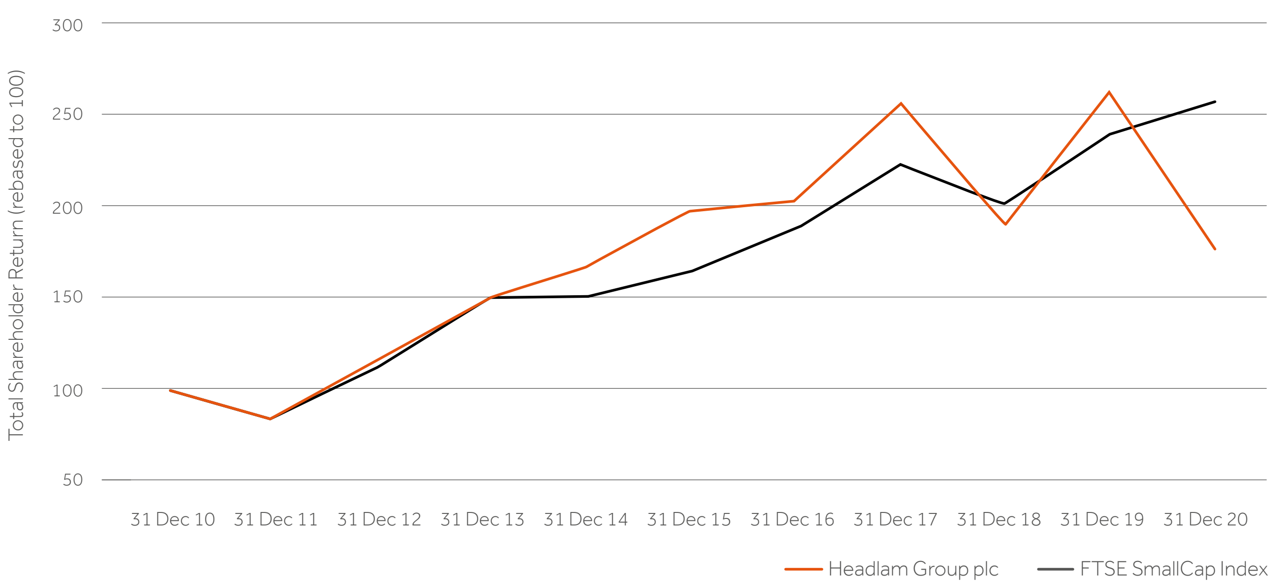
		Interests in Share Schemes				Shares under	Shareholding
Director	Owned Shares at 31 December 2020	PSP	Deferred Bonus	CIP	SAYE	Shareholding Guidelines[1]	Guidelines achieved (%)
Steve Wilson	665,146	317,389	65,560	21,860	7,929	713,625	260
Chris Payne	Nil	233,652	24,076	Nil	7,929	14,228	7
Amanda Aldridge	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Keith Edelman	7,059	N/A	N/A	N/A	N/A	N/A	N/A
Philip Lawrence	11,184	N/A	N/A	N/A	N/A	N/A	N/A
Alison Littley	Nil	N/A	N/A	N/A	N/A	N/A	N/A

1 This includes all owned shares plus those vested scheme interests included on a net of tax basis as allowed under the Company's share ownership policy.

TSR graph

The graph below shows the value at 31 December 2020 of £100 invested in the Company on 1 January 2011 compared to the value of £100 invested in the FTSE SmallCap Index, making the assumption that dividends are reinvested to purchase additional equity.

The FTSE SmallCap Index has been selected as a comparator due to the Company being a constituent. This allows comparison of the Company's performance against the performance of the Index as a whole.



Source: Thomson Reuters Datastream

Directors' Remuneration Report continued

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 (%)
2020	Steve Wilson	514	0.0	0.0
2019	Steve Wilson	798	45.5	5.7
2018	Steve Wilson	588	0.0	53.5
2017	Steve Wilson	1,069	65.8	97.5
2016	Steve Wilson	1,067[1]	76.8	98.6
	Tony Brewer	737[2]	n/a	88.9
2015	Tony Brewer	1,175	87.1	n/a
2014	Tony Brewer	1,134	81.4	n/a
2013	Tony Brewer	927	42.7	n/a
2012	Tony Brewer	1,347	65.5	n/a
2011	Tony Brewer	1,095	66.5	n/a

1 This remuneration is for the full year and incorporates his remuneration as Group Finance Director from 1 January 2016 until 14 September 2016 when he became Chief Executive.
2 Tony Brewer stepped down as Chief Executive and a Director on 14 September 2016. The 2016 figures reflect his remuneration earned from the start of 2016 until the date of his resignation as a Director. This remuneration is for a part year and does not include a termination payment.

Percentage change in 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 and 2019. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	Salary and fees (% change)	All taxable benefits (% change)	Annual bonuses (% change)
Steve Wilson	2	2	-100
Chris Payne	2	0	-100
Amanda Aldridge	0	N/A	N/A
Keith Edelman	0	N/A	N/A
Philip Lawrence	0	N/A	N/A
Alison Littley	8	N/A	N/A
All employees[1]	2	-14	-100

1 Reflects the average percentage change in salary, benefits and bonus for employees of the parent company (excluding the Board).

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.

	2020 £000	2019 £000	% change
Dividends[1]	6,341	20,941	-70
Pay	84,754	103,432	-18

1 Includes dividends paid during the financial year.

CEO pay ratio

The data shows how the CEO's single figure remuneration for 2020 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for the year ended 31 December 2020 for full-time equivalent UK employees, on a Group basis, ranked at the 25th, 50th and 75th percentile.

	Method	25th percentile ratio	Median (50th percentile) ratio	75th percentile ratio
2020	Option A	25.8:1	20.7:1	14.4:1
2019	Option A	39.3:1	31.8:1	22.7:1

Pension contributions have been omitted from the CEO pay ratio calculations in both the current and prior financial years, to achieve consistency with the CEO remuneration 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 2019.

The salary and total pay and benefits for the UK employees at the relevant percentiles, and upon which the pay ratios have been calculated, are as follows:

Year	Percentile	Salary (£)	Total pay and benefits (£)
2020	25th percentile	19,957	19,957
	Median	24,838	24,838
	75th percentile	35,624	35,624

Non-Executive Directors' letters of appointment

Details of the current Non-Executive Directors' appointment dates are set out below:

Non-Executive Director	Date of appointment	Expiry of current term
Philip Lawrence	1 June 2018[1]	31 May 2021
Keith Edelman	1 October 2018	30 September 2021
Amanda Aldridge	1 February 2018	31 January 2024
Alison Littley	1 January 2019	31 December 2021

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

Statement of implementation of remuneration policy in 2021

Details of how the Company will operate the Remuneration Policy in 2021 is provided below.

Base salaries for 2021

The Executive Directors did not receive an increase in base salary for 2021, in line with the overall UK workforce:

Role	Salary effective 1 Jan 2021 £000	Salary effective 1 Jan 2020 £000
Chief Executive	494	494
Chief Financial Officer	364	364

Annual bonus

The maximum annual bonus opportunity for 2021 will remain at 125% of base salary. 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 objectives. The strategic targets relate to the Strategy as detailed on page 18 and the delivery of specific projects under the Operational Improvement Programme as detailed within the Chief Executive's Review on page 21. Full disclosure of the targets will be provided in the 2021 Annual Report and Accounts. One third of any amount earned will be deferred into shares for two years.

PSP

In considering the performance targets for the 2021 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 and TSR. Mindful of the suppressed EPS for the year ended 31 December 2020 due to the impact of COVID-19, it will therefore set a target based on absolute EPS.

Directors' Remuneration Report continued

Awards in respect of 2021 will be granted in the form of nil cost options over ordinary shares in the Company at the level of 80% of salary, subject to EPS and TSR metrics as described below:

Vesting (% of maximum)	Absolute EPS for the financial year ending 31 December 2023 (80% of award)	TSR relative to the constituents of the FTSE SmallCap Index excluding investment trusts (20% of award)
0%	below 32.1 pence	Below median
25%	32.1 pence	Median
100%	34.7 pence	Upper quartile

Straight-line vesting between points.

To balance the overall long-term nature of the package, and in line with best practice, awards will be subject to a two-year holding period following the date of vesting.

While the Committee did consider a reduction in award levels to reflect the COVID-related share price fall, this was not considered necessary given the subsequent recovery in the share price and noting the current below market LTIP awards.

Malus and clawback

The Malus and Clawback provisions applying to the Annual Bonus, DBP and PSP have been strengthened by the Committee during 2020. In respect of the 2021 annual bonus, and for each year thereafter, and for share awards granted after the adoption of the amended rules in December 2020 the following provisions will apply:

- Prior to the payment of an annual bonus or vesting of a DBP or PSP award, the Committee may operate 'malus' (or 'withholding') to cancel the award.
- For up to two years following the payment of an annual bonus award, the Committee may operate 'clawback' (or 'recovery') to require the repayment of any cash amount paid or may cancel any deferred bonus award.
- For up to two years after the vesting of a PSP award, the Committee may operate clawback to cancel the award during the holding period (or require repayment of the award if it has been released prior to the end of the holding period); reduce future vesting under the Company's share plans, or reduce the number of shares already vested but unexercised.

The circumstances in which malus and clawback may be operated are as follows:

- The Company materially misstated its financial results (excluding any changes resulting from a change in accounting standards);
- The Executive's conduct being such that it would entitle (or, where the Employment has terminated prior to the date on which the Board becomes aware of such act or omission, would have entitled) the Group to terminate the Employment summarily;
- A material error having occurred in determining whether any corporate or personal performance conditions relating to the bonus or PSP award have been met (or any other material error having occurred in calculating the sum that was awarded as a bonus or the size of the PSP award);
- Circumstances which in the opinion of the Board would have (or would have if made public) a sufficiently significant impact on the reputation of the Company or Group;
- The Company becomes insolvent or otherwise suffers a corporate failure and the Board determines that such circumstances arose from events occurring (in whole or substantial part) during any period in which the relevant individual was a participant; or
- Such other exceptional circumstances which, in the Remuneration Committee's absolute discretion, justify such reimbursement being imposed.

Non-Executive Directors' fees for 2021

The fees of the Non-Executive Directors were reviewed and no increase is to be applied for the financial year ended 31 December 2021.

Role	Fees effective 1 Jan 2021 £000	Fees effective 1 Jan 2020 £000
Chairman fee	143.5	143.5
Non-Executive Director base fee	45.0	45.0
Senior Independent Director fee	10.0	10.0
Audit Committee chair fee	7.5	7.5
Remuneration Committee chair fee	7.5	7.5

Remuneration Committee activity

The Board approved the terms of reference, delegating certain responsibilities to the Remuneration Committee, most recently on 23 October 2020. The terms of reference are reviewed periodically and are available on the Company's website within the Governance section at www.headlam.com. The Remuneration Committee comprises the Chairman and each of the other Non-Executive Directors, and attendance at scheduled meetings of the Committee during the year was as follows:

Members	Meetings attended	Eligible to attend
Alison Littley (Chair)	6	6
Philip Lawrence	6	6
Keith Edelman	6	6
Amanda Aldridge	6	6

Members additionally correspond on urgent matters between formal Committee meetings. Other Directors may attend Remuneration Committee meetings by invitation. The Committee also receives assistance from the Group People Director, the Company Secretary and from independent external advisers. The Company Secretary acts as secretary to the Committee. No one attending a Remuneration Committee meeting may participate in discussions relating to their own terms and conditions of service or remuneration.

The Remuneration Committee's main responsibilities include:

- 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;
- 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.

The key matters discussed at the meetings of the Remuneration Committee in 2020 were as follows:

Key activities of the Remuneration Committee

Remuneration

- Reviewed workforce remuneration and related policies 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 (including share deferral under the DBP);
- Reviewed and approved the percentage vesting of the 2017 PSP;
- Approved the Annual Bonus scheme for 2020;
- Reviewed estimated outturn for 2020 variable remuneration (including share plans);
- Approved the PSP Award and targets;
- Reviewed and Approved the Remuneration Policy for 2021; and
- Performed the bi-annual benchmarking for Executive Directors, Senior Management and the Chairman.

Governance

- Consulted with investors with regard to the implementation of the Remuneration Policy;
- Approved the 2019 Remuneration Report (including CEO pay ratio);
- Received an AGM debrief and market / governance update;
- Reviewed terms of reference; and
- Approved annual workplan.

Effectiveness

- Reviewed the Committee's effectiveness.

Directors' Remuneration Report continued

Remuneration Committee effectiveness

The effectiveness of the Remuneration Committee was evaluated as part of the Board performance evaluation process. The review found that the Committee is operating effectively and that its role and remit remained appropriate. The Committee discussed the findings of the evaluation to identify opportunities for further improvement.

Advisers

FIT Remuneration Consultants LLP (FIT) has served as independent adviser to the Remuneration Committee throughout the year under review. FIT's fees in respect of advice to the Remuneration Committee during the period ended 31 December 2020 were £26,218 (excluding VAT) and were charged on a time and disbursements basis. 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 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 is satisfied that all advice received was objective and independent.

Statement of shareholders' votes

The following table sets out the results of the binding vote on the 2020 Directors' Remuneration Policy and the advisory vote on the other elements of the 2019 Directors' Remuneration at the 2020 AGM.

	% of votes cast For	% of votes cast Against	Number of shares Withheld
2020 Remuneration Policy	92.57	7.43	6,513,388
2019 Directors' Remuneration Report	99.75	0.25	7,066,594

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

Alison Littley
Chair of the Remuneration Committee
9 March 2021

Other Statutory Disclosures

The Directors present their report, together with the audited financial statements, for the year ended 31 December 2020. This report contains additional information which the Directors are required by law and regulation to include within the Annual Report and Accounts.

In conjunction with the information from the Chairman's Statement on page 8 to the Statement of Directors' Responsibilities on page 111, this section constitutes the Directors' Report in accordance with the Companies Act 2006.

Principal activities

The principal activities of the Group are the sales, marketing, supply and distribution of floorcoverings and certain other ancillary products in the UK and certain Continental Europe territories. The principal activity of the Company is that of a holding company and its subsidiaries are listed on page 173. Further details of the Group's activities and future plans are set out in the Strategic Report on pages 8 to 49.

Headlam Group plc is a company incorporated and domiciled in the UK, company number 00460129. The address of the registered office is PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW.

Strategic report and future developments

The Group is required by the Companies Act 2006 to include a Strategic Report in this document. The information that fulfils the requirements of the Strategic Report, and which is incorporated in this report by reference, can be found on the inside front cover to page 49. The Strategic Report includes certain disclosures required to be contained in the Directors' Report as follows: approach to diversity (page 42), workforce engagement (page 41), equal opportunities (page 42) and an indication of likely future developments (page 16, Chief Executive's Review), and the approach to risk management (pages 32 to 35).

Corporate governance statement

The Corporate Governance Statement as required by the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) 7.2.1 is set out on page 56 and is incorporated into this report by reference.

Acquisitions

On 1 March 2020, a subsidiary company of Headlam Group plc entered into an agreement to acquire Supertex Furnishing Limited ('Supertex'). Supertex operates from a warehouse and offices in Leyland, Lancashire, supplying domestic flooring (carpet, vinyl and accessories) to the retail flooring trade. Supertex distributes cut-length orders from stock throughout the North West on a next day delivery service. The acquisition enlarges Headlam's residential sector activities in the North West, a competitive region of the UK. Supertex will continue to be operated under its own brand and operate from the Group's existing premises in Stockport creating operating efficiencies, with a trade counter remaining in Leyland to service the local area.

Post balance sheet events

The impact of COVID-19 following the year end, and mitigating actions in place, are fully detailed in the Chief Executive's Review and Financial Review commencing on page 16.

In the UK budget on 3 March 2021 the Chancellor announced that the UK headline corporation tax rate would increase from 19% to 25% from 1 April 2023. This is anticipated to be substantively enacted during 2021. As a result, the UK deferred tax balances will likely be restated to 25% in the 2021 group accounts, resulting in an increase in the net deferred tax liability of approximately £2.6m.

Financial results and ordinary dividends

The results for the year and financial position at 31 December 2020 are shown in the Consolidated Income Statement on page 120 and Statements of Financial Position on page 122.

The Board previously announced that no interim dividend in respect of the six months ended 30 June 2020 would be proposed due to the uncertain trading environment and potential adverse impact on future performance caused by the COVID-19 pandemic (2019: 7.55p) but that there was an intention to declare a nominal ordinary dividend in March 2021. A nominal ordinary dividend of 2 pence per share has been declared by the Directors and will be paid on 28 May 2021 to shareholders on the register as at 7 May 2021. Further information on the Company's Capital Allocation Priorities can be found on page 9.

Share capital

As at 31 December 2020, 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. 187,116 Ordinary Shares were issued during the year to satisfy the deferred consideration payments under the terms of the acquisition of Domus Group of Companies as announced on 7 December 2017. Following this new issue, the Company's total issued share capital was 85,639,209 Ordinary Shares as at 31 December 2020. During the year, the Company purchased no shares into treasury pursuant to the authority granted by shareholders at the Company's Annual General Meeting on 22 May 2020, and no shares were purchased into treasury since 1 January 2021 and to the date of the signing of this Report.

Other Statutory Disclosures continued

A total of 19,899 Ordinary Shares were transferred from treasury stock during 2020 in connection with the Company's employee share schemes, and the balance of shares in treasury stock following these transfers was 528,750 Ordinary Shares as at 31 December 2020 (0.62% of the Company's total issued share capital).

Details of the Company's share capital are set out in note 25 to the financial statements, which should be treated as forming part of this report. Subject to the provisions of the Articles of Association and the Companies Act 2006, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the Directors may decide. There are, however, no restrictions on the transfer of securities in the Company, except that certain restrictions may from time to time be imposed by law or regulation, for example, insider trading laws, and pursuant to the Listing Rules of the Financial Conduct Authority (the 'Listing Rules'), and the Market Abuse Regulation, whereby certain employees require the approval of the Company to deal in the Company's shares.

