GROWTH
from strong foundations

EUROPE'S LEADING FLOORCOVERINGS DISTRIBUTOR

headlam
group plc

www.headlam.com

GROWTH AND VALUE CREATION

from leading position and strong foundations

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

Go to www.headlam.com for more information

KEY READS

About Us

– Read more on pages 4

Strategy in Action

– Read more on pages 10

ESG Report

– Read more on pages 44

Overview

Strategic Report

Governance

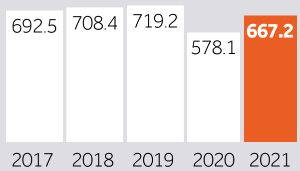
Financial Statements

Additional Information

2021 FINANCIAL HIGHLIGHTS

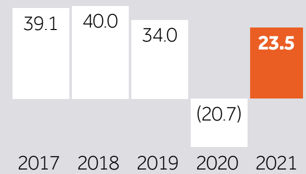
Revenue

£667.2m
+15.4%
(2020: £578.1m)



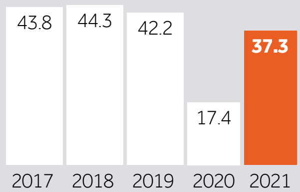
Statutory basic earnings/(loss) per share

23.5p
+213.5%
(2020: 20.7p loss)



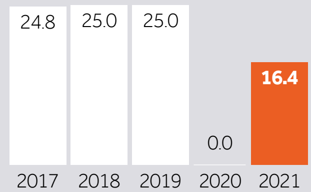
Underlying* operating profit

£37.3m
+114.4%
(2020: £17.4m)
Statutory operating profit £29.1m (2020: £12.2m loss)



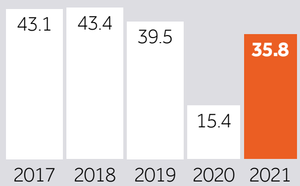
Total ordinary dividend**

16.4p
(2020: 0.0p)



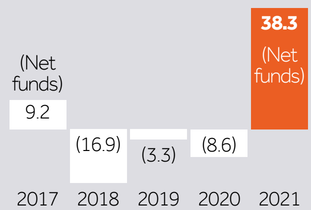
Underlying* profit before tax

£35.8m
+132.5%
(2020: £15.4m)



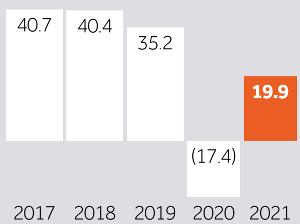
Average net funds/(debt)***

£38.3m
+545.3%
(2020: £8.6m net debt)



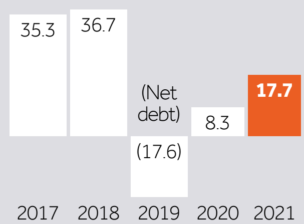
Statutory profit/(loss) before tax

£19.9m
+214.4%
(2020: £17.4m loss)



Net funds/(debt)****

£17.7m
+113.3%
(2020: £8.3m)



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

* Underlying is before non-underlying items, which includes i) amortisation of acquired intangible assets, ii) impairment of goodwill and intangible assets, iii) impairment of property, plant and equipment and inventory (following a fire) iv) property disposal profit, and v) business restructuring costs.

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

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

**** Net funds / (debt) is as at 31 December, and includes lease liabilities following adoption of IFRS 16 on 1 January 2019.

2021 OPERATIONAL HIGHLIGHTS

Able to largely mitigate the industry wide issues, including supply issues, with inventory position maintained and levels of availability preserved. Testament to long-established supplier relationships, and scale (see Chief Executive's Review on page 15)

Business change strategy focused on substantial revenue growth opportunities and efficiency now largely embedded, with benefits increasingly evident. Disposal of Swiss operations allowing greater focus on more meaningful growth opportunities (see Chief Executive's Review on page 15)

Success already being demonstrated from the active targeting of a larger share of the overall £3 billion UK market, and improved customer service propositions. New customer wins in Multiple Retailer customer segment, with substantial scope to develop the revenue opportunity (see Strategy in Action on page 10)

Good progress in developing the ESG Strategy following the initial report in 2021, including: announcement of net zero emissions ambition; ESG Committee being established in 2022; locally focused community programme; and strategy planning to enhance diversity (see ESG Report on page 44)

UNIQUE proposition

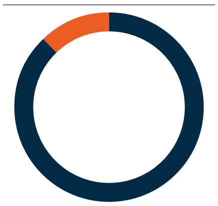
Operating since 1992, Headlam works with suppliers across the globe manufacturing a diverse range of floorcovering products, and provides them with a cost efficient and effective route to market for their products into the highly fragmented trade customer base.

To maximise customer reach, Headlam operates 66 businesses across the UK and Continental Europe (France and the Netherlands). Each business operates under its own trade brand and utilises individual sales teams while being supported by the group's network, central teams and resources.

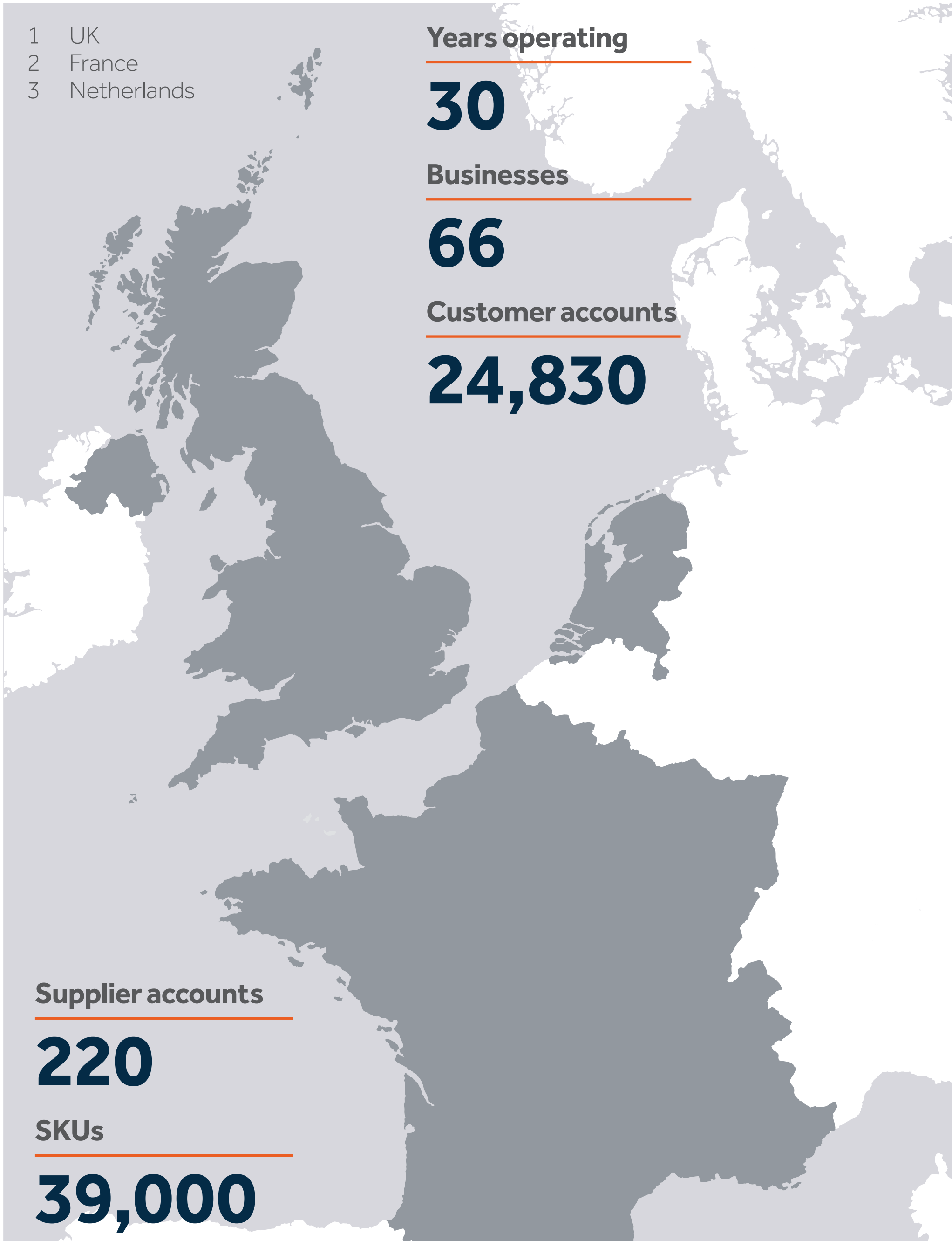
The Company's extensive customer base covers both the residential and commercial sectors, with principal customer groups being independent retailers and smaller flooring contractors alongside other customer segments such as larger (multiple) retailers, housebuilders, specifiers, and larger contractors (including local government / authorities).

2021 Revenue

Residential sector	68.5%
Commercial sector	31.5%



UK	87.8%
Continental Europe	12.2%



All data as at 31 December 2021

Headlam provides customers with a market leading service through:

- the broadest product offering;
- unrivalled product knowledge and tailored solutions;
- sales team and marketing support;
- ecommerce support and digital applications;
- nationwide delivery; and
- trade counter and collection service.