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website by the next business day after the meeting. The holders of ordinary shares are entitled to receive the Annual Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights. Further shareholder information is available in the Notice of AGM which contains explanations as to the resolutions proposed.

Subject to certain limits, at the AGM on 22 May 2020, the Directors were granted general authority to allot shares in the Company together with an authority to allot shares in the Company in connection with a rights issue and in respect of cash without first offering them to existing shareholders. The Directors will be seeking to renew these authorities to allot unissued shares and to disapply statutory pre-emption rights at the forthcoming AGM. Full details are set out in the Notice of AGM which is contained in a separate circular to shareholders.

At the AGM on 22 May 2020, the Company was given the authority to purchase shares in the Company up to 10% of the issued share capital. Under this authority there is a minimum and maximum price to be paid for such shares. The Company did not use this authority during the year, and up to the date of the signing of this Report. The Directors will be seeking to renew the authority at the forthcoming AGM. The Company intends to only 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 9, and considering market conditions and the share price prevailing at the time, it believes that the purchase and subsequent cancellation of shares would have the effect of increasing the earnings per share and be in the best interest of shareholders generally. 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 50 and 51.

Changes to the Board during the period are set out on page 68. Details of the Directors' service agreements are set out below:

	Date of appointment	Date of original letter of appointment/ service agreement	Effective date of current letter of appointment/ service agreement	Next due for re-election
Executive Directors				
Steve Wilson	2 December 1991	n/a	3 March 2017	22 May 2021
Chris Payne	13 September 2017	n/a	13 September 2017	22 May 2021
Non-Executive Directors				
Philip Lawrence (Chairman)	1 June 2015	18 June 2015	1 June 2018	22 May 2021
Amanda Aldridge	1 February 2018	12 January 2018	1 February 2021	22 May 2021
Keith Edelman	1 October 2018	15 August 2018	1 October 2018	22 May 2021
Alison Littley	1 January 2019	15 August 2018	1 January 2019	22 May 2021

The Directors shall be not less than three and not more than eight in number, although the Company may by ordinary resolution vary these numbers. Directors may be appointed by the ordinary resolution of the shareholders or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company after their appointment, at which they are then eligible to stand for election.

As noted elsewhere in this report, all Directors are subject to annual election by shareholders at the AGM in line with the provisions of the Code.

Related party transactions

The Board and certain members of Senior Management are related parties within the definition of IAS 24 (Revised) 'Related Party Disclosures' ('IAS 24') and the Board are related parties within the definition of Chapter 11 of the UK Listing Rules ('Chapter 11'). There is no difference between transactions with key personnel of the Company and transactions with key personnel of the Group. During the year, the Group did not enter into any transaction which, for the purposes of IAS 24, is considered to be a 'related party transaction'. No related party transactions that require disclosure have been entered into during the year under review.

Directors' Powers

Subject to the Company's Articles of Association, the Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board which may exercise all the powers of the Company, whether relating to the management of the business of the Company or otherwise. The matters reserved for the Board are detailed in a specific schedule, which is reviewed annually and is available on the Company's website, www.headlam.com.

Change of control

The Group has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a successful takeover bid. The significant agreements in this respect are the Group's banking facility and certain of its employee share schemes. The Group's term loan facilities include a provision such that, in the event of a change of control, the lender may cancel all or any part of the facility and/or declare that all amounts outstanding under the facility are immediately due and payable by the Group. Outstanding options granted under the SAYE scheme may be exercised within a period of six months from a change of control of the Company following a takeover taking place.

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 2020, the persons set out in the table below have notified the Company, pursuant to DTR 5.1, of their interests in the voting rights in the Company's issued share capital.

Ordinary shares of 5p each	Aggregate total voting rights[1]	% of total voting rights[2]	Indirect/direct
FIL Limited	4,635,824	5.46	Indirect
Aberforth Partners LLP	4,597,427	5.41	Indirect
JO Hambro Capital Management Limited	4,301,148	5.07	Indirect
Heronbridge Investment Management LLP	4,209,552	5.04	Direct
Ruffer LLP	4,884,745	5.00	Direct
Ninety One UK Limited	4,230,614	4.98	Indirect
Aggregate of Standard Life Aberdeen plc affiliated management entities	4,189,429	4.95	Indirect
Rathbone Brothers plc	4,070,078	4.87	Indirect
Franklin Templeton Institutional, LLC	3,384,588	3.99	Indirect
Canaccord Genuity Group Inc	2,770,314	3.27	Indirect
Legal and General Group Plc (Group)	Not disclosed	Below 3 and 5%	Direct and Indirect

1 Represents the number of voting rights last notified to the Company by the respective shareholder in accordance with DTR 5.1.
2 Based on the Total Voting Rights in the Company as at the notification date.

Between 1 January 2021 and 9 March 2021, the following change in respect of the interests in voting rights in the Company's issued share capital have been notified to the Company:

	Aggregate total voting rights[1]	% of total voting rights[2]	Indirect/direct
JO Hambro Capital Management Limited	4,230,690	4.97	Indirect

1 Represents the number of voting rights last notified to the Company by the respective shareholder in accordance with DTR 5.1.
2 Based on the Total Voting Rights in the Company as at the notification date.

Other Statutory Disclosures continued

Rights under employees' share schemes
As at 31 December 2020, Kleinwort Hambros, as trustee of the Headlam Group Employee Trust Company Limited ('Trust') held 682,323 shares, approximately 0.8% of the issued share capital of the Company (excluding treasury shares) for the purpose of satisfying options and awards under the various employee share schemes operated by the Company. Kleinwort Hambros waives dividends due on all but 0.01p per share of their total holding.

Details of employee share schemes are set out in note 23 to the Financial Statements. Details of long-term incentive schemes for the Directors are shown in the Remuneration Report on pages 82 to 104.

Securities carrying special rights
There are no requirements for prior approval of any transfers and no person holds securities in the Company carrying special rights with regard to control of the Company.

Directors' interests and indemnity arrangements
During the year, no Director held any material interest in any contract of significance with the Company or any of its subsidiary undertakings, other than service agreements between each Executive Director and the Company. In addition, the Company has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors. The Directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision extends to include the Directors of Headlam Group Pension Trustees Limited, a corporate trustee of the Scheme, in respect of liabilities that may attach to them in their capacity as Directors of that corporate trustee. These provisions were in force throughout the year and are currently in force. Details of Directors remuneration, service agreements, and interests in the shares of the Company are set out in the Directors Remuneration Report.

Overseas Branches
The Company operates through statutory entities overseas and they are listed on page 173.

Anti-Corruption and Bribery
It is the Company's policy to conduct all business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships. The policy which is detailed on the Company's website, www.headlam.com, applies to all employees, directors, officers, agency workers, seconded workers, volunteers, interns, agents, contractors, external consultants, third-party representatives and business partners. Any individual who breaches the policy will face action, which in the case of employees could result in dismissal for gross misconduct.

Modern Slavery Act
The Board fully supports the aims of the Modern Slavery Act and the Company has a zero tolerance approach to slavery and human trafficking. Any new suppliers in higher risk areas are assessed for modern slavery and human trafficking purposes prior to establishing a business relationship. Regarding current suppliers, the Company will immediately suspend purchasing from a supplier, pending an investigation, if it believes there to be any evidence of slavery or human trafficking and will cease trading with the supplier if the investigation confirms any slavery or human trafficking.

Full information can be found in the Company's annual Modern Slavery Statement which is published on the Company's website and which details the actions undertaken to prevent slavery and human trafficking in both the Company's organisation and its supply chain.

Human Rights
We support the United Nations' Universal Declaration of Human Rights and have policies and processes in place to ensure that we act in accordance with our cultural values which encompass areas such as equal opportunities, diversity, inclusion and respect, anti-corruption and bribery, whistleblowing and fraud. We do not believe this to be a material issue in our business.

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

Employee Involvement and Communication
We are committed to communicating matters of importance to our employees. Communication is however not just one way and we actively encourage feedback from our employees, either through formal channels such as our Employee Forum (page 41) and our bi-annual employee survey, or more informal methods of feedback. In addition to our Employee Forum, we additionally hold champions meeting in our businesses and specific departmental group meetings where we get together those with specific job roles to share best practice and learn from the ideas and practices of others. Further information on employee involvement and Communication is contained within the People section on page 41.

During the year, members of our Employee Forum have been consulted and involved in several projects including the implementation of an employee communications portal. We are proud that our employees are committed and loyal to the Company and listening to their ideas through formal and informal channels helps to inform company decision-making.

Environmental policy and mandatory greenhouse gas emissions reporting
The Company's policy towards the environment, actions being undertaken to mitigate its environmental impact, and all required regulatory disclosures can be found within the Strategic Report on pages 46 to 48 and in the Streamlined Energy and Carbon Reporting ('SECR') Disclosure on page 110.

Engagement with suppliers, customers and other stakeholders
The directors understand the need to develop good business relationships with its suppliers, customers and other stakeholders and the success with which this is achieved is paramount to business success. Further information on the Company's approach to engagement with its stakeholders can be found on page 39.

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 111 and a statement by the Auditor on their responsibilities is given on page 118.

Political donations and expenditure
The Company's policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure. Accordingly, neither the Company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2019: £nil).

Charitable donations
Details are given on page 43 of the Strategic Report.

Amendments to the Articles of Association
The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

Financial instruments
The disclosures required in relation to the use of financial instruments by the Group together with details of our treasury policy and management are set out in note 26 to the financial statements on pages 162 to 170.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report within the viability statement on page 36. The financial position of the Group is described in the Financial Review on page 24 and the Group's viability statement on page 37. In addition, note 26 to the financial statements on pages 162 to 170, includes the Group's objectives, policies and processes for managing its exposures to interest rate risk, foreign currency risk, counterparty risk, credit risk and liquidity risk.

Based on the assessment which is outlined in the viability statement on page 36, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements set out on pages 120 to 173 have been prepared on the going concern basis.

External auditor
PricewaterhouseCoopers LLP have indicated their willingness to continue as Auditor and their reappointment has been approved by the Audit Committee. Resolutions to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the 2021 AGM.

AGM
This year's AGM will be held at the Company's distribution hub in Coleshill on Friday, 21 May 2021 at 10.00am. The notice convening this meeting is in a separate document to this Annual Report and Accounts along with the explanatory notes regarding the resolutions that will be proposed at the meeting.

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

Karen Atterbury
Company Secretary
9 March 2021
Company registration number: 00460129

Streamlined Energy and Carbon Reporting ('SECR') Disclosure

Report Summary

This Report alongside and in conjunction with the information contained in Environment on page 46 summarises the energy usage, associated emissions, energy efficiency actions and energy performance for Headlam Group plc 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. It also summarises the methodologies utilised for all calculations related to the elements reported under Energy and Carbon.

This summary report, and full supporting report, has been prepared by Net Zero Compliance (a division of Inspired Energy PLC) for Headlam Group plc by means of interpreting the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as they apply to information supplied by Headlam Group plc and its energy suppliers.

The following figures demonstrate year on year changes in consumption and resulting emissions for Headlam Group plc for 2020, following the voluntary reporting completed in 2019. As noted in Environment on page 46, meaningful comparison to 2019 is difficult due to the significant impact COVID-19 had on Headlam Group plc particularly in the second-quarter when the vast majority of operations were temporarily closed.

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

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

Totals

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

Utility and Scope	2020 Consumption (kWh)	2019 Consumption (kWh)
Grid-Supplied Electricity (Scope 2)	**6,965,268**	8,252,552
Natural Gas (Scope 1)	**5,597,780**	5,055,888
Transportation (Scope 1)	**50,819,475**	91,911,413
Total	**63,382,522**	105,219,852

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

Utility and Scope	2020 Consumption (tCO_2e)	2019 Consumption (tCO_2e)
Grid-Supplied Electricity (Scope 2)	**1,623.88**	2,109.39
Natural Gas (Scope 1)	**1,029.26**	930.54
Transportation (Scope 1)	**12,224.93**	22,423.81
Total	**14,878.08**	25,461.74

Intensity Metric

An intensity metric of tCO_2e per £m revenue has been applied for the annual total emissions of Headlam Group plc. The methodology of the intensity metric calculations are detailed below, and results of this analysis is as follows:

Intensity Metric	2020 Intensity Metric	2019 Intensity Metric
tCO_2e/£m revenue	**29.5**	41.7

Reporting Methodology

Scope 1 and 2 consumption and CO_2e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. To maintain continuity with the GHG reporting undertaken before the implementation of SECR, only UK consumption and emissions are included within the emissions reporting, as the majority operational base of the Group. The intensity metric therefore is also calculated utilising the UK revenue figure, and not the consolidated revenue.

The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used, utilising the current published kWh gross calorific value (CV) and $kgCO_2e$ emissions factors relevant for reporting year 01/01/2020 – 31/12/2020

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

Intensity metrics have been calculated utilising the reported 2020 UK revenue figure, and tCO_2e for both individual sources and total emissions were then divided by this figure to determine the tCO_2e per metric.

The Group does not currently report its Scope 1 and 2 consumption and CO_2e emission data for its Continental European operations, which accounted for 17.2% of total revenue in 2020.

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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, for the group and company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also 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 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 Annual Report confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group and profit of the company; 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.

For and on behalf of the Board

Steve Wilson
Director
9 March 2021

Chris Payne
Director
9 March 2021

Independent auditors' report

to the members of Headlam Group plc

Report on the audit of the financial statements

Opinion

In our opinion, Headlam Group plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements 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 2020 (the " Annual Report "), which comprise: the Group and Company Statements of Financial Position as at 31 December 2020; 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.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the group financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group.

We have provided no non-audit services to the group 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 82% of consolidated revenue and 93% of consolidated underlying profit before tax.
- In addition, we targeted significant balances in other components. These were identified as other interest-bearing loans and borrowings within the components of Headlam BV and LMS, and cash balances within Belcolor.
- All work was performed by the group team and no reliance was placed upon the work of component auditors.
- Finally, we performed analytical procedures on insignificant trading components for group reporting purposes

Key audit matters
- Supplier arrangements (group)
- Impairment of Domus intangibles (group)
- Impact of COVID-19 (group and parent)

Materiality

- Overall group materiality: £1,600,000 (2019: £2,000,000) based on 5% of 3 year average underlying profit before tax (2019: 5% of underlying profit before tax).
- Overall company materiality: £1,520,000 (2019: £1,900,000) based on 1% of total assets, capped at allocated component materiality of £1,520,000 (2019: £1,900,000).
- Performance materiality: £1,200,000 (group) and £1,140,000 (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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 government grants (specifically CJRS), competition law, employment regulation and health and safety legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. 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:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Tested Coronavirus Job Retention Scheme claims back to bank receipts and submitted claim forms. For a sample of employees we also reperformed the calculation of amounts claimed and sought evidence of the eligibility for those employees.
- Reading key correspondence with regulatory authorities, such as the Competition and Markets Authority (CMA) and the Authority for Consumers and Markets.
- 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.

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.

Impact of COVID-19 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report continued

to the members of Headlam Group plc

Key audit matter	How our audit addressed the key audit matter
Supplier arrangements (group) Refer to the Audit Committee Report on page 77 and the use of estimates and judgements in the Accounting Policies on page 127. The group has a significant number of rebate agreements with suppliers. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased. Consequently, the calculation of these rebates can be complex and requires accurate inputs and calculations to be made. The majority of agreements are co-terminus with the financial year, meaning that, although the calculation of the rebate does not rely on estimates of future purchases, there are significant amounts of rebates receivable subject to recovery at the year end.	We tested a sample of rebate balances by requesting confirmations from the counterparty. For each balance, we also ensured that the amount due agreed to our independent expectation, to within a tolerable threshold, based on the supporting purchase agreements and tested the calculation inputs back to underlying financial records. No material inconsistencies or exceptions were noted. For those balances subject to testing, we agreed post year end settlements back to evidence of cash receipt or credit notes received, to provide evidence over the recoverability of the balances. No material concerns were identified and post year end settlement was noted as being in line with prior year experience. In addition, in order to assess management's ability to accurately calculate rebates receivable balances, we compared cash receipts received during the year against balances accrued at the previous year end. No material inconsistencies or exceptions were noted.
Impairment of Domus intangibles (group) Refer to the Audit Committee Report on page 77 and the use of estimates and judgements in the Accounting Policies on page 127 and note 12 to the financial statements on page 145. During the financial year, the performance of the Domus trading subsidiary has continued to decline, with the business achieving an operating loss of £0.8 million in FY20 (FY19 – £1.0 million profit). This decline represents an impairment trigger in respect of intangible assets. In light of recent performance and revised forecasts reflecting the impact of Covid-19, management performed an impairment assessment over the Domus goodwill as at 30 June 2020. As a result of this assessment, the goodwill was fully impaired, but £7.7m of other intangible assets continue to be recognised. As the carrying value of intangibles is contingent on the achievement of future cash flow forecasts, continued underperformance of the business could give rise to the risk of further impairments.	We reviewed the individual intangible assets to identify any potential indicators of impairment at an individual intangible asset level in light of current and future market conditions. We obtained management's impairment model and tested its integrity and accuracy. Our work highlighted the three most sensitive assumptions to be revenue growth, gross margin and the discount rate. We agreed the revenue and cash flows used as the basis of the model back to Board approved 5 year forecasts and held discussions with management to determine whether the rationale behind the forecast cash flows is of sound logic. We reviewed the most recent trading results, achieved whilst the UK was in national lockdown, and noted these were consistent with management's forecasts. We reviewed the historical revenue and gross margin performance of the business to determine whether it has previously experienced fluctuations in performance and whether it has a track record of recovering from previous declines. In addition, we performed benchmarking against independent market indices, and noted a correlation between the Domus revenue levels and wider macro-economic indicators. We engaged independent valuation experts to review and benchmark the discount rate calculated by management and concluded that it lay within our expected range. We reviewed management's impairment sensitivity disclosures and concluded these adequately reflect 'reasonably possible' changes in key assumptions. As a result of these procedures, we consider the directors' assessment of the carrying value of Domus intangibles to be supportable.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (group and parent) Refer to the Audit Committee Report on page 77. During the financial year, the COVID-19 pandemic has had a significant impact on the Group. Lockdown measures resulted in a large number of branches closing for a period of time between March and June which had a significant impact on the revenue and profit results of the Group for the period. As at the year end date and the date of signing the financial statements, there continues to be significant uncertainty of the future impact of COVID-19. The pandemic has the potential to impact on a number of aspects of the financial statements including going concern and the impairment and provisioning in respect of certain assets. Management have considered implications for the Group's going concern assessment, potential impairment of certain assets and appropriate disclosure in the financial statements, by developing downside scenarios to model potential impacts. The results of these scenarios did not indicate a material uncertainty over going concern and, notwithstanding those impairments already recorded during the year, did not identify any further impairment concerns. Management have provided disclosure in the financial statements relating to the risks and impact associated with COVID-19.	We evaluated management's assessment of going concern for the Headlam§z group which were based on detailed cash flow forecasts under both base case and severe but plausible downside scenarios. We tested that the cash flow forecasts were consistent with board approved plans and challenged management on the assumptions used and concluded that they were reasonable in light of previous performance, future expectations and management's track record of accurate forecasting. We also confirmed there were no doubts over the ability of the group to meet its debt covenants under the scenarios considered. We also reperformed management's reverse stress test which demonstrated further headroom beyond the scenarios modelled and prior to consideration of any mitigating actions which are within management's control. Our conclusion in respect of going concern is included within the "Conclusions relating to going concern" section below. We considered the potential impact on the balance sheet, specifically in relation to inventory, property, plant and equipment, right of use assets, trade and other receivables and intangible assets and do not consider there to be any indicators of material impairment as at the balance sheet date or subsequently (for disclosure only). We reviewed management's disclosures in relation to COVID-19 and found them to be consistent with the base case and downside scenarios performed by management.

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.

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

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

The work on these four components, together with additional procedures performed at the Group level, including analytical procedures and specific testing of the consolidation, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Independent auditors' report continued

to the members of Headlam Group plc

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	£1,600,000 (2019: £2,000,000).	£1,520,000 (2019: £1,900,000)
How we determined it	5% of 3 year average underlying profit before tax (2019: 5% of underlying profit before tax)	1% of total assets, capped at allocated component materiality of £1,520,000 (2019: £1,900,000)
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. For FY20, a three year average of underlying profit before tax is deemed appropriate as a result of the temporary disruption caused by COVID-19 during the initial lockdown between March and June 2020. All facilities subsequently reopened and continue to trade and therefore the decrease in profitability has not been sustained.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £221,000 and £1,520,000. 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% of overall materiality, amounting to £1,200,000 for the group financial statements and £1,140,000 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 in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £80,000 (group audit) (2019: £100,000) and £80,000 (company audit) (2019: £100,000) 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 a downside scenarios.
- Testing the cash flows were consistent with board approved forecasts and considering whether they were reasonable in light of previous performance, future expectations and management's track record of accurate forecasting.
- Assessing there were no doubts over the ability of the group to meet its debt covenants under both base case and a downside scenarios.

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 company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Other Statutory Disclosures, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Other Statutory Disclosures
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Other Statutory Disclosures for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Other Statutory Disclosures.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement
The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate Governance Report 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:

Independent auditors' report continued

to the members of Headlam Group plc

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report and Accounts 2020 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 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

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 5 years, covering the years ended 31 December 2016 to 31 December 2020.

Gillian Hinks (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
9 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Note	Underlying 2020 £M	Non-underlying (Note 3) 2020 £M	Total 2020 £M	Underlying 2019 £M	Non-underlying (Note 3) 2019 £M	Total 2019 £M
Revenue	2	**609.2**	**–**	**609.2**	719.2	–	719.2
Cost of sales		**(420.3)**	**–**	**(420.3)**	(489.8)	–	(489.8)
Gross profit		**188.9**	**–**	**188.9**	229.4	–	229.4
Distribution costs		**(121.3)**	**–**	**(121.3)**	(135.7)	–	(135.7)
Administrative expenses		**(49.7)**	**(32.9)**	**(82.6)**	(51.5)	(3.9)	(55.4)
Operating profit/(loss)	2	**17.9**	**(32.9)**	**(15.0)**	42.2	(3.9)	38.3
Finance income	6	**0.8**	**–**	**0.8**	0.8	–	0.8
Finance expenses	6	**(2.8)**	**(0.1)**	**(2.9)**	(3.5)	(0.4)	(3.9)
Net finance costs		**(2.0)**	**(0.1)**	**(2.1)**	(2.7)	(0.4)	(3.1)
Profit/(loss) before tax	3	**15.9**	**(33.0)**	**(17.1)**	39.5	(4.3)	35.2
Taxation	7	**(3.9)**	**0.7**	**(3.2)**	(6.9)	0.3	(6.6)
Profit/(loss) for the year attributable to the equity shareholders		**12.0**	**(32.3)**	**(20.3)**	32.6	(4.0)	28.6
Earnings/(loss) per share							
Basic	9	**14.3p**		**(24.2)p**	38.8p		34.0p
Diluted*	9	**14.2p**		**(24.2)p**	38.6p		33.8p
Ordinary dividend per share							
Interim dividend for the financial year	25			**–**			7.55p
Dividend declared	25			**2.00p**			–

All Group operations during the financial years were continuing operations.

* For the year ended 31 December 2020, diluted earnings/(loss) per share are reported the same as basic earnings/(loss) per share, as a result of the earnings being negative so the impact of them is anti-dilutive.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020 £M	2019 £M
(Loss)/profit for the year attributable to the equity shareholders		**(20.3)**	28.6
Other comprehensive income/(expense)			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	23	**(0.3)**	0.9
Related tax		**0.1**	(0.2)
		(0.2)	0.7
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations		**0.9**	(0.5)
		0.9	(0.5)
Other comprehensive income for the year		**0.7**	0.2
Total comprehensive (expense)/income attributable to the equity shareholders for the year		**(19.6)**	28.8

Statements of Financial Position

At 31 December 2020

		Group		Company	
	Note	**2020 £M**	2019 £M	**2020 £M**	2019 £M
Assets					
Non-current assets					
Property, plant and equipment	10	**122.9**	114.6	**1.0**	16.0
Investment properties	10	**–**	–	**97.3**	80.0
Right of use assets	11	**42.1**	43.9	**0.7**	0.6
Intangible assets	12	**21.1**	48.5	**1.1**	–
Investments in subsidiary undertakings	13	**–**	–	**105.8**	122.0
Deferred tax assets	14	**–**	0.7	**–**	–
		186.1	207.7	**205.9**	218.6
Current assets					
Inventories	15	**118.5**	132.4	**–**	–
Trade and other receivables	16	**101.6**	123.7	**22.5**	21.3
Cash and cash equivalents	17	**60.8**	33.4	**16.6**	17.5
		280.9	289.5	**39.1**	38.8
Non-current assets classified as held for sale	18	**0.4**	–	**0.4**	–
		281.3	289.5	**39.5**	38.8
Total assets		**467.4**	497.2	**245.4**	257.4
Liabilities					
Current liabilities					
Other interest-bearing loans and borrowings	19	**(2.0)**	(0.2)	**–**	–
Lease liabilities	20	**(12.5)**	(13.9)	**(0.1)**	–
Trade and other payables	21	**(178.4)**	(181.9)	**(35.9)**	(40.3)
Income tax payable	8	**(0.2)**	(5.0)	**(0.8)**	(1.3)
		(193.1)	(201.0)	**(36.8)**	(41.6)
Non-current liabilities					
Other interest-bearing loans and borrowings	19	**(7.2)**	(6.2)	**–**	–
Lease liabilities	20	**(30.8)**	(30.7)	**(0.7)**	(0.6)
Provisions	22	**(2.1)**	(2.3)	**–**	–
Deferred tax liabilities	14	**(8.7)**	(7.6)	**(6.6)**	(5.2)
Employee benefits	23	**(5.5)**	(4.3)	**(2.3)**	(2.2)
		(54.3)	(51.1)	**(9.6)**	(8.0)
Total liabilities		**(247.4)**	(252.1)	**(46.4)**	(49.6)
Net assets		**220.0**	245.1	**199.0**	207.8
Equity attributable to equity holders of the parent					
Share capital	25	**4.3**	4.3	**4.3**	4.3
Share premium		**53.5**	53.5	**53.5**	53.5
Other reserves	25	**3.4**	1.3	**16.3**	15.1
Retained earnings		**158.8**	186.0	**124.9**	134.9
Total equity		**220.0**	245.1	**199.0**	207.8

The notes on pages 126 to 173 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 loss for the year attributable to the equity shareholders is £3.5 million *(profit in 2019: £31.2 million)*, including the impact of impairment of a subsidiary investment, see note 13.

These financial statements were approved by the Board of Directors on 9 March 2021 and were signed on its behalf by

Steve Wilson
Director

Chris Payne
Director

Company Number: 00460129

Statement of Changes in Equity – Group

For the year ended 31 December 2020

	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 2019	4.3	53.5	0.1	–	7.4	(7.4)	177.1	235.0
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	28.6	28.6
Other comprehensive (expense)/income	–	–	–	–	(0.5)	–	0.7	0.2
Total comprehensive income for the year	–	–	–	–	(0.5)	–	29.3	28.8
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	0.8	0.8
Share options exercised by employees	–	–	–	–	–	1.3	(0.5)	0.8
Ordinary shares issued	–	–	–	0.5	–	–	–	0.5
Effect of movement on foreign exchange on current taxation	–	–	–	–	(0.1)	–	–	(0.1)
Deferred tax on share options	–	–	–	–	–	–	0.2	0.2
Dividends to equity holders	–	–	–	–	–	–	(20.9)	(20.9)
Total contributions by and distributions to equity shareholders	–	–	–	0.5	(0.1)	1.3	(20.4)	(18.7)
Balance at 31 December 2019	4.3	53.5	0.1	0.5	6.8	(6.1)	186.0	245.1
Balance at 1 January 2020	**4.3**	**53.5**	**0.1**	**0.5**	**6.8**	**(6.1)**	**186.0**	**245.1**
(Loss)/profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(20.3)**	**(20.3)**
Other comprehensive income/(expense)	**–**	**–**	**–**	**–**	**0.9**	**–**	**(0.2)**	**0.7**
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**–**	**0.9**	**–**	**(20.5)**	**(19.6)**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**0.2**	**(0.1)**	**0.1**
Ordinary shares issued	**–**	**–**	**–**	**1.0**	**–**	**–**	**–**	**1.0**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(6.3)**	**(6.3)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**1.0**	**–**	**0.2**	**(6.7)**	**(5.5)**
Balance at 31 December 2020	**4.3**	**53.5**	**0.1**	**1.5**	**7.7**	**(5.9)**	**158.8**	**220.0**

Statement of Changes in Equity – Company

For the year ended 31 December 2020

	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 2019	4.3	53.5	0.1	20.6	(7.4)	123.8	194.9
Profit for the year attributable to the equity shareholders	–	–	–	–	–	31.2	31.2
Other comprehensive income	–	–	–	–	–	0.3	0.3
Total comprehensive income for the year	–	–	–	–	–	31.5	31.5
Transactions with equity shareholders, recorded directly in equity							
Share-based payments	–	–	–	–	–	0.8	0.8
Share options exercised by employees	–	–	–	–	1.3	(0.5)	0.8
Ordinary share issues	–	–	–	0.5	–	–	0.5
Deferred tax on share options	–	–	–	–	–	0.2	0.2
Dividends to equity holders	–	–	–	–	–	(20.9)	(20.9)
Total contributions by and distributions to equity shareholders	–	–	–	0.5	1.3	(20.4)	(18.6)
Balance at 31 December 2019	4.3	53.5	0.1	21.1	(6.1)	134.9	207.8
Balance at 1 January 2020	**4.3**	**53.5**	**0.1**	**21.1**	**(6.1)**	**134.9**	**207.8**
Loss for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**(3.5)**	**(3.5)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(3.4)**	**(3.4)**
Transactions with equity shareholders, recorded directly in equity							
Share-based payments	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Share options exercised by employees	**–**	**–**	**–**	**–**	**0.2**	**(0.1)**	**0.1**
Ordinary share issues	**–**	**–**	**–**	**1.0**	**–**	**–**	**1.0**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**(6.3)**	**(6.3)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**1.0**	**0.2**	**(6.6)**	**(5.4)**
Balance at 31 December 2020	**4.3**	**53.5**	**0.1**	**22.1**	**(5.9)**	**124.9**	**199.0**

Cash Flow Statements

For the year ended 31 December 2020

	Note	Group 2020 £M	Group Restated** 2019 £M	Company 2020 £M	Company Restated** 2019 £M
Cash flows from operating activities					
(Loss)/profit before tax for the year		**(17.1)**	35.2	**(2.0)**	31.9
Adjustments for:					
Depreciation of property, plant and equipment, amortisation and impairment	3	**35.8**	8.9	**1.8**	1.7
Depreciation of right-of-use asset	11	**16.2**	15.3	**–**	–
Impairment of investment	13	**–**	–	**16.6**	–
Finance income	6	**(0.8)**	(0.8)	**(0.6)**	(0.8)
Finance expense	6	**2.9**	3.9	**1.0**	1.1
Loss/(profit) on sale of property, plant and equipment	3	**0.1**	(0.1)	**–**	–
Share-based payments	24	**(0.1)**	0.8	**(0.5)**	0.1
Operating cash flows before changes in working capital and other payables		**37.0**	63.2	**16.3**	34.0
Change in inventories		**15.3**	(0.6)	**–**	–
Change in trade and other receivables		**23.2**	(4.7)	**(1.4)**	5.6
Change in trade and other payables		**(4.8)**	(2.0)	**(3.5)**	(0.1)
Cash generated from the operations*		**70.7**	55.9	**11.4**	39.5
Interest paid		**(2.7)**	(3.4)	**(0.5)**	(0.8)
Interest received		**0.8**	0.9	**0.3**	0.3
Tax paid		**(6.3)**	(8.3)	**(0.8)**	0.2
Net cash flow from operating activities		**62.5**	45.1	**10.4**	39.2
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**0.1**	0.1	**–**	–
Acquisition of subsidiaries, net of cash acquired	27	**(1.0)**	(4.4)	**–**	(1.1)
Repayment of acquired borrowings on acquisition		**(0.2)**	–	**–**	–
Acquisition of property, plant and equipment		**(15.0)**	(15.8)	**(5.2)**	(13.0)
Net cash flow from investing activities		**(16.1)**	(20.1)	**(5.2)**	(14.1)
Cash flows from financing activities					
Proceeds from the issue of treasury shares		**0.2**	0.8	**0.2**	0.8
Drawdown of borrowings		**50.9**	45.0	**50.0**	45.0
Repayment of borrowings		**(48.5)**	(45.2)	**(50.0)**	(45.0)
Principal elements of lease payments	20	**(15.7)**	(14.9)	**–**	–
Dividends paid	25	**(6.3)**	(20.9)	**(6.3)**	(20.9)
Net cash flow from financing activities		**(19.4)**	(35.2)	**(6.1)**	(20.1)
Net increase/(decrease) in cash and cash equivalents		**27.0**	(10.2)	**(0.9)**	5.0
Cash and cash equivalents at 1 January		**33.4**	43.8	**17.5**	12.5
Effect of exchange rate fluctuations on cash held		**0.4**	(0.2)	**–**	–
Cash and cash equivalents at 31 December	17	**60.8**	33.4	**16.6**	17.5

* Cash generated from the Group operations for the year ended 31 December 2020, includes an amount of £11.0 million cash received under governmental job retention schemes in the UK and France (Company £0.1 million). These are discussed in more detail under Government Grants in note 1.

** Cash flow restated to present interest paid and interest received both within net cash flow from operating activities.

Notes to the Financial Statements

1 Presentation of the Financial Statements and Accounting Policies

Reporting entity

Headlam Group plc (the 'Company') is a company incorporated and domiciled in the UK. The address of its registered office is PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW.

Statement of compliance

Both the Company's and the Group's financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 9 March 2021.

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.

The Cash Flow Statements for both the Group and Company have been restated to present interest paid and interest received both within net cash flow from operating activities.

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 million.

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 8 and Chief Executive's Review on pages 16 to 21.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 24 to 29. In addition, note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group meets its day-to-day working capital requirements through its banking facilities. As highlighted in note 19 to the financial statements, the Group has maintained two separate agreements with Barclays Bank PLC and HSBC Bank Plc and these include both Sterling and Euro term facilities. The Group's Sterling committed facilities are £68.5 million and its Euro committed facilities are €9.6 million. The Group also has short term uncommitted facilities which continue at £25 million, and €8.3 million and are renewable on an annual basis.

As at 31 December 2020, the Company had a net funds position excluding lease liabilities of £51.6 million and had total banking facilities available of £110.3 million, of which £102.8 million was undrawn.

As detailed in the Viability Statement on page 36, the Directors have reviewed the Company's resilience to the principal risks and uncertainties by considering stress testing forecasts through adverse scenarios including (A) a reduction in market demand whilst there is ongoing inflationary fixed cost pressure; and (B) an economic crisis similar to that experienced in 2008, both modelled over a three-year period from January 2021. The testing indicated that the Company would be able to operate within its current facilities and meet its financial covenants in both scenarios.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period no shorter than 12 months from the date of approval of the financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(b) Use of accounting estimates and judgements

Estimates

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the 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 may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

- *Supplier arrangements*
  The group has a number of rebate agreements with suppliers. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased. Consequently, the calculation of these rebates require accurate inputs and calculations to be made. The majority of agreements are co-terminus with the financial year, meaning that, although the calculation of the rebate does not rely on estimates of future purchases, there are significant amounts of rebates receivable subject to recovery at the year-end. At 31 December 2020, rebates receivable are estimated to be fully recoverable.