In 2021, the Company fulfilled nearly 5 million* customer orders, with this capability enabled by its extensive distribution network, material handling and processing capabilities, customer service and delivery expertise.

A key part of the Company's Strategy (page 8) is the capturing of a larger share of the £3 billion** UK market through continuing to improve the service propositions for all customer segments, and the roll-out of new servicing offerings particularly focused on customer segments where the Company is underweight (page 10).

* Excluding discontinued operations in the year
** Source: LEK Consulting, 2020, calculated at distributors' selling price and inclusive of sales direct from manufacturers

INVESTMENT CASE
and competitive advantage

Market Leader

Significantly larger than closest peer, most established with 30 year track record

- Most able to support customers (highest levels of product knowledge, customer support, processing expertise)
- Able to provide customers with a full service and points of differentiation

Demonstrated financial and operating strength, cash generative

- Security for stakeholders, including in the fulfilling of customer orders
- Solid foundations to pursue growth and continue creating value
- Able to provide increasing returns and benefits for all stakeholders

Largest Scale

Multiple businesses and nationwide operations, deliveries and collection service

- Most comprehensive offering for customers (both locally and nationally)
- Multiple opportunities to capture revenue across broadest customer base

Large inventory position and long-established supplier relationships

- Greatest product offering, and availability, for customers
- Volume-related financial and other benefits from leveraging of group scale

Growth Opportunities

Significant scope to capture larger share of marketplace

- Opportunity to outperform the market and take share
- Growth projects already demonstrating success and additional revenue

Improvements and additions made to the service propositions for all customer segments

- More convenient ways of doing business, with lower cost to serve
- Positive feedback from both customers and employees

Increasing Digitalisation

Newly launched curated suite of digital products and applications

- Industry-leading digitalisation (big differentiator in the marketplace)
- Increased opportunity to capture additional revenue through different avenues and customer segments

Increasing digitalisation and modernisation across the group

- Reduces the overall cost to serve
- Customers benefit from more efficient and convenient ways of doing business with Headlam
- Remaining relevant to customers' changing needs

Change Strategy Delivering

Focused on improving operating and financial performance

- Improvements to both operating margin and working practices
- Significant cost savings, higher drop-through rate on additional revenue

Increasing investment in the network (estate and systems)

- Improved working environment and customer service
- Supports long-term sustainable growth for the benefit of all stakeholders

Developing ESG Strategy

High levels of corporate governance demonstrated over many years

- Focus on risk mitigation and long-term sustainability
- Provides high degree of comfort for stakeholders
- Engagement with all key stakeholders, and consideration of interests

Comprehensive strategy, with active focus on its development and delivery

- Opportunities identified alongside risk mitigation
- Provides advantage against peers (stakeholder relationships, recruitment, and winning new business)

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 as a team, and 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, continually. Investing in our people, working with suppliers to support the marketing of innovative and sustainable products, and provide increasing returns to shareholders.

Our Values

Service
We go the extra mile to deliver excellent customer service

Teamwork
We work together and support each other

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

STRATEGIC OBJECTIVES

Organic Revenue Growth
- Improved service propositions for all customer segments
- Specific growth projects: multiple retailers targeting; trade counter roll out
- Group collaborative approach, support from central teams

Modernisation and Digitalisation
- Curated suite of digital products to provide competitive advantage
- Applications to support larger and smaller customers
- Internal digitalisation

Customer Service
- Increased customer engagement
- New service offerings and tailored propositions
- Digital applications
- Product launches and promotions

Operating Efficiency
- Collaboration across the group
- Restructuring of network
- Investment in the network
- Development of internal management performance measures

Suppliers and Buying
- Partnership approach, including increasing supply chain efficiencies
- Improved inventory management
- Engagement on sustainability and risk assessment

Corporate Governance
- Continued focus on risk management and internal control
- Focus on specific areas to advance, including Diversity, Equity and Inclusion strategy
- Development of ESG Strategy

ESG Strategy
- Reduce internal emissions, and engage with the industry on sustainability
- Support and invest in people
- Localised community-based programme

Product Offering
- Product development, innovation and exclusivity
- Relaunches / rebrandings
- Promotion of sustainable products

People and Culture
- Engagement and communication
- Improved safe and inclusive working environment
- Investment in people, including training and enhanced reward / benefits

DRIVING GROWTH
and performance

A key part of the strategy is growth and the capturing of a larger share of the £3 billion* UK market.

The UK market is comprised of seven identified trade customer segments (see below), with each having differing interaction, ordering and fulfilment preferences which continue to evolve.

While Headlam is a market-leader with high penetration in certain segments, it is underweight / very underweight in others which it has traditionally not actively targeted. Through improving and developing the service propositions for all of the customer segments, and rolling-out new servicing offerings particularly focused on underweight segments, the Company will capture an increased share of the overall market.

Trade Customer Segments

Traditional Retailers	Tradespeople and fitters who supply	Progressive Retailers	Contractors (including government)	Major Multiple Retailers	Larger Housebuilders	Online
Mix of large and small warehouse style physical stores and traditional carpet / flooring shops, plus some online retailers with a salesforce	Flooring fitters or other trades who supply and fit on occasions, often as part of a larger project (i.e. kitchen). May be self-employed without a delivery address or premises	Showroom style stores, more interior design and lifestyle focused with less volume of product on display than traditional retailer, and may sell other home décor products	Large contracting companies with employees and premises. Undertake large scale projects which might include government contracts, hotels, office and retail refurbishments, care homes	Mix of flooring specialists and generalists selling flooring with multiple premises, typically in several regions or nationwide	Typically national housebuilding companies, responsible for multiple developments across the UK	Website the only selling channel, with no other means of selling (i.e. no physical premises)

Good weighting | Underweight | Very underweight

Nationwide deliveries and collection service

Broadest product offering – availability, expertise, innovation, and exclusive products

Sales teams/reps, marketing and technical support

B2B websites

myheadlam app

Trade counters

Key accounts team / customer service teams

Tailored service propositions

Transport management system

Online systems integration

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

DIGITAL AND ECOMMERCE

B2B websites relaunched and new app launched

A curated suite of digital products and applications were launched / relaunched in 2021 to increase revenue opportunities across different customer segments, as well as increase efficiency and reduce Headlam's overall cost to serve. Customers benefit from an improved service offering and more convenient ways of doing business with Headlam. Of particular note was the launch of the brand new *myheadlam* app, an industry-leading fully transactional mobile app allowing customers to trade with all their Headlam accounts 'on the go', in a quick and easy way. Customers are able to search for products, check real-time availability / prices, place orders, review order history, and track live orders. The app also features a 'Room Visualiser', an innovative tool to showcase products in room settings. In the four months following its launch, over £1.4 million of sales had been received via the app, with 1,600 customer registrations. Further enhancements to the app are planned for 2022.

Trade counter business is heavily skewed towards commercial, with trade counters having particular appeal for tradespeople/fitters and smaller flooring contractors who don't have a delivery address or retail premises. The business plan is to grow the trade counter network from the current 53 sites, to 90 new and improved sites by 2025. The new 'blueprint' for the sites meets the needs of a broader range of customers to capture greater market share, and offers pre-ordered collections and a greater range of stocked products. An own-branded flooring product has also been launched which is available exclusively to trade counter customers. Through this improved offer and expansion of the national footprint, the Company is targeting revenue growth in this area from approximately £80 million in 2021 to £200 million. The performance of the first trade counters under the 'blueprint' has been very pleasing, with an accelerating roll-out of new and improved sites nationwide.

TRADE COUNTERS

Accelerating roll-out of new and improved sites nationwide

KEY ACCOUNTS TEAM

Actively targeting Multiple Retailers and other larger customers

The Multiple Retailers opportunity is worth approximately £1 billion (see table below), or one-third of the UK market, with Headlam having just approximately £60 million of revenue in this area in 2021. Having not traditionally targeted this area, the Company is now actively focused on enlarging its share and has established a dedicated centralised team, developed tailored propositions, and put in place digital support and enabling work. Headlam is able to provide Multiple Retailers with an exceptional service through: product insight; competitive purchase rates; supply chain management; stockholding / storage solutions; processing expertise; and national distribution (any number of locations / frequency). Good progress has been made in winning initial orders with a number of new customers, with substantial scope to increase the number of SKUs with each and develop the revenue opportunity.

Multiple Retailers

c £1 billion market

Flooring Retailers	DIY	Builders Merchants	Homeware Retailers	Supermarkets	Garden Centres	Online Retailers

BENEFITS
flowing through

Philip Lawrence Non-Executive Chairman | 9 March 2022

2021 was a very positive year for the Company on a number of fronts. Financial performance rebounded strongly from 2020, when the first half was materially impacted by the emergence of COVID-19; industry wide issues including supply issues were able to be largely mitigated; and significant progress was made in implementing the Company's business change strategy. It is important to say upfront that none of these achievements would have been possible without the commitment and support of the Company's people, and the Board wishes to express its thanks to them, as well as to all its stakeholders. Some challenges and disruptions arose from the implementation of certain actions under the business change strategy described in the Chief Executive's Review, and the Company would like to thank its people and customers affected. Additionally, a fire at one of the Company's sites in December 2021 caused significant disruption for the people and business based there and its customers, albeit pleasingly order taking and deliveries were quickly restored, and the Company wishes to thank everyone for their support.