- *Inventory*
  Inventories are valued at the lower of cost and net realisable value.Provisions to write down inventory to its net realisable value are calculated based on the ageing profile and consideration of inventory sold for less than its carrying value. If the ageing of inventory deteriorated by one month over the whole profile, the inventory provision would increase by £0.4 million.

- *Trade receivables*
  The expected credit loss model is used to measure the impairment required against trade receivables. This requires historical experience, together with management estimates to derive forward-looking adjustments to the impairment calculation. If historical loss rates increased by a factor of 10%, the loss allowance would increase by £0.8 million.

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

  Sensitivities in respect of these assumptions are detailed in note 23.

- *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. These both require an estimation of the value in use of the cash generating units 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 cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. During the year management have recognised an impairment on goodwill in respect of Domus Group of Companies Ltd of £20.9 million (31 December 2019: £2.1 million), Belcolor AG £3.3 million, Dersimo BV £1.3 million, CECO (Flooring) Ltd £1 million, Rackhams Ltd £0.4 million, Mitchell Carpets £0.3 million, Supertex Ltd of £0.4 million and other £0.4 million. Further details on the impairments, the assumptions used in determining the value in use calculations, and their associated sensitivity analysis can be found in note 12.

Judgements

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements are as follows:

- *Non-underlying items*
  In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. These non-underlying items are defined as those items that by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. Consequently, the classification of these items requires judgement. Further details can be found in Note 3.

Notes to the Financial Statements continued

1 Presentation of the Financial Statements and Accounting Policies continued

Judgements continued

(c) Impact of newly adopted accounting standards

There were no newly adopted accounting standards by the Group and Company in 2020.

(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

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

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group's financial statements.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in UK sterling currency units (£), which is Headlam Group plc's functional and presentational currency.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign subsidiaries are translated at foreign exchange rates ruling at the Statement of Financial Position date.

The revenues, expenses and cash flows of foreign subsidiaries are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign subsidiaries are taken directly to the translation reserve and reflected as a movement in the statement of comprehensive income.

Foreign currency exposure

Note 26 contains information about the foreign currency exposure of the Group and risks in relation to foreign exchange movements.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

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

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

Cash flow hedges

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

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

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

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

Further information about the derivatives used by the Group is provided in note 26.

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:

Overview
Strategic Report
Governance
Financial Statements

Notes to the Financial Statements continued

1 Presentation of the Financial Statements and Accounting Policies continued

Property, plant and equipment continued

Land and buildings

Freehold and long leasehold properties	–	2%

Plant and equipment

Motor and commercial vehicles	–	10% – 25%
Office and computer equipment	–	10% – 33%
Warehouse and production equipment	–	10% – 20%

Land is not depreciated.

The residual balances are reviewed annually.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the income statement.

Assets under construction are reported within Property, plant and equipment. These assets are stated at cost and are not depreciated until they are complete and utilised by the group. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Investment properties

Investment properties are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis in order to depreciate assets to their residual value over their useful economic lives. The annual rate applicable is:

Freehold and long leasehold properties	–	2%

The residual balances are reviewed annually.

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 and the lease term on a straight-line basis.

Goodwill and other intangible assets

Goodwill

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

Following the requirements of IFRS 3 revised, transaction costs associated with acquisitions and movements in contingent consideration are recognised in the income statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment, or more frequently when there is an indicator that the unit may be impaired.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. This is in accordance with IFRS 1.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less cumulative amortisation and impairment losses. Other intangible assets are amortised from the date they are available for use.

Amortisation

Amortisation is charged to the income statement and is split over the estimated useful lives of each separately identifiable intangible asset unless such lives are indefinite. Amortisation occurs on brand names, order book, non-compete agreements, customer relationships and supply agreements 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

Financial assets are no longer recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, 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. 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 the 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.

Trade and other receivables

Trade receivables are recognised at the transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financing component. Other receivables are measured at fair value on initial recognition.

In line with the principles of IFRS 9, the Group assesses, on a forward-looking basis, the expected credit losses associated with its trade and other receivables carried at amortised cost and fair valued through other comprehensive income. 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 26.

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 and 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.

Notes to the Financial Statements continued

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 at each Statement of Financial Position date.

For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows from other groups of assets.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets, with the exception of the Group's receivables, is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there had been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade payables

Trade payables are initially recognised at fair value and then are stated at amortised cost.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Borrowing costs

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

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

Provisions

Provisions are recognised 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.

Employee benefits
The Company and the Group operate both defined benefit and defined contribution plans, the assets of which are held in independent trustee-administered funds. The pension cost is assessed in accordance with the advice of a qualified actuary.

Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans
The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement immediately.

To the extent that any benefits vest immediately, the expense is recognised directly in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in 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 Group operates a UK defined benefit pension plan and a defined benefit plan in Switzerland. In the UK, there is no contractual agreement or stated Group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the Company, which is the sponsoring employer.

The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary.

Share-based payment transactions
The Company and Group operate various equity-settled share option schemes under the approved and unapproved executive schemes and savings-related schemes.

For executive share option schemes, the option price may not be less than the mid-market value of the Group's shares at the time when the options were granted or the nominal value.

Further details of the share plans are given in the Remuneration Report on pages 82 to 104.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity over the period that the employees unconditionally become entitled to the award. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to market conditions such as share prices not achieving the threshold for vesting.

When options are granted to employees of subsidiaries of the Company, the fair value of options granted is recognised as an employee expense in the financial statements of the subsidiary undertaking together with the capital contribution received. In the financial statements of the Company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding increase in equity.

Notes to the Financial Statements continued

1 Presentation of the Financial Statements and Accounting Policies continued

Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Own shares held by Employee Benefit Trust
Transactions of the Group sponsored Employee Benefit Trust are included in the Group financial statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

Revenue
Revenue from the sale of floorcoverings is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of floorcoverings is recognised when control of the goods is transferred to the customer (which is typically the point at which goods are received by the customer), at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods. Provisions for returns, discounts and other allowances are reflected in revenue at the point of recognition.

Supplier arrangements
Rebates received from suppliers comprise volume related rebates on the purchase of inventories. Volume related rebates are accrued as units are purchased based on the percentage rebate applicable to the forecast total purchases over the rebate period, where it is probable the rebates will be received and the amounts can be estimated reliably. Rebates relating to inventories purchased but still held at the balance sheet date are deducted from the carrying value so that the cost of inventories is recorded net of applicable rebates. Rebates received for the financial year are deducted from cost of sales. Rebates recoverable at the end of the financial year are accrued within other debtors.

Government Grants
The Group recognises government grants in accordance with IAS 20. These grants are received by the Group in the UK in the form of furlough payments made by the Government under the Coronavirus Job Retention Scheme ('JRS'). The grants received by the Group are recognised in the income statement on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. The grants are applied against the cost incurred and it is the Group's accounting policy choice that they are shown net within the income statement. Furlough income included under this JRS and included within the income statement at 31 December 2020 amounted to £10.5 million. An additional amount of £0.5 million was received by the Group's French subsidiary under a similar scheme by the French government.

In addition to the JRS scheme two loans were received by the Group's French subsidiary for a total of €2 million repayable by September 2021. The loans are from the French government and are interest free.

No other government grants were applied for or received during the year ended 31 December 2020 (31 December 2019: £nil).

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities for the group include the net present value of the following payments:
- fixed payments, less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is 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 payments are discounted using the interest rate implicit in the lease, or the lessee's incremental borrowing rate if that rate cannot be readily determined.

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

Payments associated with short-term leases of equipment and leases of low-value assets, i.e assets of £3,000 or less, are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly of IT equipment, for example; printers and photocopiers.

Net financing costs
Net financing costs comprise interest payable, interest on lease liabilities, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments as outlined in the accounting policy relating to derivative financial instruments and hedging described above.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

Interest paid and interest received are classified as operating cash flows in the cash flow statement.

Dividends
Paid
Interim and final dividends are recognised when they are paid or when approved by the members in a general meeting. Final dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements. Nominal dividends declared but 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 it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Non-underlying items
In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. These non-underlying items are defined as those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group.

Notes to the Financial Statements continued

2 Segment reporting

As at 31 December 2020, the Group had 63 operating segments in the UK and four operating segments in Continental Europe. Each segment represents an individual trading operation, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the 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**	
	2020 £M	2019 £M	**2020 £M**	2019 £M	**2020 £M**	2019 £M
Revenue						
External revenues	**504.7**	610.2	**104.5**	109.0	**609.2**	719.2
Reportable segment underlying operating profit	**15.5**	41.3	**2.1**	3.5	**17.6**	44.8
Reportable segment assets	**296.5**	329.1	**47.8**	47.2	**344.3**	376.3
Reportable segment liabilities	**(200.9)**	(205.5)	**(31.3)**	(29.1)	**(232.2)**	(234.6)

During the year there were no inter-segment revenues for the reportable segments *(2019: £nil)*.

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

	2020 £M	2019 £M
Profit for the year		
Total underlying operating profit for reportable segments	**17.6**	44.8
Non-underlying items	**(32.9)**	(3.9)
Unallocated income/(expense)	**0.3**	(2.6)
Operating (loss)/profit	**(15.0)**	38.3
Finance income	**0.8**	0.8
Finance expense	**(2.9)**	(3.9)
(Loss)/profit before taxation	**(17.1)**	35.2
Taxation	**(3.2)**	(6.6)
(Loss)/profit for the year	**(20.3)**	28.6

	2020 £M	2019 £M
Assets		
Total assets for reportable segments	**344.3**	376.3
Unallocated assets:		
Properties, plant and equipment	**105.4**	102.1
Right of use assets	**0.7**	0.6
Deferred tax assets	**–**	0.7
Non-current assets classified as held for sale	**0.4**	–
Cash and cash equivalents	**16.6**	17.5
Total assets	**467.4**	497.2
Liabilities		
Total liabilities for reportable segments	**(232.2)**	(234.6)
Unallocated liabilities:		
Lease liabilities	**(0.8)**	(0.6)
Employee benefits	**(5.5)**	(4.3)
Income tax payable	**(0.2)**	(5.0)
Deferred tax liabilities	**(8.7)**	(7.6)
Total liabilities	**(247.4)**	(252.1)

	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 2020					
Capital expenditure	**9.1**	**0.7**	**9.8**	**5.6**	**15.4**
Impairment of goodwill	**23.4**	**4.6**	**28.0**	**–**	**28.0**
Depreciation	**2.8**	**0.7**	**3.5**	**2.7**	**6.2**
Depreciation of right of use assets	**14.0**	**2.1**	**16.1**	**0.1**	**16.2**
Non-underlying items (excluding finance expenses and impairments)	**4.8**	**0.1**	**4.9**	**–**	**4.9**
Other material items 2019					
Capital expenditure	2.0	0.8	2.8	15.5	18.3
Impairment of goodwill*	2.1	–	2.1	–	2.1
Depreciation	2.2	0.7	2.9	2.4	5.3
Depreciation of right of use assets	13.1	2.0	15.1	0.1	15.2
Non-underlying items (excluding finance expenses and impairments)	1.7	0.1	1.8	–	1.8

* Prior year figures updated to reflect correct allocation between segments.

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

Each segment is a continuing operation.

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	
	2020 £M	2019 £M	2020 £M	2019 £M	2020 £M	2019 £M
Revenue						
Residential	**354.3**	397.0	**61.0**	61.0	**415.3**	458.0
Commercial	**150.4**	213.2	**43.5**	48.0	**193.9**	261.2
	504.7	610.2	**104.5**	109.0	**609.2**	719.2

Notes to the Financial Statements continued

3 Profit before tax

The following are included in profit before tax:

	2020 £M	2019 £M
Depreciation on property, plant and equipment	**6.2**	5.3
Depreciation of right of use assets	**16.2**	15.2
Amortisation and impairment of intangible assets	**29.6**	3.6
Loss/(profit) on sale of property, plant and equipment	**0.1**	(0.1)

Non-underlying items of £33.0 million (2019: £4.3 million) relate to the following:

	2020 £M	2019 £M
Impairment of goodwill (note 12)	**28.0**	2.1
Amortisation of acquired intangibles	**1.6**	1.4
Acquisitions related fees	**0.7**	0.7
Movements in deferred and contingent consideration	**(0.1)**	(0.3)
Finance costs on deferred and contingent consideration	**0.1**	0.4
Business restructuring	**2.4**	–
GMP Equalisation	**0.3**	–
	33.0	4.3

The related tax on these costs is £0.7 million (2019: £0.3 million).

Auditor's remuneration:

	2020 £M	2019 £M
Audit of these financial statements	**0.2**	0.1
Amounts received by the Auditor and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**0.3**	0.3
	0.5	0.4

4 Staff numbers and costs

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

	Number of employees			
	Group		Company	
	2020	2019	2020	2019
By sector:				
Floorcoverings	**2,446**	2,555	**–**	–
Central operations	**20**	20	**20**	20
	2,466	2,575	**20**	20
By function:				
Sales and distribution	**2,239**	2,352	**–**	–
Administration	**227**	223	**20**	20
	2,466	2,575	**20**	20

The aggregate payroll costs were as follows:

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Wages and salaries*	**71.3**	87.2	**2.2**	3.2
Equity settled share-based payment (income)/expense (note 24)	**(0.1)**	0.8	**(0.5)**	0.1
Social security costs*	**8.7**	11.1	**(0.1)**	0.6
Pension costs (note 23)*	**4.8**	4.3	**0.1**	0.1
	84.7	103.4	**1.7**	4.0

* Wages and salaries, social security costs and pension costs for the year ended 31 December 2020, include an amount of £10.1 million, £0.7 million and £0.2 million respectively for funds received under governmental job retention schemes in the UK and France (Company £0.1 million in total).

5 Emoluments of key management personnel

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

	2020 £M	2019 £M
Short-term employee benefits	**1.2**	1.8
Equity settled share-based payment expense	**0.2**	0.3
	1.4	2.1

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 82 to 104.

6 Finance income and expense

	2020 £M	2019 £M
Interest income:		
Bank interest	**0.6**	0.8
Other	**0.2**	–
Finance income	**0.8**	0.8
Interest expense:		
Bank loans, overdrafts and other financial expenses	**(0.7)**	(1.4)
Interest on lease liability	**(1.6)**	(1.7)
Net interest on defined benefit plan obligations (note 23)	**(0.1)**	(0.1)
Finance costs on deferred and contingent consideration	**(0.1)**	(0.4)
Other	**(0.4)**	(0.3)
Finance expenses	**(2.9)**	(3.9)

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

Notes to the Financial Statements continued

7 Taxation

Recognised in the income statement

	2020 £M	2019 £M
Current tax expense:		
Current year	**2.7**	7.9
Adjustments for prior years	**(0.9)**	(0.7)
	1.8	7.2
Deferred tax expense:		
Origination and reversal of temporary differences	**0.1**	(0.7)
Effect of change in UK tax rates	**0.9**	–
Adjustments for prior years	**0.4**	0.1
	1.4	(0.6)
Total tax in income statement	**3.2**	6.6

	2020 £M	2019 £M
Tax relating to items credited/(charged) to equity		
Current tax on:		
Income and expenses recognised directly in equity	**–**	(0.1)
Translation reserve	**–**	0.1
	–	–
Deferred tax on:		
Share options	**0.2**	(0.3)
Income and expenses recognised directly in equity	**–**	–
Deferred tax on other comprehensive income:		
Defined benefit plans	**(0.1)**	0.2
	0.1	–
Total tax reported directly in reserves	**0.1**	(0.1)

Factors that may affect future current and total tax charges

The UK headline corporation tax rate for the year was 19.0% *(2019: 19.0%)*. The 2016 Finance Bill enacted provisions to reduce the main rate of UK corporation tax to 17.0% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17.0% would not occur and the Corporation Tax Rate would be held at 19.0%. The closing deferred tax balance in respect of UK entities has therefore been calculated at 19.0% (2019: 17.0%).

In addition, an increase in the Dutch corporation tax rate to 25.0% (2019: 20.5%) was enacted in December 2020 which has also been taken into account in the calculation of the related deferred tax balance.

Reconciliation of effective tax rate

	2020 %	2020 £M	2019 %	2019 £M
Profit before tax		**(17.1)**		35.2
Tax using the UK corporation tax rate	**19.0**	**(3.2)**	19.0	6.7
Effect of change in UK tax rate	**(5.3)**	**0.9**	–	–
Effect of change in overseas tax rate	**–**	**–**	0.1	0.1
Recognition of tax losses	**–**	**–**	(1.6)	(0.6)
Non-deductible expenses/non-taxable income	**(2.9)**	**0.5**	1.9	0.7
Non-deductible non-underlying costs	**(31.0)**	**5.3**	1.1	0.4
Effect of tax rates in foreign jurisdictions	**0.1**	**(0.1)**	(0.2)	(0.1)
Impact of losses not recognised	**(1.7)**	**0.3**	–	–
Adjustments in respect of prior years	**2.9**	**(0.5)**	(1.5)	(0.6)
Total tax in income statement	**(18.7)**	**3.2**	18.8	6.6
Add back tax on non-underlying items		**0.7**		0.3
Total tax charge excluding non-underlying items		**3.9**		6.9
Profit before non-underlying items		**15.9**		39.5
Adjusted effective tax rate excluding non-underlying items		**24.5%**		17.4%

8 Current tax liabilities

The Group's current tax liability of £0.2 million *(2019: £5.0 million)* represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable. The Company's current tax liability of £0.8 million *(2019: £1.3 million)* represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

At 31 December 2020, the Group held a current provision of £0.7 million *(2019: £1.0 million)* in respect of uncertain tax provisions. Liabilities relating to these open and judgmental matters are based on an assessment as to whether additional taxes will be due, after taking into account external advice where appropriate. The Group expects this uncertain tax provision to decrease in the next 12 months.