During the year, many of the actions under the business change strategy were completed or integrated, with benefits flowing through both operationally and financially. Of particular note was the simplification and efficiency improvements through group restructuring, network and delivery consolidations, and the many improvements made to customer service propositions. This took the form of investment in the network, digitalisation, and creation of dedicated customer service and sales teams. There was also an increased collaborative approach across the group to better leverage the group's scale.

As a result of these actions, the Company is now more efficient with a strong foundation to focus on growth.

The Company's strategy is meaningful organic revenue growth from an efficient and modernised operating base, and the Company is now actively targeting a larger share of the overall £3 billion UK market with success already being demonstrated. New customers have been won in the Multiple Retailer segment of the market where the Company is underweight; the performance of new and improved Trade Counter sites under the roll-out programme are exceeding initial expectations; and there has been a pleasing customer response to the Company's enhanced digital offer, in particular the recently launched industry-leading mobile app.

Actions under the business change strategy contributed to an improved operating margin during the year, demonstrating good progress towards the Company's stated 7.5% underlying operating margin target during 2023. As referenced in January 2022's Pre-Close Trading Update, the Company's net funds position is comfortably above current capital requirements despite increased levels of investment, and the Company is now announcing a surplus capital return alongside the proposed final ordinary dividend. Full details of the return are given within the Chief Executive's Review, and in summary the Company is taking a blended approach and returning a total of £30 million to shareholders via a special dividend and share buyback programme to provide both income and value accretion. For the time being an element of capital is being retained on the balance sheet to allow for further investment in the business should the Company wish to accelerate growth projects, to provide flexibility including on the financing of any potential M&A, and also as a prudent precaution against unforeseen events.

The detailed Environmental, Social and Governance ('ESG') Report within the 2021 Annual Report and Accounts builds on the Company's initial report published in May 2021. The ESG strategy supports the long-term sustainability of the business with the Board committed to progressing its development, and will establish a new ESG Board Committee in 2022 to support this. Addressing the environmental challenge is much broader than reducing carbon emissions and will require close collaboration across the industry. The transition to a circular economy is a longer term challenge for the floorcoverings industry as there are both technical and market dynamic obstacles to overcome, with the Company prepared to work with partners to lead change. As a basis for its long term ambitions, the Company now has a net zero emissions ambition for 2035, with detailed planning to commence and details of a costed transition plan to be provided within the ESG Report in next year's 2022 Annual Report. Additionally, the Board believes that business has a positive role to play in society, and as detailed in the Chief Executive's Review has now embarked on a programme to support a more diverse workforce and the benefits that brings to the Company, as well as launching a locally focused community programme.

A number of changes have been made at Board level to support the effective implementation of all the Company's strategic and corporate objectives. The Non-Executive Director appointments of Simon King and Stephen Bird during 2021 brought highly relevant skills and experience on to the Board, with both having extensive executive experience leading growth and customer-led strategies.

CAPITAL ALLOCATION PRIORITIES

Summary (in order of priority):

- Maintain strong balance sheet

  Targeted average net debt during a financial year of not more than 0.75x EBITDA (unless exceptional / unforeseen circumstances prevail)

- Investment in the business

  Investment, both opex and capex, in the core distribution business to optimise performance and growth, and in line with strategic requirements

- Ordinary dividend income for shareholders

  Provide income to shareholders through a bi-annual ordinary dividend distribution paid out of cash, with a targeted cover ratio of 2x earnings for the total annual pay out (higher weighting to final dividend)

- Funding of potential M&A

  Potential investment in acquisition opportunities aimed at growing the Company's position, including in new / underweight product categories and customer segments

- Potential return of surplus capital

  After applying the priorities above and taking into consideration all factors, return surplus capital to shareholders, and consider the most effective mechanism to do so. **A surplus capital return was announced on 9 March 2022 by way of a special dividend and share buyback programme (see Chairman's Statement on page 12)**

In October 2021, Steve Wilson left the Company as Chief Executive following an extensive executive career with the group, with Chris Payne, Chief Financial Officer, acting as Interim Chief Executive and subsequently being appointed as permanent Chief Executive, as announced on 8 March 2022. Steve Wilson was instrumental in the Company's success throughout his 30 years with Headlam, including instigating the business change strategy, and the Board offers its heartfelt gratitude for his contribution to the Company.

The Board is delighted to welcome Chris as Chief Executive. Following an extensive independent search process, the Board believe that Chris is the best person to drive delivery of the business change strategy which as above is focused on substantial revenue growth opportunities across a broader segment of the market from a more efficient operating base following the actions taken during the last two years. In the five years since he joined the Company, Chris has been a highly effective and commercial Chief Financial Officer, and a key architect of the business change strategy. The Company has commenced the independent search process for a new Chief Financial Officer and intends to appoint an Interim Chief Financial Officer shortly while the search process is ongoing.

Also as announced on 8 March 2022, I shall be stepping down at the AGM in May 2022 having served seven years with the Company. During the last four years as Chairman, I have overseen the planning, implementation, and considerable development of the business change strategy, the strengthening of oversight and governance, and initiation of a comprehensive ESG strategy. I will leave the Company in a significantly better place to grasp the opportunities of organic growth and scale. It is the Board's intention to also appoint a new Independent Non-Executive Director, and will commence this search later in the year.

As a result of all these actions and progress so far, the Company enters 2022 a far more focused, capable and modern business, with greater opportunity and competitive advantage to support customers and grow financial performance. While the current inflationary environment may impact some end-consumer spending in the coming months, the Company is confident in its current expectations and the delivery of its strategy which should be able to mitigate any potential market softening in the residential sector, and looks forward to demonstrating further progress in 2022.

Philip Lawrence
Non-Executive Chairman

9 March 2022

POSITIVE YEAR
with lots of progress

Chris Payne Chief Executive and Chief Financial Officer | 9 March 2022

The following financial results represent continuing operations only, and exclude the contribution from the Swiss business Belcolor AG ('Belcolor') in the year, and the comparator year(s), following its disposal in May 2021 (as detailed in the Financial Review and in Note 7 to the Financial Statements).

Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2021 and 2020 periods and is adjusted for any variances in working days.

Underlying is before non-underlying items, which includes i) amortisation of acquired intangible assets, ii) impairment of goodwill and intangible assets, iii) property disposal profit, iv) business restructuring costs, and v) impairment of property, plant and equipment and inventory (following a fire).

The Company has given detail within the Financial Review and accompanying appendix where it has used Alternative Performance Measures ('APMs'), the description of, and why it believes in each instance they are a more appropriate measure of performance than a corresponding IFRS measure.

Introduction
As described in the Chairman's Statement, 2021 was a very positive year with lots of progress made, not least in the increasing realisation of benefits from the business change strategy, expanded upon below. There were a number of external market effects and industry wide issues, not least from the ongoing impact of COVID-19, which the Company was largely able to mitigate and operate successfully throughout. Product supply issues during the year led to significant price increases. However, these were passed directly into the marketplace and absorbed owing to the relative infrequency of consumer purchases and proliferation of product at varying price points providing huge choice at every level. Additionally, through working closely with its suppliers, the Company was able to maintain its inventory position and preserve levels of availability.

Outside of the industry wide issues, the Company experienced very limited direct impact from COVID-19 during 2021, and operated effectively and uninterruptedly throughout the year despite lockdowns and restrictions. This is testament to the Company's effective operating procedures, but most of all to its people, customers and suppliers. Many of the Company's people, customers and suppliers have been part of the Company for years or even decades, and they are the backbone of the Company's operating and financial performance. Heartfelt thanks go to them, particularly in a year that gave rise to disruptions from the implementation of some of the actions under the business change strategy (notably arising from the network and delivery consolidations), and also from a fire at one of the Company's sites (detailed below) which occurred alongside ongoing COVID-19 related issues.

I am delighted to have now been appointed permanent Chief Executive. Over my five years with the Company, I have been heavily involved with operations and the business change strategy in addition to my role as Chief Financial Officer. I have seen many of our actions now come to fruition, and believe the Company is poised for greater success in the future, and I intend to drive through all the opportunities available.

Financial Performance

Revenue rebounded strongly from 2020 which was materially impacted by COVID-19 related temporary closures of the Company's operations during the first half, and was 15.4% higher at £667.2 million (2020: £578.1 million). Within this, the UK and Continental Europe both traded well and performed strongly compared with 2020, up 16.1% and 10.9% respectively, and supported by the Company's business change strategy. Against 2019, the UK performance was slightly down and Continental Europe performance slightly up.

A noticeable impact of COVID-19 has been on the relative fortunes of the residential and commercial sectors. While the residential sector has been a strong beneficiary of COVID-19 and its knock-on impact on consumer spending habits, the commercial sector has suffered, although it recovered to a degree during 2021. During 2021, residential sector revenue was up 2.9% and commercial sector revenue down 15.0% against 2019 on a like-for-like basis. Against 2020, 2021 residential sector revenue was up 15.3%, and commercial sector revenue was up 18.5%. Underscoring the strength of the residential sector, between 2019 and 2021 the proportion of revenue accounted for the residential sector increased from 64.2% to 68.5%.

Belcolor, the Company's Swiss operations, was disposed of in the year allowing a greater focus on operations that present more meaningful organic growth opportunities and leveraging of group scale in line with the Company's strategy. Detail on the disposal is given in the Financial Review and Note 7 to the Financial Statements, with Belcolor only accounting for 5.1% of revenue in 2020.

Gross margin rose to a record 33.0% in the year (2020: 30.8%) owing to the inflationary environment evident through much of the year, coordinated buying initiatives across the group, improved inventory management, and contribution from the higher-margin residential sector. This, combined with other actions taken under the business change strategy, helped deliver an improved underlying operating margin of 5.6% (2020: 3.0%).

Underlying operating profit and underlying profit before tax was £37.3 million and £35.8 million respectively (2020: £17.4 million; £15.4 million respectively). There was a relatively small amount of non-underlying items in the year compared with 2020, which as detailed was materially impacted by COVID-19. Non-underlying items are detailed in the Financial Review, with the largest contributor relating to a fire at one of the Company's sites in December 2021 detailed below, although this had little impact on overall underlying business performance. Another item relates to the Company's Northern Ireland based business CECO which continued to experience challenges due to COVID-19 impacting its business which is largely focused on bigger, commercial projects, and it was further impaired in the year. Statutory profit before tax in the year was £27.6 million (2020: £14.3 million loss).

The ongoing delivery of the Company's strategy detailed below will allow for further improvement in financial performance, not least from substantial revenue growth opportunities particularly in the areas of Trade Counters and Multiple Retailers. Incremental revenue is expected to benefit from an operational gearing effect to create higher margin on the partially fixed cost base.

Strategy and Operations

The Company's business change strategy* is now largely embedded in the business, with benefits increasingly evident. The strategy is now focused on revenue growth and modernisation, with operational efficiency through cost control remaining important. The latter has been most noticeably enacted through network and delivery consolidations, which has enabled a reduction in headcount, sites and fleet numbers while maintaining or improving the service proposition, albeit with some disruption to service from implementation experienced during the year. Increased investment has been made in the network and systems to optimise performance as well as support revenue growth.

In support of revenue growth, the Company has focused on improving the service propositions to various customer segments within the overall £3 billion UK market, and actively targeting those where it has historically been underweight. As part of the improvements, the Company has developed a suite of industry-leading digital products and applications, and commenced work on product and brand development. The main drivers of revenue growth and modernisation are: Trade Counter roll-out; Multiple Retailers focus; Digital and Ecommerce applications; and Product and Brand development.

Trade Counter roll-out

As announced at the Capital Markets Day held in July 2021, a plan has been developed to grow the existing trade counter network from 53 sites to over 90 new and improved sites by 2025. The accompanying new site 'blueprint' is designed to meet the needs of a broader range of customers (with trade counter businesses heavily skewed towards commercial) and capture greater market share. The sites offer pre-ordered collections, a larger selection of stocked products, as well as a newly launched own-branded flooring range exclusive to trade counter customers. Through the improved offer and expansion to additional sites, the Company is targeting revenue growth in this area of approximately £120 million upon the plan's maturity (from approximately £80 million in 2021). To date, 11 sites are now operating under the new 'blueprint', and their performance has been very pleasing with early achievement of financial targets and positive feedback from both customers and employees. In line with the accelerating roll-out, nine new sites / relocations are already scheduled for 2022, in addition to at least 11 refits, with a good pipeline of prospective new sites.

Multiple Retailer focus

The Multiple Retailers opportunity is worth approximately one-third of the £3 billion UK market, with the Company currently being significantly underweight in this customer segment, and having only approximately £60 million of 2021 revenue in this area. Having not traditionally targeted this area, the Company is now actively focused on enlarging its share. During 2021, the Company established a dedicated 'key accounts' team, developed tailored propositions, and put in place digital support and enabling work for customers. The Company is able to provide Multiple Retailer customers with a highly compelling often bespoke service through: product insight and exclusivity; competitive pricing; supply chain management; stockholding / storage solutions; processing expertise; and national distribution. Good progress has been made in winning initial orders with a number of new customers, with substantial scope to increase the number of SKUs with each and develop the revenue opportunity in 2022 and beyond. An example of a new customer is Oak Furnitureland, who has partnered with Headlam to launch its new engineered wood flooring proposition. Headlam is the sole supplier to Oak Furnitureland on a range of exclusive, premium engineered wood products after its customers expressed interest in a unique flooring offering following market research completed by the retailer. Oak Furnitureland now has dedicated flooring areas within four of its 70 stores.

Digital and Ecommerce applications

Ecommerce and digital applications were launched in 2021 to increase revenue opportunities across different customer segments, as well as increase efficiency and reduce the Company's overall cost to serve. Customers benefit from an enhanced service offering and more convenient ways of doing business with Headlam. Of particular note was the launch of the brand new myheadlam app, an industry-leading fully transactional mobile app allowing customers to trade with all their Headlam accounts 'on the go', in a quick and easy way. Customers are able to search for products, check real-time availability / prices, place orders, review order history, and track live orders. Over £1.4 million of sales have already been received via the app since its full launch in November 2021. Further enhancements are planned for the app, as well as the Company's B2B websites, during 2022, and the Company has an ambitious target of 30% of sales coming from digital channels (Jan 2022: 22%; 2019: 11%).

Product and Brand development

A key objective for 2022 is the investment in product development, with the refocusing of some of the Company's recognised product brands to keep them fresh, relevant, and increase the sales opportunity. There has also been investment in a dedicated team at one of the Company's main sites to support the product and brand development initiative.

In support of promoting sustainable products and increasing consumer awareness, the Company launched a sustainable 'Wool Britannia' product range in 2021 with the support of the British Wool Association which has been very well received.

Supplier Engagement and Buying

The Company's strong partnerships with its suppliers was demonstrated in the year through its ability to effectively mitigate the industry wide supply issues. Levels of engagement have continued to increase, including through more strategic and centralised ranging discussions, and on sustainability considerations as detailed in ESG Strategy below. The two substantial revenue stream opportunities of Trade Counters and Multiple Retailers also present opportunity to expand on the Company's current strategic conversations with suppliers.

Fire at MCD Kidderminster

In a devastating incident in which thankfully no one was hurt, the Company suffered a fire at its MCD Kidderminster business in December 2021, completely destroying the building. Colleagues and customers were quickly provided with support, and colleagues and operations transferred to the Company's main distribution hub in Coleshill. Within four days, MCD Kidderminster customers were again receiving deliveries from MCD Kidderminster which is testament to the Company's business continuity planning, and network, systems and collaborative approach.

Great thanks and appreciation go to those colleagues affected by the fire and the strength of character they showed in the face of adversity. In early January 2022, a temporary site was opened in Kidderminster with longer term options currently being examined. Notwithstanding the non-underlying items associated with the fire, there was no material impact from the fire on overall 2021 revenue and underlying profit, nor is there anticipated to be in 2022. Detail on the write-down of MCD Kidderminster PPE and inventory within non-underlying items and totalling £7.3 million is given within the Financial Review.

ESG Strategy

The Company published its first ESG Strategy Report in 2021, which outlined the Company's sustainability ambitions, and tangible progress has been made since the initial report. The 2021 Annual Report and Accounts being published shortly contains the Company's first full-form ESG Report, and the Company is committed to providing an update on ESG actions and future consideration on a bi-annual basis, with metrics, indicators, and targets to enable measurement of progress.

Through collaboration with its people and external stakeholders, the Company has identified three core focuses under its ESG strategy:

- Reduce the Company's contribution to greenhouse gas ('GHG') emissions and climate change;
- Become a more sustainable business, including through cultural development and by increasing oversight of ESG related risks and opportunities; and
- Increase the sustainability of the overall floorcoverings industry through engagement and example, and support the future transition to a circular economy.

Outlined below are the Company's main actions to date to address these focuses under the 'Environmental', 'Social' and 'Governance' pillars and also under 'People and Culture', all of which are expanded upon fully with the full-form ESG Report.

Environmental

Per the Chairman's Statement, the Board now has a net zero emissions (Scope 1 and Scope 2) ambition for 2035, a new and major milestone for the Company. This will require various steps including a transition strategy and interim targets which will be expanded upon within the Company's forthcoming bi-annual updates, with progress and measurement metrics documented. The Company already has a number of actions to reduce its emissions, which arise predominately from its transportation activities (both commercial and non-commercial fleet). These include::

- Roll-out of the 'Transport Integration' consolidation project resulting in more efficient delivery fleet (commercial vehicle) utilisation, and associated reduction in fleet number (currently a 32 reduction to 356);

- Increasing the availability of plug-in hybrid and low emission vehicles across non-commercial fleet, with the near-term target of 50% of the fleet being plug-in hybrid or low emission by end of 2022 (13.5% in 2021);
- Promotion of digital and trade counters developments thereby reducing the proportion of carbon intensive ordering and delivery options;
- Good energy behaviours' to be promoted across the group; and
- Auditing and upgrading of sites with more energy efficient technologies and equipment.