9 Earnings per share

	2020 £M	2019 £M
Earnings		
Earnings for underlying basic and underlying diluted earnings per share	**12.0**	32.6
(Loss)/earnings for basic and diluted earnings per share	**(20.3)**	28.6

	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,228,880**	83,971,792
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	**84,228,880**	83,971,792
Dilutive effect of share options	**543,732**	536,952
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,772,612**	84,508,744
(Loss)/earnings per share		
Basic	**(24.2)p**	34.0p
Diluted*	**(24.2)p**	33.8p
Underlying basic	**14.3p**	38.8p
Underlying diluted	**14.2p**	38.6p

* For the year ended 31 December 2020, diluted earnings/(loss) per share are reported the same as basic earnings/(loss) per share, as a result of the earnings being negative so the impact of them is anti-dilutive.

Notes to the Financial Statements continued

9 Earnings per share continued

At 31 December 2020, the Company held 1,211,073 shares (2019: *1,260,396*) 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 2019	121.4	40.3	0.5	162.2
Additions	0.2	2.6	15.5	18.3
Disposals	(1.0)	(3.7)	–	(4.7)
Reclassification	(0.1)	0.1	–	–
Effect of movements in foreign exchange	(0.5)	(0.4)	–	(0.9)
Balance at 31 December 2019	120.0	38.9	16.0	174.9
Balance at 1 January 2020	**120.0**	**38.9**	**16.0**	**174.9**
Acquisitions	**–**	**0.2**	**–**	**0.2**
Additions	**0.3**	**9.5**	**4.5**	**14.3**
Disposals	**(0.1)**	**(4.2)**	**–**	**(4.3)**
Transfer to use	**19.5**	**–**	**(19.5)**	**–**
Transfer to assets held for sale	**(0.8)**	**–**	**–**	**(0.8)**
Effect of movements in foreign exchange	**0.9**	**0.5**	**–**	**1.4**
Balance at 31 December 2020	**139.8**	**44.9**	**1.0**	**185.7**
Depreciation and impairment				
Balance at 1 January 2019	30.4	29.8	–	60.2
Depreciation charge for the year	2.4	2.9	–	5.3
Disposals	(1.0)	(3.6)	–	(4.6)
Effect of movements in foreign exchange	(0.3)	(0.3)	–	(0.6)
Balance at 31 December 2019	31.5	28.8	–	60.3
Balance at 1 January 2020	**31.5**	**28.8**	**–**	**60.3**
Depreciation charge for the year	**2.7**	**3.5**	**–**	**6.2**
Disposals	**(0.1)**	**(4.0)**	**–**	**(4.1)**
Transfer to assets held for sale	**(0.4)**	**–**	**–**	**(0.4)**
Effect of movements in foreign exchange	**0.5**	**0.3**	**–**	**0.8**
Balance at 31 December 2020	**34.2**	**28.6**	**–**	**62.8**
Net book value				
At 1 January 2019	91.0	10.5	0.5	102.0
At 31 December 2019 and 1 January 2020	88.5	10.1	16.0	114.6
At 31 December 2020	**105.6**	**16.3**	**1.0**	**122.9**

At 31 December 2020, the cost less accumulated depreciation of long leasehold property held by the Group and shown within land and buildings above was £6.9 million (*2019:* £7.1 million).

Company investment properties and plant and equipment

	Note	Investment properties £M	Under construction £M
Cost			
Balance at 1 January 2019		103.6	0.5
Additions		–	15.5
Balance at 31 December 2019		103.6	16.0
Balance at 1 January 2020		**103.6**	**16.0**
Additions		**–**	**4.5**
Transfer to use		**19.5**	**(19.5)**
Transfer to assets held for sale	18	**(0.8)**	**–**
Balance at 31 December 2020		**122.3**	**1.0**
Depreciation			
Balance at 1 January 2019		21.9	–
Depreciation charge for the year		1.7	–
Balance at 31 December 2019		23.6	–
Balance at 1 January 2020		**23.6**	**–**
Depreciation charge for the year		**1.8**	**–**
Transfer to assets held for sale	18	**(0.4)**	**–**
Balance at 31 December 2020		**25.0**	**–**
Net book value			
At 1 January 2019		81.7	0.5
At 31 December 2019 and 1 January 2020		80.0	16.0
At 31 December 2020		**97.3**	**1.0**

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

11 Right of use assets

	Group			Company
	Properties £M	Non-property £M	Total £M	Properties £M
Recognised on transition to IFRS 16	18.7	30.9	49.6	0.6
Additions	1.4	7.6	9.0	–
Contract modifications	0.3	0.2	0.5	–
Depreciation	(4.5)	(10.7)	(15.2)	–
Net book value at 31 December 2019	15.9	28.0	43.9	0.6
Net book value at 1 January 2020	**15.9**	**28.0**	**43.9**	**0.6**
Additions	**0.1**	**13.9**	**14.0**	**0.1**
Contract modifications	**(0.2)**	**0.5**	**0.3**	**–**
Depreciation	**(4.6)**	**(11.6)**	**(16.2)**	**–**
Effect of movements in foreign exchange	**0.1**	**–**	**0.1**	**–**
Net book value at 31 December 2020	**11.3**	**30.8**	**42.1**	**0.7**

The right-of-use assets are shown as non-current assets in the balance sheet. The non-property right-of-use assets relate mainly to commercial and motor vehicles.

An analysis of the related lease liabilities is set out in Note 20 'Lease liabilities' and Note 26 'Financial instruments'.

Notes to the Financial Statements continued

12 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 2019	41.4	6.5	6.8	6.9	0.1	–	–	61.7
Addition	0.3	–	0.2	0.4	–	0.2	–	1.1
Balance at 31 December 2019	41.7	6.5	7.0	7.3	0.1	0.2	–	62.8
Balance at 1 January 2020	**41.7**	**6.5**	**7.0**	**7.3**	**0.1**	**0.2**	**–**	**62.8**
Addition	**0.4**	**–**	**0.4**	**0.3**	**–**	**–**	**1.1**	**2.2**
Balance at 31 December 2020	**42.1**	**6.5**	**7.4**	**7.6**	**0.1**	**0.2**	**1.1**	**65.0**
Impairment and Amortisation								
Balance at 1 January 2019	3.2	6.4	0.7	0.4	–	–	–	10.7
Impairment/amortisation charge for the year	2.1	0.1	0.8	0.6	–	–	–	3.6
Balance at 31 December 2019	5.3	6.5	1.5	1.0	–	–	–	14.3
Balance at 1 January 2020	**5.3**	**6.5**	**1.5**	**1.0**	**–**	**–**	**–**	**14.3**
Impairment/amortisation charge for the year	**28.0**	**–**	**0.9**	**0.7**	**–**	**–**	**–**	**29.6**
Balance at 31 December 2020	**33.3**	**6.5**	**2.4**	**1.7**	**–**	**–**	**–**	**43.9**
Net book value								
At 31 December 2019 and 1 January 2020	36.4	–	5.5	6.3	0.1	0.2	–	48.5
At 31 December 2020	**8.8**	**–**	**5.0**	**5.9**	**0.1**	**0.2**	**1.1**	**21.1**

Cumulative impairment losses recognised in relation to goodwill is £33.3 million *(2019: £5.3 million).*

Company	Software development £M
Cost	
Balance at 1 January 2020	–
Addition	1.1
Balance at 31 December 2020	1.1
Net book value at 31 December 2020	**1.1**

Impairment tests for cash-generating units containing goodwill ('CGU')

Goodwill is attributed to the businesses identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent operating segments.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported segment	2020 £M	2019 £M
Joseph, Hamilton & Seaton	**UK**	**4.4**	4.4
Crucial Trading	**UK**	**1.4**	1.4
Belcolor AG	**Continental Europe**	**–**	3.3
Domus Group of Companies Limited	**UK**	**–**	20.9
Mitchell Carpets Limited	**UK**	**–**	0.3
McMillan Flooring	**UK**	**0.1**	0.1
CECO (Flooring) Limited	**UK**	**1.2**	2.2
Dersimo BV	**Continental Europe**	**–**	1.3
Ashmount Flooring Supplies Limited	**UK**	**0.4**	0.4
Rackhams Limited	**UK**	**–**	0.4
Telenzo	**UK**	**0.3**	0.3
Other	**UK**	**1.0**	1.4
		8.8	36.4

Impairment

Each year, or whenever events or a change in the economic environment or performance indicates a risk of impairment, the Group reviews the value of goodwill balances allocated to its cash-generating units.

An impairment test is a comparison of the carrying value of the assets of a business or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. Where the recoverable amount is less than the carrying value, an impairment results.

During the year ended 31 December 2020, all goodwill was tested for impairment, which resulted in an impairment charge on goodwill attributable to the Domus Group of Companies Limited CGU ("Domus") of £20.9 million (2019: £2.1 million), Belcolor AG £3.3 million, Dersimo BV £1.3 million, CECO (Flooring) Ltd £1.0 million, Rackhams Ltd £0.4 million, Mitchell Carpets £0.3 million, Supertex Ltd of £0.4 million and other £0.4 million.

£20.9 million of the total £28.0 million goodwill impairment is in relation to Domus, and represents a full write-down of the remaining residual goodwill following its acquisition in 2017. Domus's reliance on larger scale projects with long-lead times, predominately in the London area, causes its financial performance to be highly sensitive to prolonged recessionary market backdrops which result in delays and cancellations to projects, and means the recovery cycle can take longer.

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2019, and applying the following key assumptions.

Key assumptions

Cash flows were projected based on actual operating results, the approved 2021 business plan and management's assessment of planned performance in the period to 2025. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.0% beyond 2025.

The main assumptions within the operating cash flows used for 2021 include the achievement of future sales volumes and prices for all key product lines, control of purchase prices, achievement of budgeted operating costs and no significant adverse foreign exchange rate movements. These assumptions have been reviewed in light of the current economic environment.

The Directors have estimated the discount rate by reference to an industry average weighted average cost of capital. This has been adjusted to include an appropriate risk factor to reflect current economic circumstances and the risk profile of the CGUs. A pre-tax weighted average cost of capital of 11.7% *(2019: 10.5%)* has been used for impairment testing for the UK, Netherlands 12.0% *(2019: 11.5%)* and Switzerland 10.3% (2019: 11.5%) to reflect the differing risk profiles of these segments.

The CGUs in the UK, excluding Domus have similar characteristics and risk profiles, and therefore a single discount rate has been applied to each UK CGU. The CGUs in Continental Europe operate under a different regulatory environment and this is therefore reflected in the risk factor used to determine the discount rates in the UK and Continental Europe. Domus has different characteristics to the rest of the CGUs in the UK and therefore a pre-tax discount rate of 12.6% *(2019: 11.4%)* has been deemed more appropriate.

Sensitivity analysis

The Group has applied sensitivities to assess whether any reasonable possible changes in these key assumptions could cause a further impairment that would be material to these Consolidated Financial Statements. The sensitivity analysis proved there was no risk of material misstatement with the exception of the four CGUs below for which there was limited headroom.

The Directors performed sensitivity analysis on the estimated recoverable amounts focusing on a reasonably possible change in the key assumptions within the first five years of:
(i) sales growth in the cash flow forecasts
(ii) gross margin and
(iii) the pre-tax discount rate used to convert the cash flow forecasts to present values.

Notes to the Financial Statements continued

12 Intangible assets – group continued

Sensitivity analysis continued

The table below shows the sensitivities for certain CGU's that show a small amount of headroom using the key assumptions. The sensitivities show what affect would happen to the headroom in each of the three scenarios:

		Reduction in headroom		
	Original* headroom £M	Sales growth decrease 1% £M	Gross margin decrease 1% £M	Discount rate increase 1% £M
Domus Group of Companies Ltd	**2.0**	**(2.7)**	**(1.9)**	**(1.0)**
Belcolor AG	**–**	**(3.8)**	**(3.4)**	**(0.7)**
CECO (Flooring) Ltd	**–**	**(0.4)**	**(0.4)**	**(0.2)**
Dersimo BV	**(0.2)**	**(0.9)**	**(1.1)**	**(0.2)**

* Following the impairments already incurred to date.

13 Investments in subsidiary undertakings

Summary information on investments in subsidiary undertakings is as follows:

	£M
Cost	
Balance at 1 January 2019	121.4
Share options granted to employees of subsidiary undertakings	0.6
Balance at 31 December 2019	122.0
Balance at 1 January 2020	**122.0**
Share options granted to employees of subsidiary undertakings	**0.4**
Balance at 31 December 2020	**122.4**
Impairment	
Balance at 1 January 2020	**–**
Impairment charge for the year	**(16.6)**
Balance at 31 December 2020	**(16.6)**
Carrying value	
At 1 January 2019	121.4
At 31 December 2019	122.0
At 31 December 2020	**105.8**

A full list of the Group's subsidiaries is listed on page 173. During the year ended 31 December 2020, an impairment in the Company's investment in Domus Group of Companies Ltd was recognised of £16.6 million.

14 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £M	2019 £M	2020 £M	2019 £M	2020 £M	2019 £M
Property, plant and equipment	**–**	–	**(7.2)**	(6.0)	**(7.2)**	(6.0)
Intangible assets	**–**	–	**(2.5)**	(2.3)	**(2.5)**	(2.3)
Leases	**–**	–	**(0.1)**	–	**(0.1)**	–
Employee benefits	**1.2**	1.3	**–**	–	**1.2**	1.3
Tax losses	**–**	0.3	**–**	–	**–**	0.3
Other items	**–**	–	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Tax assets/(liabilities)	**1.2**	1.6	**(9.9)**	(8.5)	**(8.7)**	(6.9)
Set-off of tax	**(1.2)**	(0.9)	**1.2**	0.9	**–**	–
	–	0.7	**(8.7)**	(7.6)	**(8.7)**	(6.9)

Movement in deferred tax during the year

	1 January 2020 £M	Brought in on acquisition £M	Recognised in income £M	Recognised in equity £M	31 December 2020 £M
Property, plant and equipment	**(6.0)**	**–**	**(1.2)**	**–**	**(7.2)**
Intangible assets	**(2.3)**	**(0.3)**	**0.1**	**–**	**(2.5)**
Leases	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Employee benefits	**1.3**	**–**	**–**	**(0.1)**	**1.2**
Tax losses	**0.3**	**–**	**(0.3)**	**–**	**–**
Other items	**(0.2)**	**–**	**0.1**	**–**	**(0.1)**
	(6.9)	**(0.3)**	**(1.4)**	**(0.1)**	**(8.7)**

Movement in deferred tax during the prior year

	1 January 2019 £M	Brought in on acquisition £M	Recognised in income £M	Recognised in equity £M	31 December 2019 £M
Property, plant and equipment	(6.1)	–	0.1	–	(6.0)
Intangible assets	(2.4)	(0.1)	0.2	–	(2.3)
Employee benefits	1.3	–	(0.1)	0.1	1.3
Tax losses	–	–	0.3	–	0.3
Other items	(0.3)	–	0.1	–	(0.2)
	(7.5)	(0.1)	0.6	0.1	(6.9)

Company
Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £M	2019 £M	**2020 £M**	2019 £M	**2020 £M**	2019 £M
Property, plant and equipment	**–**	–	**(7.2)**	(6.0)	**(7.2)**	(6.0)
Employee benefits	**0.6**	0.8	**–**	–	**0.6**	0.8
Tax assets/(liabilities)	**0.6**	0.8	**(7.2)**	(6.0)	**(6.6)**	(5.2)
Set-off of tax	**(0.6)**	(0.8)	**0.6**	0.8	**–**	–
	–	–	**(6.6)**	(5.2)	**(6.6)**	(5.2)

Movement in deferred tax during the year

	1 January 2020 £M	Recognised in income £M	Recognised in equity £M	31 December 2020 £M
Property, plant and equipment	**(6.0)**	**(1.2)**	**–**	**(7.2)**
Employee benefits	**0.8**	**–**	**(0.2)**	**0.6**
	(5.2)	**(1.2)**	**(0.2)**	**(6.6)**

Movement in deferred tax during the prior year

	1 January 2019 £M	Recognised in income £M	Recognised in equity £M	31 December 2019 £M
Property, plant and equipment	(6.1)	0.1	–	(6.0)
Employee benefits	0.6	–	0.2	0.8
	(5.5)	0.1	0.2	(5.2)

Notes to the Financial Statements continued

14 Deferred tax assets and liabilities continued
Company continued
Unrecognised deferred tax assets and liabilities – Group and Company
At 31 December 2020, the Group and Company has unused capital losses of £10.8 million *(2019: £11.2 million)* available for offset against future chargeable gains. In addition, the Group has an unrecognised deferred tax asset in respect of tax losses in France of £1.8 million *(2019 £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 deferred tax asset should be recognised at this time.

15 Inventories

	Group		Company	
Goods for resale	**2020 £M**	2019 £M	**2020 £M**	2019 £M
Balance as at 31 December	**118.5**	132.4	**–**	–

Cost of sales consists of the following:

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Material cost	**418.6**	486.2	**–**	–
Processing cost	**1.7**	3.6	**–**	–
	420.3	489.8	**–**	–

The cost of inventories within cost of sales stated above includes movements in the provision for obsolete inventory of £2.0 million release *(2019: £0.1 million release).*

16 Trade and other receivables

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Trade receivables	**78.8**	91.8	**–**	–
Prepayments and accrued income	**4.3**	5.8	**0.2**	0.3
Other receivables	**18.5**	26.1	**0.3**	0.3
Amounts due from subsidiary undertakings	**–**	–	**22.0**	20.7
	101.6	123.7	**22.5**	21.3

Other receivables include balances that fall due after more than 1 year of £nil *(2019: included £0.1 million).*

Amounts due from subsidiary undertakings are unsecured, interest bearing and are repayable on demand.