Social

As part of a wider societal focus, the Company is launching an annual, centrally funded but locally focused community programme, with each site across the group allocated a certain monetary amount per employee on site, and each site donating to a voted-upon local cause.

Governance

One of the material ESG issues identified through consultation with stakeholders was 'Supply Chain Risk', and it forms an area of key near-term focus. Actions to mitigate risk in this area include the commencement of an engagement programme with suppliers on industry sustainability issues, including on changes to regulation and potential sustainability partnerships. Additionally, the Company has signed a contract with an independent party to conduct a full Supply Chain Risk Assessment, with the target of the top 50 suppliers (accounting for approximately 80% of purchases) assessed under the independent Supply Chain Risk Assessment by the end of 2022. The latter part of 2022 will see the implementation of a Supplier Sustainability Procurement Charter, which includes defining a common set of minimum standards and principles.

Importantly, the new Non-Executive Director appointments have increased evaluation and oversight of governance (including risk management), strategy, and corporate objectives, and in 2022 a new ESG Committee is being established.

People and Culture

The Company is focused on investing in and improving the support to its people, including through cultural development, engagement, and review of rewards and benefits. As part of this, various consultations and planning work took place in 2021, alongside workshops and training. Changes and improvements being implemented in 2022 include:

- Moving to one pension for all employees (Master Trust Pension, effective 1 April 2022), providing a more generous and flexible contribution structure, and creating consistency and fairness across the group;
- Introduced a common approach to bonus provisions for senior management and sales leadership roles, driving a more collaborative and 'group success' approach;
- Enhanced and harmonised holiday entitlement;
- Equal sick pay for all colleagues; and
- Cost of living pay increase for all employees.

Diversity, Equity and Inclusion ('DEI') is an integral part of the Company's objective of providing a safe and inclusive working environment where people are engaged, recognised and rewarded. The Company has partnered with a specialist consultancy who are carrying out an independent review (encompassing an employee survey, focus groups and interviews) before establishing a plan to enhance DEI across the Company

Dividends and Surplus Capital Return

Dividends

Following a period of recovery from the impact of COVID-19 and as a sign of confidence in future trading prospects, the Company resumed dividend payments and announced a 2.0 pence per share nominal ordinary dividend in March 2021. This was followed by a 2021 interim ordinary dividend of 5.8 pence per share after a longer period of recovered trading.

The Company is now proposing a 2021 final ordinary dividend of 8.6 pence per share for approval at May's Annual General Meeting ('AGM'), giving a total annual pay-out for the interim plus final of 14.4 pence, being equivalent to a 2x earnings cover ratio and in line with the Company's published Capital Allocation Priorities, with the 2.0 pence nominal dividend being an additional payment on top.

Surplus Capital Return

As signposted in the January 2022 Pre-Close Trading Update, and confirmed within the Chairman's Statement, the Company is now announcing a surplus capital return in addition to the aforementioned ordinary dividends. Having recourse to the Company's Capital Allocation Priorities, and taking into account current and future considerations as described in the Chairman's Statement, the Company is returning a total of £30 million to shareholders. Having considered the most appropriate method of returning capital, the Company is returning £15 million in the form of a special dividend of 17.7 pence per share to shareholders alongside the ordinary dividend, with a further £15 million being directed towards a share buyback programme ('SBB'). It is the intention that this £15 million SBB will be completed within approximately 12 months, and commence on 10 March 2022.

Post Period-End and Current Trading

Trading in January and February 2022, the Company's quietest trading months, was in line with plan, and pleasingly the strong margin performance in 2021 has been maintained into 2022. In addition, as referenced above, progress on driving additional revenue opportunities from multiple retailers and the trade counter activity is encouraging.

The industry wide issues of product supply and price increases are expected to persist in 2022, though as before, the Company believes it will be able to continue to largely mitigate them. However, the continuing inflationary environment may impact some end-consumer spending, leading to potential softening in the residential sector in the coming months. Early signs of recovery in the commercial sector from its severely impacted position in 2021 may help partially offset this. Notwithstanding this backdrop, the Company is confident in its current expectations and the delivery of its strategy, which provides additional revenue growth which would help mitigate any market weakness.

Chris Payne
Chief Executive

9 March 2022

*Prior to the business change strategy, the Company referred to the Operational Improvement Programme ('OIP'). The business change strategy replaced the OIP, being broader in scope, including encompassing significant revenue growth opportunities, changes to how the group operates as a whole going forward, and business restructuring which has now been completed.

STRONG
performance against 2020

Chris Payne Chief Financial Officer and Chief Executive | 9 March 2022

The following financial results represent continuing operations only, and exclude the contribution from the Swiss business Belcolor AG ('Belcolor') in the year, and the comparator year(s), following its disposal in May 2021 (as detailed in the Financial Review and in Note 27 to the Financial Statements).

Revenue

As detailed in the Chief Executive's Review, total revenue was £667.2 million (2020: £578.1 million), 15.4% higher than 2020 which was impacted by COVID-19 related temporary closure of operations. Both the UK and Continental Europe performed strongly against 2020. The UK accounted for 87.8% of total revenue (2020: 87.3%), and was up £81.1 million (16.1%) on 2020 at £585.8 million (2020: £504.7 million). Continental Europe revenue was up £8.0 million (10.9%) at £81.4 million (2020: £73.4 million) and accounted for 12.2% of total revenue (2020: 12.7%). On a like-for-like[1] revenue basis, the UK and Continental Europe were up 16.5% and 15.1% respectively against 2020.

The residential sector continued to account for a higher proportion of revenue when compared with pre-COVID-19 levels. This is owing to the strong spend on home improvements since the impact of the pandemic, with the commercial sector being impacted by COVID-related closures and deferrals. During 2021, the residential sector accounted for 68.5% of total revenue compared with 64.2% in 2019 (2020: 69.1%)) and the commercial sector 31.5% (2020: 30.9%). The residential sector accounted for 69.5% of UK revenue (2020: 70.2%), and 61.1% of Continental Europe revenue (2020: 61.2%), the balance being commercial sector.

	£M	%	£M	%
Revenue for the year ended 31 December 2020				
UK	504.7	87.3		
Continental Europe	73.4	12.7		
			578.1	100.0
Incremental items during the 12-month period to 31 December 2021				
UK:				
Like-for-like[1]	82.5	16.3		
Changes in working days	(2.0)	(0.4)		
Acquisitions	0.6	0.1		
			81.1	16.0
Continental Europe:				
Like-for-like[1]	11.0	15.0		
Changes in working days	(0.3)	(0.4)		
Translation effect	(2.7)	(3.7)		
			8.0	10.9
Total movement			89.1	15.4
Revenue for the year ended 31 December 2021				
UK	585.8	87.8		
Continental Europe	81.4	12.2		
			667.2	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 2021 and 2020 periods, and is adjusted for any variances in working days.

No acquisitions were made during the year. 'Acquisitions' in the table above refers to the full year effect of the one acquisition made in 2020, Supertex.

Gross Margin

Gross margin increased 220 basis points in the year to 33.0% (2020: 30.8%), primarily due to the inflationary environment, as well as inventory management and product mix change due to the strength of the higher-margin residential sector.

Expenses

Underlying distribution costs and administrative expenses totalled £183.2 million in the year (2020: £160.7 million), an increase of £22.5 million on the prior year. When stripping out the prior year governmental job retention scheme ('furlough') grants, the increase was only £11.5 million (7.2% increase year on year) with 2020 additionally having reduced expenses due to the COVID-19 related closures. Benefits from the business change strategy during the year were able to offset wage inflation and performance related bonus payments. These benefits will increase in 2022 due to full period contributions, and help mitigate cost inflation in 2022. Pleasingly, underlying distribution costs and administrative expenses expressed as a proportion of revenue was steady at 27.5% (2020: 27.8%) despite the one off benefit of furlough receipts in 2020. The relative proportions of underlying distribution costs and administrative expenses as a percentage of total underlying expenses were 68.7% and 31.3%, respectively (2020: 70.9% and 29.1%). Statutory distribution costs and administrative expenses totalled £ 191.4 million in 2021 (2020: £190.3 million), with the increase in underlying expenses described above largely offset by the decrease in non-underlying items, as below.

Business restructuring costs of £2.3 million were incurred in the year, classified as non-underlying items due to being deemed out of the ordinary course of business, and defined below. No further additional costs are anticipated in 2022 in relation to the business change strategy currently in place.

The Company has maintained a prudent level of bad and doubtful debts provision at £6.7 million, being 1.0% of total revenue (31 December 2020: £8.1 million, 1.4% of total revenue but which includes £1.1 million attributable to Belcolor). This approach has been taken despite strong cash collections throughout 2021 as the impact of current inflationary and energy cost pressures on the economic environment, and the withdrawal of certain government support schemes, might cause this collection experience to lessen.

Alternative Performance Measures

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

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

An explanation of each APM is provided on page 26 and a reconciliation of the adjustments made to the Income Statement to derive underlying profit measures is shown on page 28. Underlying items are calculated before charges associated with the acquisition of businesses and other items which by virtue of their nature, size or/and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year on year. These underlying measures are relevant to investors and other stakeholders, as supplementary information, to fully understand the underlying performance of the business. A limitation of underlying profit measures is that they exclude the recurring amortisation of intangible assets acquired in business combinations but do not similarly exclude the related revenue.

Non-underlying items

Non-underlying items before tax totalled £8.2 million during the year, much reduced from 2020 (£29.7 million) which had a significant level of non-cash items as a direct consequence of the impact of COVID-19.

The below table details the individual non-underlying items:

	2021 £M	2020 £M
Non-underlying items		
Impairment of goodwill and intangibles	**2.1**	24.7
Amortisation of intangibles	**1.6**	1.6
Impairment of property, plant and equipment and inventory (following a fire, detailed below)	**7.3**	–
Movements and finance costs for deferred and contingent consideration	**–**	–
Non-underlying non-cash items	**11.0**	26.3
Property disposal profit	**(5.1)**	–
Business restructuring costs	**2.3**	2.4
Acquisitions related fees	**–**	0.7
GMP equalisation	**–**	0.3
Non-underlying cash items	**(2.8)**	3.4
Non-underlying items before tax	**8.2**	29.7

In December 2021 a fire completely destroyed the MCD Kidderminster distribution centre and, therefore, the property, plant and equipment and inventory at the site totalling £7.3 million has required a full write-down. An insurance claim is currently in progress. Any refunds cannot be recognised until they are virtually certain, so any credit would be recognised in non-underlying items in the year the claim is closed, hoped by the Company to be 2022. A contingent asset has been disclosed relating to the insurance claim.

The cash items relate to the profit on the disposal of two freehold properties under network consolidation activities (£5.1 million), offset by £2.3 million of business restructuring costs under the business change strategy and other events. The business restructuring costs related to material alignment of headcount with seasonal trading patterns and also with evolving customer servicing, along with executive settlement agreements. Cumulative non-underlying business restructuring costs since their initiation as part of the business change strategy amount to £4.7 million (all cash in nature), and cover the period July 2020 to December 2021. No further business restructuring costs are currently anticipated for 2022. Costs associated with the fire at MCD Kidderminster, disposal of properties and business restructuring do not reflect trading performance and, therefore, have been adjusted to ensure consistency between periods.

Operating Profit and Profit Before Tax

The Company has reported an underlying operating profit of £37.3 million (2020: £17.4 million), which equates to an underlying operating margin of 5.6% (2020: 3.0%), and an underlying profit before tax of £35.8 million (2020: £15.4 million). After including the non-underlying items above, this gives a statutory operating profit of £29.1 million (2020: £12.2 million loss) and a statutory profit before tax of £27.6 million (2020: £14.3 million loss).

	Underlying £M	Non-underlying £M	Total £M
Operating profit/(loss) 2020	17.4	(29.6)	(12.2)
Gross margin movement in 2021:	42.4	–	42.4
Expense changes			
Volume	(3.1)	–	(3.1)
Furlough grants	(11.0)	–	(11.0)
Bad debt provision	6.7	–	6.7
People costs (including pay increases and performance-related bonus payments)	(9.6)	–	(9.6)
Effect of acquisitions	0.4	–	0.4
Other	(5.9)	21.4	15.5
Total increase	19.9	21.4	41.3
Operating profit/(loss) 2021	**37.3**	**(8.2)**	**29.1**

Tax

The Company's consolidated underlying effective tax rate for 2021 was 25.8% (2020: 24.7%), which is higher than the standard rate of corporation tax in the UK of 19% primarily due to the effect of restating the opening UK deferred tax liability to reflect the change in the UK tax rate from 19% to 25%, from April 2023, which was substantively enacted in the year.

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' (2020: 'low').

Dividend and Surplus Capital Return

The proposed final ordinary dividend of 8.6 pence per share, as outlined in the Chief Executive's Review, if approved by shareholders at the forthcoming AGM, will be payable on 27 May 2022 to shareholders on the register as at 6 May 2022, and equates to a cash outflow of £7.3 million. As additionally outlined in the Chief Executive's Review, as part of the return of surplus capital to shareholders, the Company has also declared a special dividend of 17.7 pence per share (not subject to shareholder approval) which will be paid alongside the final ordinary dividend to shareholders on the register as at the same date, namely 6 May 2022. This special dividend payment equates to a cash outflow of £15.0 million.

The other component of the surplus capital return is a share buyback programme ('SBB') which will be enacted by the Company's corporate brokers, and permits a cash outflow of up to a maximum of £15.0 million.

Investments

Total capex in the year was £6.9 million (2020: £15.0 million), and primarily focused on the Trade Counter network improvement and roll-out, and replacing or upgrading warehouse equipment. 2020 was disproportionately high as it included the final tranche of spending on the Ipswich distribution centre (£9.7 million) which opened in 2020 on top of annual maintenance capex.

Investment in 2022 is estimated to be in excess of £15 million, with Trade Counters investment expected to be approximately £7 million as part of the accelerating roll-out which will see a total capital investment of approximately £18 million by the end of 2024 to reach the targeted 90 sites. The balance of the investment will be focussed on improving and replacing warehouse and material-handling equipment.

Cash Flows and Banking Facilities

During the year, the Company generated net cash inflows of £1.0 million (2020: £27.0 million) as shown in the table below.

	2021 £M	2020 £M
Cash flows from operating activities		
Profit / (loss) before tax	**33.4**	(17.1)
Adjustments for:		
Depreciation, amortisation and impairment	**30.0**	52.0
Finance income and expense	**1.5**	2.1
Change in inventories	**(26.6)**	15.3
Change in receivables	**(16.6)**	23.2
Change in payables	**5.4**	(4.8)
(Profit) / loss on sale of property, plant and equipment	**(11.1)**	0.1
Loss on sale of subsidiary	**0.1**	–
Share-based payments	**1.2**	(0.1)
Cash generated from the operations	**17.3**	70.7
Interest and Tax	**(3.5)**	(8.2)
Disposal proceeds	**16.2**	0.1
Capital investment	**(6.9)**	(15.0)
Lease payments	**(15.0)**	(15.7)
Dividends	**(6.6)**	(6.3)
Other	**(0.5)**	1.4
Net cash flows	**1.0**	27.0

Working capital movements generated a cash outflow of £37.8 million (2020: £33.7 million inflow), largely due to increasing inventory levels as trade returned to pre-pandemic levels, and also to mitigate any impact from industry supply issues by elevating levels of fastest moving products. During 2020, following the impact of COVID-19, the Company had limited product purchasing and utilised existing inventory to satisfy demand, before beginning to elevate purchasing levels in the second half. The Company's inventory position at 31 December 2021 was £130.9 million, similar to the £132.5 million at 31 December 2019 of which £4.9 million was attributable to Belcolor.

Cash collections were strong in the year but working capital saw a return to pre COVID-19 levels with a normalisation in receivables (resulting in an outflow) and payables (inflow) respectively.

The other main drivers of cash flow movements in the year were capital investment (£6.9 million), lease payments (£15.0 million) and disposal proceeds (£16.2 million). The disposal proceeds include the proceeds from the sale of two freehold properties under the network consolidation (£7.0 million) as well as proceeds from the disposal of Belcolor. Full detail on the Belcolor disposal is contained in Note 27 to the Financial Statements.

The 2021 cash outflow in respect of dividends relates to the nominal ordinary dividend, totalling £1.7 million paid in May 2021, and the 2021 interim ordinary dividend, totalling £4.9 million paid in November 2021.

As at 31 December 2021, the Company had a net funds position of £17.7 million (1 January 2021: £8.3 million). The net funds position excluding lease liabilities was £53.7 million (1 January 2021: £51.6 million).

	At 1 January 2021 £M	Non-cash Items £M	Cash flows £M	Disposal of subsidiary £M	Foreign exchange movements £M	At 31 December 2021 £M
Cash at bank and in hand	**60.8**	**–**	**4.5**	**(3.5)**	**(0.6)**	**61.2**
Debt due within one year	**(2.0)**	**–**	**1.2**	**–**	**0.2**	**(0.6)**
Debt due after one year	**(7.2)**	**–**	**–**	**–**	**0.3**	**(6.9)**
Net funds excluding lease liabilities	**51.6**	**–**	**5.7**	**(3.5)**	**(0.1)**	**53.7**
Lease liabilities	**(43.3)**	**(13.0)**	**15.0**	**5.5**	**(0.2)**	**(36.0)**
Net funds	**8.3**	**(13.0)**	**20.7**	**2.0**	**(0.3)**	**17.7**

Average net funds in the year (excluding lease liabilities) were £38.3 million, a strong rebound from the 2020 net debt position caused by COVID-19 (2020: £8.6 million average net debt).

As at 31 December 2021, the Company had total committed banking facilities available of £76.6 million, of which £69.8 million was undrawn.