£6.5 million *(2019: £1.5 million)* was recognised as an impairment loss in the Consolidated Income Statement in respect of trade receivables.

The impairment loss is attributable to the reportable segments as follows:

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
UK	**6.3**	1.1	**1.6**	1.6
Continental Europe	**0.2**	0.4	**–**	–
	6.5	1.5	**1.6**	1.6

Further details on the impairment of trade receivables is provided in note 26.

17 Cash and cash equivalents

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Cash	**60.8**	33.4	**16.6**	17.5
Cash and cash equivalents per Statement of Financial Position	**60.8**	33.4	**16.6**	17.5

18 Non-current assets classified as held for sale

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Assets classified as held for sale:				
Property, plant and equipment	**0.4**	–	**0.4**	–

At 31 December 2020, the company held a freehold property in Hadleigh, UK that was being actively marketed for sale and was available for immediate disposal. This property was sold on 25 January 2021. This property is reported as non-current assets classified as held for sale and reported under unallocated in note 2 as it is primarily a group activity to hold and maintain the properties.

At 31 December 2020, the company held a freehold property in Bedford, UK that was not actively marketed for sale until January 2021, as a result this property is disclosed within Property, plant and equipment, note 10.

19 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and Company's interest-bearing loans and borrowings.

On 5 August 2019, the Group completed a refinancing of its existing banking facilities to extend their term from 14 December 2021 to 30 April 2023. The Group maintained its two agreements with Barclays Bank PLC and HSBC Bank Plc, but decreased the level of Sterling committed facilities from £72.5 million to £68.5 million and increased its euro committed facilities from €8.6 million to €9.6 million. The Group also has short term uncommitted facilities which continue at £25.0 million in the UK and £8.4 million in Continental Europe. These are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2020 were £110.3 million *(2019: £109.7 million)*.

The Company announced in May 2020 that it had agreed revised covenant tests with its banks, Barclays Bank PLC and HSBC Bank Plc, for 30 June 2020 on the existing facilities which run to 30 April 2023. In August 2020, the Company agreed further revised covenant tests for 31 December 2020, being i) positive annual underlying EBITDA; and ii) maximum net debt of £45.0 million as at 31 December 2020, both of which were complied with. The original leverage and interest cover covenants are reverted to in 2021.

For more information about the Group's and Company's exposure to interest rate and foreign currency risk, see note 26.

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Current liabilities				
Bank overdraft	**–**	–	**–**	–
French Government loan	**1.8**	–	**–**	–
Interest-bearing loan	**0.2**	0.2	**–**	–
	2.0	0.2	**–**	–
Non-current liabilities				
Interest-bearing loans	**7.2**	6.2	**–**	–
	7.2	6.2	**–**	–

Notes to the Financial Statements continued

19 Other interest-bearing loans and borrowings continued

During the year the Group's French subsidiary, LMS SA, received two loans from the French government in response to COVID-19. The loans were for a total of €2 million, are interest free and are due for repayment in September 2021.

The interest-bearing loans relate to the euro committed facilities that have been drawn by the Group's European subsidiaries. LMS SA has drawn £5.4 million and Headlam Holdings BV has drawn £2.0 million (2019: LMS SA £4.2 million and Headlam Holdings BV £2.2 million), £0.2 million of this is shown within current liabilities as it makes repayments each year.

The Group has undrawn borrowing facilities at 31 December 2020, which amounted to £102.8 million *(2019: £103.2 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. There is a downstream guarantee from the Company in relation to its borrowing facility in the Netherlands and France. Covenant calculations have been prepared for the year ending 31 December 2020 and there were no breaches.

The undrawn borrowing facilities are as follows:

	Interest rate %	2020 £000	Interest rate %	2019 £000
UK	**1.19**	**93.5**	1.80	93.5
Netherlands	**1.79**	**2.7**	1.93	2.4
France	**1.32**	**2.5**	1.30	3.4
Switzerland	**1.50**	**4.1**	1.50	3.9
		102.8		103.2

The undrawn borrowing facilities consisted of £69.5 million committed and £33.3 million uncommitted facilities (2019: £70.2 million committed and £33.0 million uncommitted).

All the borrowing facilities above bear interest at floating rates. The Swiss facility may be drawn as an overdraft or fixed rate loan with different rates depending on the term and amount.

Changes in net funds

	At 1 January 2020 £M	Non-cash items £m	Cash flows £M	Foreign exchange movements £M	At 31 December 2020 £M
Cash at bank and in hand	**33.4**	**–**	**27.0**	**0.4**	**60.8**
Debt due within one year	**(0.2)**	**–**	**(1.8)**	**–**	**(2.0)**
Debt due after one year	**(6.2)**	**–**	**(0.6)**	**(0.4)**	**(7.2)**
Net funds excluding lease liabilities	**27.0**	**–**	**24.6**	**–**	**51.6**
Lease liabilities	**(44.6)**	**(14.3)**	**15.7**	**(0.1)**	**(43.3)**
Net (debt)/funds	**(17.6)**	**(14.3)**	**40.3**	**(0.1)**	**8.3**

20 Lease liabilities

	Group		Company	
	2020 £M	2019 £M	2020 £M	2019 £M
Lease liabilities				
Current	**12.5**	13.9	**0.1**	–
Non-current	**30.8**	30.7	**0.7**	0.6
	43.3	44.6	**0.8**	0.6

The lease liabilities are split on the balance sheet between current and non-current.

The group leases various properties and commercial vehicles and cars. Rental contracts are typically made for fixed periods of 5 to 10 years and 3 to 7 years respectively, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognised as a right-of-use assets *(note 11)* and a corresponding liability at the date at which the leased asset is available for use by the Group. Right of use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period, this being the amortised cost method.

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

The lease payments are discounted using the Group's incremental borrowing rate as it has been difficult to determine the interest rate implicit in the lease for existing leases.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

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.

21 Trade and other payables

	Group		Company	
Current	**2020 £M**	2019 £M	**2020 £M**	2019 £M
Trade payables	**129.7**	140.9	**0.6**	3.8
Taxation and social security	**23.5**	15.1	**2.6**	0.6
Non-trade payables and accrued expenses	**25.1**	25.6	**2.7**	5.5
Amounts due to subsidiary undertakings	**–**	–	**30.0**	30.3
Derivative liabilities used for economic hedging:				
Other derivatives at fair value	**0.1**	0.3	**–**	0.1
	178.4	181.9	**35.9**	40.3

Amounts due to subsidiary undertakings are unsecured, interest bearing and are repayable on demand.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

Notes to the Financial Statements continued

22 Provisions

	Property	
	2020 £M	2019 £M
Balance at 1 January	**2.3**	2.2
(Credited)/charged to the income statement:		
Additional provisions	**0.1**	0.1
Release of provisions	**(0.2)**	–
Utilisation of provisions	**(0.1)**	–
Balance at 31 December	**2.1**	2.3

The property provisions relate to property dilapidations. Dilapidation provisions are expected to be utilised between 1 and 159 years as the individual lease term comes to an end.

23 Employee benefits

During the year, the Group operated UK and Swiss defined benefit plans and defined contribution plans in the UK, France and the Netherlands.

UK defined benefit plan

The Headlam Group plc Staff Retirement Benefits Scheme (the "plan") is the principal 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 closed to future accrual on 31 March 2020.

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. There have been no payments made to the company out of the plan's assets over the year, and no additional liability has been recognised on the balance sheet.

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 employee representative and two employer representatives. 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.

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.

There have been no other curtailments or settlements made to the plan over 2020. There has been a past service cost in relation to the estimated impact of equalising GMPs of £0.3 million for members who have transferred out of the plan, treated as a non-underlying item.

The plan's investment strategy is to invest broadly 70% in return seeking assets and 30% in matching assets, mainly government bonds. This strategy reflects the plan's liability profile and the Trustee's and company's attitude to risk. The matching fund seeks to match the return achieved on the liabilities. The plan's investments include interest rate and inflation hedging.

The plan holds a number of annuity policies which match a portion of the pensions in payment.

The plan is funded partly by contributions from members and partly by contributions from the company at rates advised by professionally qualified actuaries. The last scheme funding valuation of the plan was as at 31 March 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 mechanic 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 18 years.

Swiss defined benefit plan

The plan provides occupational retirement, disability and survivors' benefits. The members are entitled to receive pensions from age 64 (female) or 65 (male), equal to the old age savings balance multiplied with a conversion rate of 6.8% for the mandatory part of the savings balance and 4.2% for the part beyond the mandatory part. The minimum interest rate on old age savings has legally been fixed.

The Company is affiliated to the Collective Foundation Sammelstiftung berufliche Vorsorge Swiss Life, Sammelstiftung mit Anlagerisiko. The pension plans remained unchanged. The plan is legally separated from the Company. The executive body of the collective foundation is the board of trustees, which is elected directly by the insured of the affiliated companies/occupational benefits funds and functions independently of Swiss Life. Its members include employer and employee representatives from a wide range of occupations and companies of different sizes. The collective foundation is reinsured for risk benefits with Swiss Life insurance company.

There have been no amendments, curtailments or settlements made to the plan during 2020.

The occupational benefits fund commission (OBC) defines the investment strategy; the affiliated occupational benefits fund itself bears the investment risk. The investments are managed with Credit Suisse.

The last scheme funding valuation of the plan was as at 31 December 2020 and revealed that the plan was overfunded. This overfunding is appropriate to Swiss legislation and cannot be considered in the context of IAS 19. According to Swiss rules there is no need to evaluate the scheme using assumptions for future changes of salary increase, benefit increase or inflation.

The last IAS 19 valuation at year-end 2020 revealed a funding deficit of £2.8 million *(2019: £1.7 million)*. The Group is expected to pay £0.5 million for future service costs over the next accounting period.

The liabilities of the scheme are based on the current value of expected benefit payment cash flows to members of the Scheme over the next 50 years or more. The weighted average duration of the liabilities is 19.39 years.

Notes to the Financial Statements continued

23 Employee benefits continued

Defined benefit obligation

In the UK there is no contractual agreement or stated Group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the Company, which is the sponsoring employer. The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary. The Company recognises a cost equal to its contributions payable for the period net of amounts recharged in relation to the Group deficit to the participating subsidiary companies.

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Present value of funded defined benefit obligations	**(134.9)**	(129.5)	**(119.7)**	(116.7)
Fair value of plan assets	**129.7**	125.5	**117.4**	114.5
Net obligations	**(5.2)**	(4.0)	**(2.3)**	(2.2)
Other long-term employee benefits	**(0.3)**	(0.3)	**–**	–
Total employee benefits	**(5.5)**	(4.3)	**(2.3)**	(2.2)
Analysed as:				
Current liabilities	**–**	–	**–**	–
Non-current liabilities	**(5.5)**	(4.3)	**(2.3)**	(2.2)
Total employee benefits	**(5.5)**	(4.3)	**(2.3)**	(2.2)

Movements in present value of defined benefit obligation

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
At 1 January	**129.5**	125.1	**116.7**	111.6
Current service cost	**1.3**	1.6	**0.3**	1.0
Past service cost	**0.3**	(0.8)	**0.3**	–
Interest cost	**2.3**	3.1	**2.2**	3.0
Net remeasurement losses/(gains) – financial	**10.7**	10.9	**10.3**	10.1
Net remeasurement losses/(gains) – demographic	**0.6**	(5.8)	**0.6**	(5.8)
Net remeasurement (gains)/losses – experience	**(1.8)**	(0.3)	**(1.5)**	0.1
Benefits paid	**(9.1)**	(4.4)	**(9.3)**	(3.4)
Contributions by members	**0.3**	0.4	**0.1**	0.1
Effect of movements in foreign exchange	**0.8**	(0.3)	**–**	–
At 31 December	**134.9**	129.5	**119.7**	116.7

Movements in fair value of plan assets

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
At 1 January	**125.6**	119.5	**114.5**	109.0
Interest income on plan assets	**2.2**	3.0	**2.2**	2.9
Return on assets, excluding interest income	**9.2**	5.7	**9.6**	4.8
Contributions by employer:				
Future service contributions	**0.8**	1.5	**0.3**	1.1
Contributions by members	**0.3**	0.4	**0.1**	0.1
Benefits paid	**(9.1)**	(4.4)	**(9.3)**	(3.4)
Effect of movements in foreign exchange	**0.7**	(0.2)	**–**	–
At 31 December	**129.7**	125.5	**117.4**	114.5

The fair value of the plan assets were as follows:

	Group 2020 £M	Group 2019 £M	Company 2020 £M	Company 2019 £M
Equities	**50.1**	50.1	**45.9**	47.1
Government debt	**36.5**	27.2	**36.5**	27.2
Corporate bonds	**17.5**	25.0	**13.4**	20.6
Annuities	**3.2**	1.3	**1.5**	1.4
Hedge funds	**4.9**	3.9	**4.9**	3.9
Other	**17.5**	18.0	**15.2**	14.3
	129.7	125.5	**117.4**	114.5

Expense recognised in the income statement relating to defined benefit obligation

	Group 2020 £M	Group 2019 £M
Service cost	**1.6**	0.8
Net interest on the net defined benefit liability (note 6)	**0.1**	0.1
Total	**1.7**	0.9

Service costs, including past service costs and net interest are charged to Administration expenses and Net finance costs respectively.

Remeasurement of the net defined benefit liability in the Statement of Comprehensive Income:

	Group 2020 £M	Group 2019 £M
Return on assets, excluding interest income	**(9.2)**	(5.7)
Net remeasurement – financial	**10.7**	10.9
Net remeasurement – demographic	**0.6**	(5.8)
Net remeasurement – experience	**(1.8)**	(0.3)
	0.3	(0.9)

Notes to the Financial Statements continued

23 Employee benefits continued

Expense recognised in the income statement relating to defined benefit obligation continued

Principal actuarial assumptions are as follows:

	UK		Swiss	
	2020 %	2019 %	**2020 %**	2019 %
Discount rate	**1.4**	2.0	**0.2**	0.3
Future salary increases	**3.0**	3.1	**2.0**	2.0
Future pension increases	**3.0**	3.1	**–**	–
Inflation rate	**3.0**	3.1	**2.0**	2.0
Mortality table assumptions:				
UK pre-retirement	**AC00 (Ultimate) table**	AC00 (Ultimate) table	**–**	–
UK post-retirement – future pensioners	**97%(M)/103%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2019 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.**	96%(M)/98%(F) of the S2PA tables with future improvements from 2007 in-line with the CMI _2018 projections model with the initial addition to mortality improvements parameter of 0.2% and a long-term rate of improvement of 1.5% per annum.		
UK post-retirement – current pensioners	**97%(M)/103%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2019 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.**	96%(M)/98%(F) of the S2PA tables with future improvements from 2007 in-line with the CMI _2018 projections model with the initial addition to mortality improvements parameter of 0.2% and a long-term rate of improvement of 1.5% per annum.		
Swiss scheme	**–**	–	**BVG 2015**	BVG 2015

The mortality assumption implies the expected future lifetime from age 65 is as follows:

	Group		Company	
	2020 Years	2019 Years	**2020 Years**	2019 Years
Non-pensioner male	**24.3**	24.2	**24.3**	24.2
Pensioner male	**22.7**	22.5	**22.7**	22.5
Non-pensioner female	**26.2**	26.1	**26.2**	26.1
Pensioner female	**24.5**	24.2	**24.5**	24.2

Company

The principal actuarial assumptions for the Company are the same as those disclosed for the UK above.

Sensitivity analysis

The tables below for the UK and Swiss defined benefit plans show the impact on the defined benefit obligation of changing each of the most significant assumptions in isolation.

UK defined benefit plan

Effect in £M	Change in assumption	Impact on scheme liabilities 2020 Increase	Impact on scheme liabilities 2020 Decrease	Impact on scheme liabilities 2019 Increase	Impact on scheme liabilities 2019 Decrease
Discount rate	0.25% movement	**(5.3)**	**5.6**	(5.3)	5.7
Rate of inflation (RPI)*	0.25% movement	**4.6**	**(4.7)**	4.8	(4.7)
Salary increases	0.25% movement	**N/a**	**N/a**	1.1	(1.1)
Assumed life expectancy	One-year movement	**5.8**	**(5.8)**	5.5	(5.5)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2020 have been calculated using the same valuation method that was used to calculate the UK defined benefit obligation at the same date. The figures in the table as at 31 December 2019 have been calculated by applying the same percentage increase or decrease as at 31 December 2020.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

Swiss defined benefit plan

Effect in £M	Change in assumption	Impact on scheme liabilities 2020 Increase	Impact on scheme liabilities 2020 Decrease	Impact on scheme liabilities 2019 Increase	Impact on scheme liabilities 2019 Decrease
Discount rate	0.25% movement	**(0.7)**	**0.8**	(0.6)	0.7
Rate of inflation (RPI)*	0.25% movement	**0.6**	**N/a**	0.5	N/a
Salary increases	0.25% movement	**0.1**	**(0.1)**	0.1	(0.1)
Assumed life expectancy	One-year movement	**0.2**	**(0.2)**	0.2	(0.1)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2020 have been calculated using the same valuation method that was used to calculate the Swiss defined benefit obligation at the same date. The figures in the table as at 31 December 2019 have been calculated by applying the same percentage increase or decrease as at 31 December 2020.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

History of plans

The history of the plans for the current and prior periods is as follows:

Statement of Financial Position

Group	2020 £M	2019 £M	2018 £M	2017 £M	2016 £M
Present value of defined benefit obligation	**(134.9)**	(129.5)	(125.1)	(139.0)	(141.9)
Fair value of plan assets	**129.7**	125.5	119.6	126.7	119.3
Deficit	**(5.2)**	(4.0)	(5.5)	(12.3)	(22.6)

Company	2020 £M	2019 £M	2018 £M	2017 £M	2016 £M
Present value of defined benefit obligation	**(119.7)**	(116.7)	(111.6)	(126.3)	(128.0)
Fair value of plan assets	**117.4**	114.5	109.0	116.6	109.7
Deficit	**(2.3)**	(2.2)	(2.6)	(9.7)	(18.3)

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 2020 is £0.3 million *(2019: £0.3 million)*. This is reported as other long-term employee benefits within the employee benefits disclosure.

Notes to the Financial Statements continued

23 Employee benefits continued

Total Group pension costs

Included within the total staff costs as disclosed in note 4 are costs relating to the Group's defined contribution plans. The pension cost for the year represents contributions payable by the Group to the plans and amounted to £3.2 million *(2019: £3.6 million)*. Contributions amounting to £0.3 million *(2019: £0.2 million)* in respect of the December 2020 payroll were paid in January 2021.

The total Group cost of operating the plans during the year was £4.5 million *(2019: £4.3 million)* and, at 31 December 2020, there was an amount of £0.3 million *(2019: £0.4 million)* owed to the plans, being employer and employee contributions due for December 2020, which was paid in January 2021.

24 Share-based payments

Group and Company

Executive Directors and executive management currently participate in executive share option schemes. The Group operates a 2008 HMRC approved scheme and a 2008 unapproved scheme, the Headlam Group Performance Share Plan 2008 and the Headlam Group Co-Investment Plan 2008. Further details of these schemes and plans are given in the Remuneration Report on pages 82 to 104.

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 5 October 2020 when employees with over one month's service were invited to participate.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employees entitled	Number of instruments 2020	2019	Vesting conditions	Contractual life of options
Five-year Sharesave scheme granted to other employees 8 May 2014	**–**	787	Continuous service	01/07/19 – 01/01/20
Five-year Sharesave scheme granted to other employees 5 May 2015	**91,662**	135,157	Continuous service	01/07/20 – 01/01/21
Headlam Group Co-Investment Plan 2008 granted to key management 6 May 2016*	**21,860**	21,860	If the real earnings per share growth is over 3% p.a. – 50% vesting, over 6% – 100% vesting. TSR – if Company is ranked at median or above – 50%, upper quartile – 100%	07/05/19 – 07/05/26
Three-year Sharesave scheme granted to other employees 4 May 2016	**–**	6,290	Continuous service	01/07/19 – 01/01/20
Five-year Sharesave scheme granted to other employees 4 May 2016	**20,455**	29,658	Continuous service	01/07/21 – 01/01/22
Headlam Group Performance Share Plan 2008 granted to key management 5 July 2017*	**12,705**	239,045	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	06/07/20 – 06/07/27
Three-year Sharesave scheme granted to other employees 3 May 2017	**47,855**	75,913	Continuous service	01/07/20 – 01/01/21
Five-year Sharesave scheme granted to other employees 3 May 2017	**10,034**	15,612	Continuous service	01/07/22 – 01/01/23
Headlam Group Performance Share Plan 2008 granted to key management 9 April 2018*	**328,596**	328,596	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	10/04/21 – 08/04/24
Three-year Sharesave scheme granted to other employees 1 May 2018	**173,551**	375,708	Continuous service	01/07/21 – 01/01/22
Five-year Sharesave scheme granted to other employees 1 May 2018	**27,101**	59,706	Continuous service	01/07/23 – 01/01/24
Headlam Group Performance Share Plan 2008 granted to key management 10 April 2019*	**304,260**	304,260	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	11/04/22 – 09/04/25
Three-year Sharesave scheme granted to other employees 3 May 2019	**230,148**	415,721	Continuous service	01/07/22 – 01/01/23
Headlam Group Performance Share Plan 2008 granted to key management 11 September 2020*	**552,318**	–	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	12/09/23 – 11/09/26
Three-year Sharesave scheme granted to other employees 5 October 2020	**1,311,935**	–	Continuous service	01/11/23 – 30/04/24
Total share options	**3,132,480**	2,008,313		

* Further details are provided on pages 82 to 104 of the Remuneration Report.

Overview
Strategic Report
Governance
Financial Statements

Notes to the Financial Statements continued

24 Share-based payments continued

Group and Company continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (pence) 2020	Number of options 2020	Weighted average exercise price (pence) 2019	Number of options 2019
Outstanding at the beginning of the year	**221.4**	**2,008,313**	230.1	1,870,735
Exercised during the year	**349.3**	**(19,899)**	377.2	(262,974)
Granted during the year	**160.1**	**1,875,033**	266.6	764,273
Lapsed during the year	**67.3**	**(280,528)**	294.4	(363,721)
Cancelled during the year	**365.0**	**(450,439)**	–	–
Outstanding at the end of the year	**165.9**	**3,132,480**	221.4	2,008,313
Exercisable at the end of the year	**316.2**	**174,082**	398.0	28,937

The weighted average share price for options exercised during the year was 357.3p (2019: 474.3p).

The options outstanding at the year-end have an exercise price in the range of 0.0p to 499.0p and a weighted average contractual life of 1.94 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 2020 are shown below:

2020		Three-year Performance Share Plan 2008	Three-year Sharesave scheme
Number of options granted		**552,318**	**1,322,715**
Fair value at measurement date:			
No performance conditions		**–**	**77.4p**
Performance conditions	TSR 100%	**261.4p**	**–**
Share price at 31 December		**360.0p**	**360.0p**
Exercise price		**–**	**227.0p**
Expected volatility		**40.0%**	**40.0%**
Option life		**three years**	**three years**
Dividend yield		**2.4% p.a.**	**2.8% p.a.**
Risk-free rate of interest		**(0.2)% p.a.**	**0.0% p.a.**

Details of share options granted during 2019 are shown below:

2019		Three-year Performance Share Plan 2008	Three-year Sharesave scheme
Number of options granted		304,260	460,013
Fair value at measurement date:			
No performance conditions		–	156.9p
Performance conditions	EPS 80% & TSR 20%	383.8p	–
Share price at 31 December		535.0p	535.0p
Exercise price		–	359.0p
Expected volatility		58.0%	58.0%
Option life		three years	three years
Dividend yield		5.2% p.a.	5.2% p.a.
Risk-free rate of interest		0.7% p.a.	0.8% p.a.

The total (income)/expenses recognised for the year arising from share-based payments are as follows:

	Group		Company		Subsidiaries	
	2020 £M	2019 £M	**2020 £M**	2019 £M	**2020 £M**	2019 £M
Total (income)/expense recognised	**(0.1)**	0.8	**(0.5)**	0.1	**0.4**	0.7

25 Capital and reserves
Share capital

	Ordinary shares	
	2020	2019
Number of shares		
Authorised		
In issue at 1 January and 31 December	**107,840,000**	107,840,000
Fully paid		
In issue at 1 January	**85,452,093**	85,363,743
Issued during the year	**187,116**	88,350
In issue at 31 December	**85,639,209**	85,452,093

	2020 £M	2019 £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 2020, the Company held 1,211,073 shares *(2019:* 1,260,396) in relation to treasury stock and shares held in trust for satisfying options and awards under employee share schemes. These shares have been disclosed in the treasury reserve. Dividends are not payable on these shares and they are excluded from the calculation of earnings per share. The shares held in treasury and trust represented 1.5% (2019: 1.5%) of the issued share capital as at 31 December 2020 with a nominal value of £0.1 million *(2019: £0.1 million).*

In the period from 1 January 2021 to 9 March 2021 no shares were purchased by the Company.

Notes to the Financial Statements continued

25 Capital and reserves continued

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

	2020 £M	2019 £M
Interim dividend for 2019 of 7.55p paid 2 January 2020	**6.3**	–
Interim dividend for 2018 of 7.55p paid 2 January 2019	**–**	6.3
Final dividend for 2018 of 17.45p paid 1 July 2019	**–**	14.6
	6.3	20.9

The final proposed dividend for 2019 of 17.45p per share was suspended by the Board prior to being authorised by shareholders at the Annual General Meeting in May 2020 in order to preserve the strength of the statement of financial position due to the uncertainty surrounding COVID-19. The final proposed dividend for 2018 of 17.45p per share was authorised by shareholders at the Annual General Meeting on 24 May 2019 and paid on 1 July 2019.

The Board of Directors have declared a dividend of a nominal amount of 2.00p per share which will be paid on 28 May 2021.

The total value of dividends proposed or declared but not recognised at 31 December 2020 is £1.7 million *(2019: £6.3 million)*.

Reserves

Other reserves

Other reserves as disclosed on the Statement of Financial Position comprise the capital redemption reserve, translation reserve, cash flow hedging reserve, treasury reserve and special reserve.

Capital redemption reserve

The capital redemption reserve represents the nominal value of shares repurchased and cancelled during 2007.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Treasury reserve

The treasury reserve comprises the cost of the Company's shares held by the Group.

Special reserve

The special reserve (merger reserve) arose on the issuance of shares in connection with acquisitions made by the Company. During 2020, shares were issued as part of the deferred consideration of the acquisition of Domus Group of Companies Limited and £1.0 million (2019: £0.5 million) was transferred to this reserve.

26 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	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Trade and other receivables (note 16)	**97.3**	117.9	**22.3**	21.0
Cash and cash equivalents (note 17)	**60.8**	33.4	**16.6**	17.5
	158.1	151.3	**38.9**	38.5

The fair values of the above financial assets at both 31 December 2020 and 2019, are deemed to approximate to carrying value due to the short-term maturity of the instruments.

Notes to the Financial Statements continued

26 Financial instruments continued

Impairment of financial assets continued

The ageing of trade receivables at the Statement of Financial Position date was:

Group	2020 Gross £M	2020 Impairment £M	2019 Gross £M	2019 Impairment £M
Not past due	**44.8**	**(0.1)**	90.3	(0.3)
Past due 0 – 30 days	**27.2**	**(0.3)**	1.9	(0.4)
Past due 31–120 days	**14.9**	**(7.7)**	2.2	(1.9)
	86.9	**(8.1)**	94.4	(2.6)

All other receivables and derivative financial assets are not past due *(2019: not past due).*

The Company had trade receivables of £nil *(2019 £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 48 months before 31 December 2020 or 1 January 2020 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 2020 is determined as follows;

Ageing based on invoice date	Current < 30 days	30-60 days	60-90 days	Over 90 days	Total
31 December 2020					
Expected loss rate	**0.3%**	**1.1%**	**43.8%**	**76.9%**	
Gross carrying amount – trade receivables (millions)	**44.8**	**27.2**	**11.1**	**3.8**	**86.9**
Loss allowance (millions)	**0.1**	**0.3**	**4.8**	**2.9**	**8.1**

	Not past due	Past due 0-30 days	Past due 31-120 days	Total
31 December 2019				
Expected loss rate	0.3%	21.3%	86.7%	
Gross carrying amount – trade receivables (millions)	90.3	1.9	2.2	94.4
Loss allowance (millions)	0.3	0.4	1.9	2.6

The maximum exposure to credit risk for trade receivables at the Statement of Financial Position date by geographic region was:

	Group 2020 £M	Group 2019 £M	Company 2020 £M	Company 2019 £M
UK	**67.8**	80.2	**–**	–
Continental Europe	**11.0**	11.6	**–**	–
	78.8	91.8	**–**	–

During the year the Group's impairment loss as a percentage of revenue amounted to 1.1% *(2019: 0.20%).*

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	Group Trade receivables		Company Trade receivables	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Opening loss allowance at 1 January	**2.6**	3.0	**–**	–
Increase in loan loss allowance recognised in profit or loss during the year	**6.5**	1.4	**–**	–
Receivables written off during the year as uncollectible	**(1.1)**	(1.8)	**–**	–
Effect of movement in foreign exchange	**0.1**	–	**–**	–
Closing loss allowance at 31 December	**8.1**	2.6	**–**	–

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 has loss allowances against amounts due from subsidiary undertakings of £1.6 million (2019: £1.6 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, with sufficient headroom to cope with abnormal market conditions. As at 31 December 2020, cash and cash equivalents covered the amounts of borrowings maturing in the next 12 months with a net positive liquidity of £58.8 million *(2019: £33.2 million)*. Details of the total facilities that the Group has access to are given in note 19.

The following are the contractual maturities of financial liabilities:

31 December 2020 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	**9.2**	**(9.5)**	**(2.1)**	**(0.3)**	**(7.1)**	**–**
Trade and other payables	**154.8**	**(154.8)**	**(154.8)**	**–**	**–**	**–**
Lease liabilities	**43.3**	**(43.3)**	**(12.5)**	**(9.3)**	**(16.0)**	**(5.5)**
Derivative financial liabilities						
Other derivatives	**0.1**	**(0.1)**	**(0.1)**	**–**	**–**	**–**
	207.4	**(207.7)**	**(169.5)**	**(9.6)**	**(23.1)**	**(5.5)**

31 December 2019 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	6.4	(6.7)	(0.3)	(0.3)	(6.1)	–
Trade and other payables	166.5	(166.5)	(166.5)	–	–	–
Lease liabilities	44.6	(44.6)	(13.9)	(9.7)	(16.1)	(4.9)
Derivative financial liabilities						
Other derivatives	0.3	(0.3)	(0.3)	–	–	–
	217.8	(218.1)	(181.0)	(10.0)	(22.2)	(4.9)

Notes to the Financial Statements continued

26 Financial instruments continued

Liquidity risk continued

31 December 2020 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	**33.3**	**(33.3)**	**(33.3)**	**–**	**–**	**–**
Lease liabilities	**0.8**	**(0.8)**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.5)**
Derivative financial liabilities						
Other derivatives	**–**	**–**	**–**	**–**	**–**	**–**
	34.1	**(34.1)**	**(33.4)**	**(0.1)**	**(0.1)**	**(0.5)**

31 December 2019 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	39.6	(39.6)	(39.6)	–	–	–
Lease liabilities	0.6	(0.6)	–	–	–	(0.6)
Derivative financial liabilities						
Other derivatives	0.1	(0.1)	(0.1)	–	–	–
	40.3	(40.3)	(39.7)	–	–	(0.6)

The value of the Group's and Company's financial liabilities as detailed above at 31 December 2020 and 2019 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 2020 and 2019.

31 December 2020	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total Carrying Value £M
Cash and cash equivalents	**–**	**60.8**	**60.8**
Borrowings due within one year	**–**	**(2.0)**	**(2.0)**
Borrowings due after one year	**–**	**(7.2)**	**(7.2)**
Trade payables	**–**	**(129.7)**	**(129.7)**
Non-trade payables	**–**	**(25.1)**	**(25.1)**
Leasing liabilities	**–**	**(43.3)**	**(43.3)**
Trade receivables	**–**	**78.8**	**78.8**
Other receivables	**–**	**18.5**	**18.5**
Provisions	**–**	**(2.1)**	**(2.1)**
Derivative liability	**(0.1)**	**–**	**(0.1)**
	(0.1)	**(51.3)**	**(51.4)**

31 December 2019	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total Carrying Value £M
Cash and cash equivalents	–	33.4	33.4
Borrowings due within one year	–	(0.2)	(0.2)
Borrowings due after one year	–	(6.2)	(6.2)
Trade payables	–	(140.9)	(140.9)
Non-trade payables	–	(25.6)	(25.6)
Leasing liabilities	–	(44.6)	(44.6)
Trade receivables	–	91.8	91.8
Other receivables	–	26.1	26.1
Provisions	–	(2.3)	(2.3)
Derivative liability	(0.3)	–	(0.3)
	(0.3)	(68.5)	(68.8)

All derivative financial instruments not in a hedge relationship are measured at fair value through the profit or loss. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

Interest rate risk

The Company and Group are exposed to interest rate fluctuations on their borrowings and cash deposits. Borrowings are principally held in sterling and euros at both fixed and floating rates. Deposits are in sterling, euros and Swiss francs at floating rates.

Floating rate borrowings are linked to the London Interbank Offered Rate and Euribor Over Night Index Average. The Group adopts a policy of reviewing its floating rate exposure to ensure that if interest rates rise the effect on the Group's income statement is manageable.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group carrying amount		Company carrying amount	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Variable rate instruments				
Financial assets	**60.8**	33.4	**16.6**	17.5
Financial liabilities	**(7.4)**	(6.4)	**–**	–
	53.4	27.0	**16.6**	17.5

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 2019.

	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 2020								
Variable rate instruments	**0.5**	**(0.5)**	**–**	**–**	**0.2**	**(0.2)**	**–**	**–**
31 December 2019								
Variable rate instruments	0.3	(0.3)	–	–	0.2	(0.2)	–	–

Notes to the Financial Statements continued

26 Financial instruments continued

Foreign currency risk

The Group and Company are exposed to movements in currency exchange rates arising from transaction currency cash flows and the translation of the results and net assets of overseas subsidiaries. The currencies giving rise to this risk are primarily the euro, Swiss franc and US dollar.

The Group and Company use forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in the functional currency of the acquiring company. These forward exchange contracts would have a maturity of less than one year after the Statement of Financial Position date. The Group also enters into foreign currency contracts at spot rate where the amounts are not frequent or material. Gains and losses on currency contracts recognised as a liability at 31 December 2020 amounted to £0.1 million *(2019: liability of £0.3 million).*

Derivatives

The group has the following derivative financial instruments in the following line items in the balance sheet:

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Current liabilities				
Foreign currency forwards – cash flow hedges	**0.1**	0.3	**–**	0.1
Total current derivative financial instrument liabilities	**0.1**	0.3	**–**	0.1

Derivatives are only used for economic hedging purposes and not as speculative investments.

The movements in respect of derivative financial instruments were as follows:

	Foreign currency forwards £M
Opening balance 1 January 2020	**(0.3)**
Less: charge to profit or loss	**0.2**
Closing balance 31 December 2020	**(0.1)**

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness. In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of Headlam Group plc or the derivative counterparty. The Group now enters into forward rate agreements containing a delivery period in which the entity can drawdown the currency as they require it, subject to a final delivery date. This has enabled the Group to match the forward rate agreements to the hedged item with accuracy.