At 31 December 2021, the Company had a sterling committed facility of £68.5 million and a euro committed facility of €9.6 million. The Group also had short term uncommitted facilities of £25.0 million in the UK and €3.8 million in Continental Europe. The total banking facilities available to the Group at 31 December 2021 were £104.8 million (2020: £110.3 million). During the year, the disposal of Belcolor led to a reduction in the euro uncommitted facilities in Continental Europe of €5.0 million.

Following the year end, on 17 January 2022, the Company completed a refinancing of its banking facilities and now has an increased committed sterling facility with Barclays Bank, Bank of Ireland and Credit Industriel Et Commercial for £81.5 million, with the euro committed facilities now cancelled. The new facility matures in October 2026, with a one year extension exercisable (with the agreement of the banks) on the first anniversary. An additional uncommitted facility of €1.0 million was agreed in Continental Europe in January 2022. The Company's other uncommitted facilities remain unchanged, but will reduce by £10.0 million in May 2022.

Belcolor Disposal

On 28 April 2021, the Group entered into a sale agreement to dispose of its Swiss business, Belcolor. On 29 April 2021, as a condition of the sale agreement, Belcolor undertook a sale and leaseback of its property for gross proceeds of £12.4 million and paid a dividend of £11.1 million to its parent company, Headlam Group plc. Cash consideration before costs of £0.9 million was received on sale of the subsidiary.

The subsidiary was sold on 28 April 2021, with effect from 17 May 2021, and is reported for the year ending 31 December 2021 as a discontinued operation, with the sale and leaseback treated as a discrete pre-disposal transaction.

Pensions

The accounting valuation for the legacy UK defined benefit pension scheme showed a surplus of £12.1 million as at December 2021. However, as the Company does not have an unconditional right to a surplus refund, the pension scheme is recorded as a deficit of £4.3 million as at 31 December 2021 reflecting the level of UK deficit recovery plan payments that the Company committed to following the last actuarial valuation as at 31 March 2020. The Company no longer has a liability for the Swiss pension scheme following the disposal of Belcolor.

Viability and Going Concern

Updated principal risks and uncertainties, to those published in the 2020 Annual Report and Accounts, are detailed on pages 34 to 38 of the 2021 Annual Report and Accounts. No new Principal Risks have been identified. The level of risk of two Principal Risks is considered to have changed, detailed below.

The Board reviewed the Company's resilience to the principal risks and uncertainties by considering stress testing forecasts through adverse scenarios, which involve a reduction in market demand – (A) a sustained recessionary environment characterised by a long period of underperformance throughout the assessment period, and (B) an economic crisis with a sharp decline in demand in the first year before a recovery.

The 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, not plausible, more severe scenario (reverse stress test) was also considered, where the Company experiences a revenue year on year decline of 23% in 2022. In 2020 when the Company had COVID-19 related temporary closures of operations, revenue in the year only declined by 15% against 2019. In this scenario, the Company would be able to operate within its current facilities and meet its financial covenants. However, should the reduction in revenue be greater than this, the Board would need to take mitigating actions to remain within its banking covenants.

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

As above, as at 31 December 2021 the Company had a net funds position excluding lease liabilities of £53.7 million, and as at 2 March 2022 has an undrawn refinanced banking facility of £109.7 million. The Board was, therefore, comfortable that the Company would maintain resilience in the event such scenarios occurred and concluded that there was a reasonable expectation that the Company would continue to operate and meet its liabilities over a three year period. Based on the results from these scenarios, and having considered the available mitigating actions, the Board can have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of this assessment. In particular, the Board believes there are reasonable grounds for stating that the Company has adequate resources to continue in operational existence for a period no shorter than twelve months from the date of this Financial Review, and it is appropriate to adopt the going concern basis in preparing the Company's Financial Statements.

Principal Risks

The level of risk of two Principal Risks is considered to have changed as compared with the 2020 Annual Report and Accounts, summarised below. No new Principal Risks have been identified, and none of the existing removed.

- Healthy and safety – level of risk: decreased – as a result of the mitigating actions undertaken during 2021, the level of risk has been judged to have decreased.
- Environmental (incorporating climate change) – level of risk: increased – given the increasing regulation / legislation in relation to the environment, and increased focus on climate change (including regulatory disclosures in relation to climate-related risks and opportunities), the level of risk has been judged to have increased.

Chris Payne

Chief Financial Officer and Chief Executive

9 March 2022

ALTERNATIVE
Performance Measures ('APMs')

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

Glossary of Alternative Performance Measures	Closest equivalent statutory measure	Definition and purpose
Net funds / debt excluding lease liabilities	None	Calculated as cash and cash equivalents less other interest-bearing loans and borrowings. This is provided for use by investors, who used this metric before the adoption of IFRS16 and continue to do so.
Average net funds / debt	None	Calculated by aggregating the net funds / debt position excluding lease liabilities for each business day and dividing by the total number of business days. This is used as a measure of liquidity maintained throughout the year.
Like for like revenue growth	None	Calculated as year-on-year revenue growth, expressed as a percentage and adjusted to normalise currency and for consistent working days, for businesses making a full year's contribution. This allows a consistent measure of year-on-year performance.
Underlying selling, general and administrative costs	None	Calculated as distribution costs and underlying administrative expenses divided by revenue and expressed as a percentage. This measure shows how effective the Group is at converting gross profit into underlying operating profit.
Return on capital employed	None	Calculated as underlying operating profit measured as a percentage of average capital employed, being total equity less non-current other interest-bearing loans and borrowings less cash and cash equivalents. This demonstrates the relative level of profit generated by the capital employed.
Cash conversion	None	Calculated as cash generated from the operations divided by operating profit and expressed as a percentage. This cash conversion measure demonstrates the success of the Group in converting profit to cash, which underpins the quality of earnings and reflects the effectiveness of working capital management.

Adjusted Results Reconciliation

31 December 2021

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

Adjusted Results Reconciliation
31 December 2020 (re-presented)

Continuing operations	Total Results £M	Impairment of goodwill £M	Amortisation of acquired intangibles £M	Acquisitions related fees £M	Business restructuring £M	Other £M	Adjusted Results (underlying) £M
Revenue	578.1	–	–	–	–	–	578.1
Cost of sales	(400.0)	–	–	–	–	–	(400.0)
Gross profit	178.1	–	–	–	–	–	178.1
Distribution costs	(113.9)	–	–	–	–	–	(113.9)
Administrative expenses	(76.4)	24.7	1.6	0.7	2.4	0.2	(46.8)
Operating profit/(loss)	(12.2)	24.7	1.6	0.7	2.4	0.2	17.4
Finance income	0.8	–	–	–	–	–	0.8
Finance expenses	(2.9)	–	–	–	–	0.1	(2.8)
Net finance costs	(2.1)	–	–	–	–	0.1	(2.0)
Profit/(loss) before tax	(14.3)	24.7	1.6	0.7	2.4	0.3	15.4
Taxation	(3.1)	(0.1)	(0.1)	–	(0.5)	–	(3.8)
Profit/(loss) from continuing operations	(17.4)	24.6	1.5	0.7	1.9	0.3	11.6
Profit/(loss) from discontinued operation	(2.9)	3.3	–	–	–	–	0.4
Profit/(loss) for the year attributable to the equity shareholders	(20.3)	27.9	1.5	0.7	1.9	0.3	12.0
Earnings/(loss) per share for profit from continuing operations							
Basic	(20.7)p	29.1p	1.9p	0.7p	2.3p	0.4p	13.7p
Diluted**	(20.7)p	29.2p	1.9p	0.7p	2.3p	0.3p	13.7p
Earnings/(loss) per share for profit from discontinued operations							
Basic	(3.4)p	3.9p	–	–	–	–	0.5p
Diluted**	(3.4)p	3.9p	–	–	–	–	0.5p

Other comprises: movements in deferred and contingent consideration (£0.1m credit within total administrative expenses); finance costs on deferred and contingent consideration (£0.1m cost within total finance expenses); and GMP equalisation (£0.3m cost within total administrative expenses).