For the 12-month period to 31 December 2020, 11.8% *(2019: 8.4%)* of the Group's underlying operating profit was derived from overseas subsidiaries and at 31 December 2020, 22.3% *(2019: 20.0%)* of the Group's net operating assets related to overseas subsidiary operations. Hedge accounting, following the adoption of IFRS, has not been applied to these operations.

The Group and Company do not use derivatives other than as described above.

The exposure to foreign currency risk was as follows:

	Group			Company		
2020	**Euro amount £M**	**Other amount £M**	**Total £M**	**Euro amount £M**	**Other amount £M**	**Total £M**
Trade and other receivables	**0.4**	**–**	**0.4**	**–**	**–**	**–**
Cash and cash equivalents	**0.6**	**–**	**0.6**	**0.1**	**–**	**0.1**
Trade and other payables	**(3.5)**	**(0.8)**	**(4.3)**	**–**	**–**	**–**
	(2.5)	**(0.8)**	**(3.3)**	**0.1**	**–**	**0.1**

	Group			Company		
2019	Euro amount £M	Other amount £M	Total £M	Euro amount £M	Other amount £M	Total £M
Trade and other receivables	0.1	–	0.1	–	–	–
Cash and cash equivalents	1.0	0.2	1.2	0.6	–	0.6
Trade and other payables	(3.1)	(1.1)	(4.2)	–	–	–
	(2.0)	(0.9)	(2.9)	0.6	–	0.6

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 2019.

	Group		Company	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Euro	**(0.2)**	(0.2)	**–**	0.1
Other	**(0.1)**	(0.1)	**–**	–

A 10% strengthening of sterling against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Fair values hierarchy

The financial instruments carried at fair value are categorized according to their valuation method. The different levels have been defined below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, as prices or indirectly, derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The group entered into some forward currency contracts, which were fair valued in accordance with level 2 for the year ended 31 December 2020 (2019: level 2).

Fair values

The carrying amounts shown in the Statement of Financial Position for financial instruments are a reasonable approximation of fair value.

Trade receivables, trade payables and cash and cash equivalents

Fair values are assumed to approximate to cost due to the short-term maturity of the instrument.

Notes to the Financial Statements continued

26 Financial instruments continued

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 of the Company's subsidiaries are required to maintain issued share capital at levels to support capital adequacy requirements prevailing in the legislative environment in which they operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends made payable to Shareholders, return capital to Shareholders, issue new shares or sell assets to reduce debt.

The Group has two main banking agreements with Barclays Bank PLC and HSBC Bank Plc which expire on 30 April 2023. Sterling committed facilities are £68.5 million and its euro committed facilities are €9.6 million. The Group also has short term uncommitted facilities which continue at £25 million in the UK and £8.4 million in Continental Europe. These are renewable on an annual basis. The total banking facilities available to the Group at 31 December 2020 were £110.3 million *(2019: £109.7 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 2020 and 31 December 2019.

27 Acquisitions

On 1 March 2020, a subsidiary company of Headlam Group plc entered into an agreement to acquire Supertex Furnishing Limited ('Supertex'). Supertex operates from a warehouse and offices in Leyland, Lancashire, supplying domestic flooring (carpet, vinyl and accessories) to the retail flooring trade. Supertex distributes cut-length orders from stock throughout the North West on a next day delivery service.

The acquisition enlarges Headlam's residential sector activities in the North West, a competitive region of the UK. Supertex will continue to be operated under its own brand and operate from the Group's existing premises in Stockport creating operating efficiencies, with a trade counter remaining in Leyland to service the local area.

The acquired business contributed revenue of £1.5 million and an operating loss of £0.4 million to the group for the year ended 31 December 2020. Profitability for Supertex was effected by the COVID-19 pandemic and the lockdown of the branch during 2020. If the acquisition had occurred on 1 January 2020, pro-forma revenue would have increased to £609.5 million and underlying operating profit would have decreased to £17.8 million for the year ended 31 December 2020.

Details of the acquisition are provisional and are shown below:

	Acquiree's book value £M	Fair value adjustments £M	Acquisition amounts £M
Acquiree's provisional net assets at the acquisition date:			
Intangible assets	**–**	**0.7**	**0.7**
Property, plant and equipment	**0.2**	**–**	**0.2**
Inventories	**0.4**	**–**	**0.4**
Trade and other receivables	**0.4**	**–**	**0.4**
Trade and other payables	**(0.5)**	**–**	**(0.5)**
Deferred tax	**(0.2)**	**(0.1)**	**(0.3)**
Debt	**(0.2)**	**–**	**(0.2)**
Net identifiable assets and liabilities	**0.1**	**0.6**	**0.7**
Goodwill on acquisition		**0.4**	**0.4**
Consideration			**1.1**
Satisfied by:			
Cash			**1.0**
Deferred consideration			**0.1**
			1.1
Analysis of cash flows:			
On completion			**1.0**

Professional fees of £0.1 million were incurred in relation to acquisition activity and have been expensed to the income statement within administration expenses.

The book value of receivables given in the table above represents the gross contracted amounts receivable. At the acquisition date, the entire book value of receivables was expected to be collected.

Goodwill of £0.4 million arose on the Supertex acquisition. There were also intangible assets on acquisition of £0.7 million which were attributed to brand names and customer relationships. During the year £0.2 million of intangibles have been amortised to the income statement on this acquisition.

The residual goodwill reflected the significant benefit the acquisition would have on the Group by bringing further geographic coverage and providing an additional avenue for growth. Due to the emergence of the COVID-19 pandemic since the acquisition date, these benefits have been significantly impaired and following a review and sensitivity analysis the goodwill was impaired by the full amount of £0.4 million.

Prior year acquisitions

In the prior year the Group acquired all the trade and assets of Edel Telenzo Carpets Ltd. ('Telenzo'). Telenzo is the UK distribution company for Edel Carpets, a modern carpet producer from Genemuiden, in the Netherlands.

The fair values of the assets and liabilities acquired have been reconsidered as part of the hindsight period, but no adjustment was considered necessary.

Deferred and contingent consideration

The acquisition of Domus Group of Companies Limited was financed by initial cash consideration of £24.2 million paid on completion and satisfied from the Group's existing cash and debt facilities; a deferred consideration of £3.3 million, payable in cash and Ordinary shares of 5 pence each in the capital of the Company ('Ordinary Shares'), of which £1.6 million was payable on 7 December 2019 and £1.7 million was payable on 7 December 2020; and a further maximum contingent consideration of £2.7 million, payable in cash based on Domus achieving certain EBITDA targets over the three-year period ending 31 December 2020.

The deferred and contingent consideration were discounted back and reported at present value at the date of the acquisition. Management have written down the contingent consideration each year based on their assessment of the probability of it being paid. On 7 December 2020 there was no contingent consideration payable but deferred consideration of £1.7 million was paid.

Notes to the Financial Statements continued

28 Capital commitments

Group

As at 31 December 2020, the Group entered into commitments to purchase property, plant and equipment for £3.7 million *(2019: £10.2 million)* of which £1.8 million will be settled in the following financial year.

Company

At 31 December 2020, the Company had commitments to purchase property, plant and equipment of £2.7 million *(2019: £4.2 million)* of which £0.8 million will be settled in the following financial year.

29 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 50 and 51.

As at 31 December 2020, Directors of the Company and their immediate relatives controlled 0.8% of the total voting rights of the Company *(2019: 0.8%)*.

Non-Executive Directors receive a fee for their services to the Board.

Other than as disclosed in the Remuneration Report, there were no other transactions with key management personnel in either the current or preceding year. The cost charged to administrative expenses relating to share plans of key personnel amounted to £0.2 million *(2019: £0.3 million)*.

Company only

In addition to the transactions with key personnel, the Company has the following transactions:

Transactions with other Group companies

	Highest during the year £M	**Balance at 31 December 2020 £M**	Highest during the year £M	Balance at 31 December 2019 £M
Amounts due from subsidiaries	**23.3**	**22.0**	24.6	20.7
Amounts due to subsidiaries	**(30.0)**	**(30.0)**	(30.3)	(30.3)

Transactions with Group companies typically comprise management, rent and interest charges during the period.

The disclosure of the year-end balance and the highest balance during the year is considered to provide a meaningful representation of transactions between the Company and its subsidiaries in the year. The highest balance is generally at the start or close of the financial year since this is the time when the Company levies its recharge of its operating expenses.

Related party transactions reported in the income statement

	For year ended 31 December 2020 £M	For year ended 31 December 2019 £M
Rental income	**8.9**	8.9
Dividends received	**10.7**	29.7
Recharge of operating expenses	**2.4**	2.9
Interest income	**0.3**	0.3

30 Contingent liability

In November 2020, the Group provided evidence for an investigation by the Netherlands Authority for Consumers and Markets ('ACM') concerning possible anti-competitive behaviour in the industry. Whilst there is not currently a case raised against any company within the Group, it is possible that a case may be launched in the future. Should this happen and the ACM find a Group subsidiary to have breached Dutch competition law, a fine could be levied. The value of any such fine would be based on a number of factors, the majority of which are yet to be established at the present time. Given the early stage of the investigation and lack of direct case against a Group entity, the amount or timing of such fine is not practicable to be estimated.

31 Subsequent events

Management have given due consideration to any events occurring in the period from the reporting date to the date these Financial Statements were authorised for issue and have concluded that there are no material adjusting or non-adjusting events to be disclosed in these Financial Statements with the exception of the following:

In the UK budget on 3 March 2021 the Chancellor announced that the UK headline corporation tax rate would increase from 19% to 25% from 1 April 2023. This is anticipated to be substantively enacted during 2021. As a result, the UK deferred tax balances will likely be restated to 25% in the 2021 group accounts, resulting in an increase in the net deferred tax liability of approximately £2.6m.

The impact of COVID-19 following the year end, and mitigating actions in place, are fully detailed in the Chief Executive's Review on pages 16 to 21 and the Financial Review on pages 24 to 29.

32 Group subsidiaries

Company	Type	Place of incorporation
HFD Limited	Trading	Great Britain*
MCD Group Limited	Trading	Great Britain*
CECO (Flooring) Limited	Trading	Great Britain******
Domus Tiles Limited	Trading	Great Britain*
Rackhams Limited (in liquidation)	Trading	Great Britain*
Headlam BV	Trading	Netherlands**
Dersimo BV	Trading	Netherlands*****
LMS SA	Trading	France***
Belcolor AG	Trading	Switzerland****
Headlam (European) Limited	Holding Company	Great Britain*
Betu Holdings Limited	Holding Company	Great Britain******
Headlam Holdings BV	Holding Company	Netherlands**
Headlam SAS	Holding Company	France***
Domus Group of Companies Limited	Holding Company	Great Britain*
Tileco (2012) Bidco Limited (in liquidation)	Holding Company	Great Britain*
Tileco Group (2007) Limited (in liquidation)	Holding Company	Great Britain*
Tileco Group Limited (in liquidation)	Holding Company	Great Britain*
Yourfloors Plc	Dormant	Great Britain*
Crossforge Limited	Dormant	Great Britain*
Headlam Group Employee Trust Company Limited	Dormant	Great Britain*
Headlam Group Pension Trustees Limited	Dormant	Great Britain*
NCT (International) Limited (Strike-off)	Dormant	Great Britain*
Mitchell Carpets Limited (in liquidation)	Dormant	Great Britain*
Tileco Limited (in liquidation)	Dormant	Great Britain*
Surface Tiles Limited (in liquidation)	Dormant	Great Britain*
Ashmount Flooring Supplies Limited	Dormant	Great Britain*
Supertex Limited	Dormant	Great Britain*

The ordinary share capital of all of these subsidiaries are wholly owned and their principal activities are wholly aligned to the sales, marketing, supply and distribution of floorcovering and certain other ancillary products.

* Registered address for UK subsidiaries: PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW, UK.
** Registered address for these Dutch subsidiaries: Bettinkhorst 4, 7207 BP Zutphen, the Netherlands.
*** Registered address for French subsidiaries: 7/14 Rue Du Fosse Blanc, 92230, Gennevilliers, France.
**** Registered address for Swiss subsidiaries: Zücherstrasse 493, 9015 St. Gallen, Switzerland.
***** Registered address for this Dutch subsidiary: Noordzee 12, 3144 DB, Maassluis, the Netherlands.
****** Registered address for these UK subsidiaries: Unit 5 Carryduff Business Park, Comber Road Carryduff, Belfast, County Down, BT8 8AN.

Financial Record

	2020 £M	2019 £M	2018 £M	Restated* 2017 £M	Restated* 2016 £M
Trading results					
Revenue	**609.2**	719.2	708.4	692.5	677.7
Gross profit	**188.9**	229.4	229.1	218.1	210.2
Overheads	**(171.0)**	(187.2)	(184.8)	(174.3)	(169.1)
Underlying profit before net financing costs	**17.9**	42.2	44.3	43.8	41.1
Net financing costs	**(2.0)**	(2.7)	(0.9)	(0.7)	(1.0)
Underlying profit on ordinary activities before tax	**15.9**	39.5	43.4	43.1	40.1
Taxation	**(3.9)**	(6.9)	(7.8)	(8.0)	(7.6)
Underlying profit on ordinary activities after taxation	**12.0**	32.6	35.6	35.1	32.5
Profit before tax	**(17.1)**	35.2	40.4	40.7	38.2
Shareholder value					
(Loss)/earnings per share	**(24.2)p**	34.0p	40.0p	39.1p	36.8p
Underlying (loss)/earnings per share	**(24.2)p**	38.8p	42.5p	41.7p	38.7p
Paid interim and final dividend per share	**7.55p**	25.0p	24.8p	22.55p	20.70p
Paid special dividend per share	**–**	–	–	8.00p	6.00p
Proposed dividend per share***	**–**	7.55p	25.0p	24.8p	22.55p
Declared dividend per share	**2.00p**	–	–	–	–
Net assets					
Non-current assets					
Property, plant and equipment	**122.9**	114.5	102.1	101.6	102.9
Right of use assets**	**42.1**	43.9	–	–	–
Intangible assets	**21.1**	48.5	50.9	44.7	10.4
Deferred tax assets	**–**	0.7	0.5	0.6	1.2
	186.1	207.6	153.5	146.9	114.5
Current assets					
Inventories	**118.5**	132.5	132.7	131.6	126.0
Trade and other receivables	**101.6**	123.7	119.0	128.0	128.9
Cash and cash equivalents	**60.8**	33.4	44.0	42.0	59.4
	280.9	289.6	295.7	301.6	314.3
Non-current assets classified as held for sale	**0.4**	–	–	–	–
	281.3	289.6	295.7	301.6	314.3
Total assets	**467.4**	497.2	449.2	448.5	428.8
Current liabilities					
Bank overdraft	**–**	–	(0.2)	–	–
Other interest-bearing loans and borrowings	**(2.0)**	(0.2)	(0.2)	(0.2)	(0.2)
Lease liabilities**	**(12.5)**	(13.9)	–	–	–
Trade and other payables	**(178.4)**	(181.9)	(181.3)	(190.3)	(183.3)
Employee benefits	**–**	–	–	(2.2)	(2.2)
Income tax payable	**(0.2)**	(5.0)	(6.8)	(6.4)	(6.8)
	(193.1)	(201.0)	(188.5)	(199.1)	(192.5)
Non-current liabilities					
Other interest-bearing loans and borrowings	**(7.2)**	(6.2)	(6.8)	(6.5)	(6.5)
Lease liabilities**	**(30.8)**	(30.7)	–	–	–
Trade and other payables	**–**	–	(2.6)	(4.9)	–
Provisions	**(2.1)**	(2.3)	(2.2)	(2.0)	(1.5)
Deferred tax liabilities	**(8.7)**	(7.6)	(8.1)	(6.9)	(4.1)
Employee benefits	**(5.5)**	(4.3)	(5.9)	(10.5)	(20.8)
	(54.3)	(51.1)	(25.6)	(30.8)	(32.9)
Total liabilities	**(247.4)**	(252.1)	(214.1)	(229.9)	(225.4)
Net assets	**220.0**	245.1	235.1	218.6	203.4

* The Condensed Consolidated Interim Income Statement for the years ended 31 December 2017 and 2016 have been restated to reclassify a number of items between revenue, cost of sales, and operating expenses in order to more appropriately reflect their nature. Consequently, these adjustments mean the earlier periods are presented in a consistent manner with the years ended 31 December 2020, 2019 and 2018.

** IFRS 16 adopted from 1 January 2019.

*** Following the announcement on 25 March 2020, the 2019 final ordinary dividend was suspended, that had previously been detailed within the 2019 final results announcement.

Advisers

Auditor
PricewaterhouseCoopers LLP
One Chamberlain Square
Birmingham
B3 3AX

Taxation advisers
Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ

Principal bankers
Barclays Bank PLC
PO Box 3333
One Snowhill
Snow Hill
Queensway
Birmingham
B3 2WN

HSBC Bank Plc
Level 6, Metropolitan House
CBX 3
321 Avebury Boulevard
Milton Keynes
MK9 2GA

The Royal Bank of Scotland plc
Corporate and Institutional Banking
5th Floor, 2 St Philips Place
Birmingham
B3 2RB

Solicitors
Pinsent Masons LLP
55 Colmore Row
Birmingham
B3 2FG

Stockbroker
Investec Bank plc
30 Gresham Street
London
EC2V 7QP

Panmure Gordon
One New Change
London
EC4M 9AF

Financial PR and IR
Alma PR
71-73 Carter Lane
London
EC4V 5EQ

Registrar
Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Designed and produced by **emperor**
Visit us at **emperor.works**

Headlam Group plc

PO Box 1
Gorsey Lane
Coleshill
Birmingham
B46 1LW
UK

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

www.headlam.com

Company number: 00460129