BUSINESS MODEL

provides the distribution channel between suppliers and customers

INPUTS

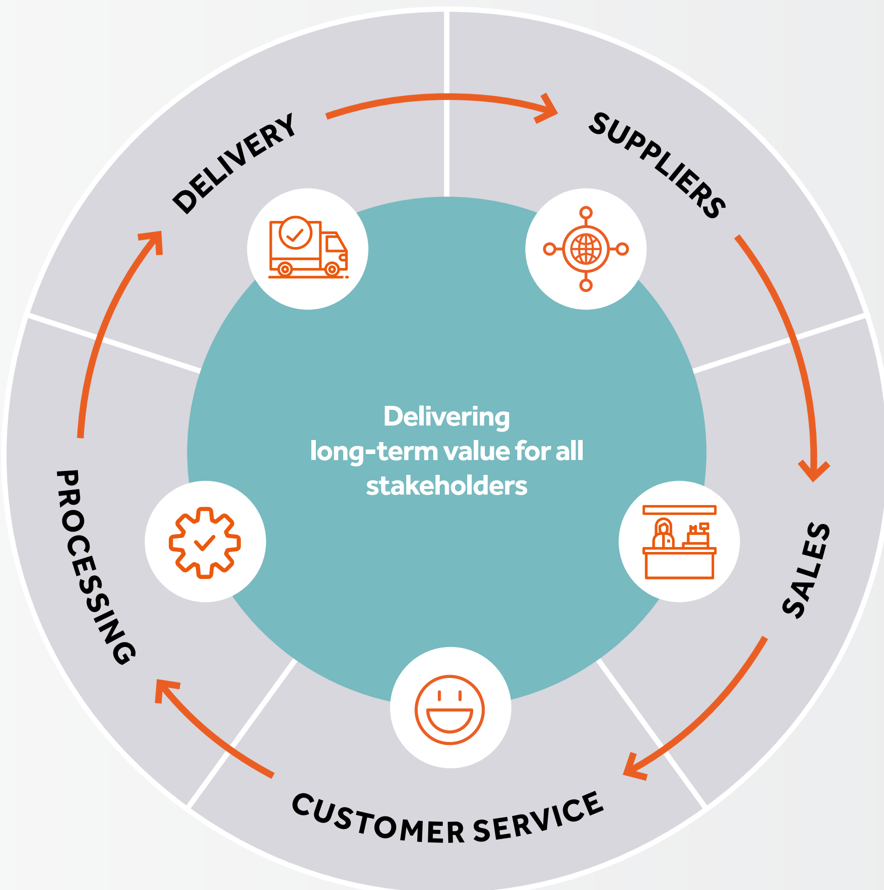
Suppliers
We work with suppliers across the globe who manufacture a diverse range of floorcovering products, and provide them with an unparalleled route to market for their products.

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 nationwide delivery and collection.

Processing
Our ability to process a high volume of orders is enabled by our extensive distribution network, and long-established 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 nationwide delivery and/or collection.



OUTPUTS

Suppliers
Suppliers benefit from the most cost efficient and effective route to market for their products. Utilisation of an outsourced distribution channel enables them to focus on manufacturing, benefit from sales expertise and support, and reduces the costs associated with distribution.

Headlam works in partnerships with suppliers to market their products, increase supply chain efficiencies, and address sustainability issues (including changes in regulation / legislation) (See ESG Report on page 44).

Customers
Customers benefit from marketing and technical support, extensive product offering, nationwide delivery, trade counter and collection service.

Headlam is continually looking at improving its service propositions for the benefit of its customers, including tailored solutions and making dealings quicker and more effective (see Strategy in Action on page 10).

People
People benefit from the Company's focus on supporting and investing in its people, and the provision of a safe and inclusive working environment.

Headlam is focused on cultural development to better support its people, and making improvements to rewards and benefits (See People on page 49).

Shareholders
Shareholders benefit from the Company's strong corporate governance and financial controls, and proven track-record in providing dividend income.

Headlam is delivering on its strategic objectives to improve both operational and financial performance, and is focused on the development of its ESG Strategy to further enhance the long-term sustainability of the Company.

The Board believes these Key Performance Indicators ('KPIs') provide a comprehensive and relevant list of measurements with which to assess the Company's financial, operational and social performance towards the achievement of its strategy. Commentary on the Company's use of Alternative Performance Measures ('APMs') alongside International Financial Reporting Standards ('IFRS') Measures is given within the Financial Review on pages 19 to 29, and below.

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

FINANCIAL

	Measurement	Why it's important and relevant	Performance (3 years)	Initiatives and actions for improvement
Like-for-like* revenue growth	Year-on-year revenue growth, expressed as a % and adjusted to normalise currency and for consistent working days, for businesses making a full year's contribution. **APM[1]**	Allows a consistent measure of year-on-year performance.	2019: 0.7% 2020: (17.2)% 2021: **16.3%**	Organic revenue growth is a key strategic objective with specific projects to support its delivery (see Strategy on page 8 and Strategy in Action on page 10).
Gross profit margin	Measured as a % of revenue.	Shows the effectiveness of gross profit generation from revenue	2019: 31.9% 2020: 30.8% 2021: **33.0%**	Ongoing pricing discipline, and product ranging.
Underlying selling, general and administrative costs**	Measured as a % of revenue. **APM[1]**	Shows how effective the Company is at converting gross profit into operating profit. Underlying** is used to show the underlying performance of the business without exceptional costs / items.	2019: 26.0% 2020: 27.8% 2021: **27.5%**	Restructuring activities, and focus on operating efficiency to ensure cost increases remain below revenue growth.
Underlying operating profit margin**	Measured as a % of revenue. **APM[1]**	Shows the effectiveness of sustainable operating profit generation from revenue. Underlying** is used to show the underlying performance of the business without exceptional costs / items.	2019: 5.9% 2020: 3.0% 2021: **5.6%**	Business change strategy improving operating and financial performance (see Chief Executive's Review on page 15).
Statutory basic earnings/(loss) per share ('EPS')	Profit after tax divided by average weighted number of shares.	Shows the level of profit per share attributable to shareholders.	2019: 34.0p 2020: (20.7)p 2021: **23.5p**	In-line with statutory profit performance.
Return on capital employed ('ROCE')	Measured as underlying** operating profit as a % of capital employed. **APM[1]**	Demonstrates the relative level of profit generated by the capital employed. Underlying** is used to show the underlying performance of the business without exceptional costs / items.	2019: 20.3% 2020: 9.1% 2021: **21.7%**	Focus on efficient use of capital. May be offset in the short-term by investment in the network (estate and systems) with period of maturity i.e. trade counter roll-out (see Strategy in Action on page 10).
Cash conversion	Measured as a % of operating profit. **APM[1]**	Cash conversion measures the success of the Company in converting operating profit to cash, which underpins the quality of the earnings and reflects the effectiveness of working capital management.	2019: 146% 2020: (580)% 2021: 59%	Should typically be held above 90% to ensure profit growth is cash generative. It is anticipated that the focus on improved inventory management and hence inventory turn will also lead to improvements in cash conversion %.

[1] Commentary on the Company's use of these APMs is given within the Financial Review on page 26

NON-FINANCIAL

	Measurement	Why it's important and relevant	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.	2019: 3.6x; 2020: 3.4x; 2021: **3.7x**	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. 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 is to continue developing 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.	2019: 72%; 2020: 82%; 2021: **73%**	Focus on people and culture, including investing in people through training and enhanced reward / benefits (see ESG Report on page 44).
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 in control of premises to report specified workplace incidents.	2019: 23; 2020: 12; 2021: **19**	Implementation and embedding of the recommendations arising from a commissioned independent audit. Dedicated health and safety team enhancing cultural awareness, with regular audits (see ESG Report on page 44).
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.	2019: 86%; 2020: 96%; 2021: **95%**	Group procurement approach in place for all UK sites to be using regranulated polythene packaging manufactured from 100% recycled polythene.
Deliveries per commercial vehicle	Average deliveries per commercial vehicle per day in area following Transport Integration (delivery consolidation) project implementation (against 2019 all deliveries average prior to implementation).	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.	2019: 12; 2020: 16; 2021: **15**	Completion of the roll-out of the Transport Integration project, and continuous improvement.

* Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2021 and the comparator year(s), and is adjusted for any variances in working days.

** Underlying is before non-underlying items, which includes i) amortisation of acquired intangible assets, ii) impairment of goodwill and intangible assets, iii) impairment of property, plant and equipment and inventory (following a fire) iv) property disposal profit, and v) business restructuring costs.

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.

The table on pages 36 to 38 summarises the Principal Risks, not in order of significance, which the Board considers could have a material impact on the Company's reputation, operations or financial performance.

The Risk Heat Map shows the Board's assessment of the level of risk for each of these Principal Risks as of the date of this Annual Report and Accounts. The change in the level of risk for certain of the Principal Risks as compared with the 2020 Annual Report and Accounts, as detailed on the Map, is judged against the events of the year, both macro and micro, and takes into account events specific to the Company and the mitigating actions detailed in the table on pages 36 to 38.

No new Principal Risks have been identified. The level of risk of two Principal Risks is considered to have changed. Additionally, the previously titled 'Supply Chain (incorporating Brexit)' risk has been renamed 'Supply Chain' reflecting the passage of time since Britain's exit from the EU and the limited disruption to product flow from the EU experienced by the Company as a consequence.

Risk Governance

Risk is encountered as part of the pursuit of the Company's strategic objectives as detailed on page 9 which are established to create long-term value for all its stakeholders. The Board has overall responsibility for the stewardship of risk management and for ensuring that the Company maintains the appropriate level of risk management to support the achievement of its strategic objectives. The Principal Risks faced by the Company could have a material adverse effect on its business, financial performance, or reputation, either alone or in combination, so the management of such risks through appropriate review, monitoring and control is important to the Company's long-term sustainable success. Changes to the trading environment can also affect the likelihood and impact of risks and may give rise to new risks.

Risk Monitoring Structure

Board

Audit Committee	Nomination Committee	Remuneration Committee

Executive Risk Committee

Senior Leadership Team

Group functions

Business management

Independent external assurance

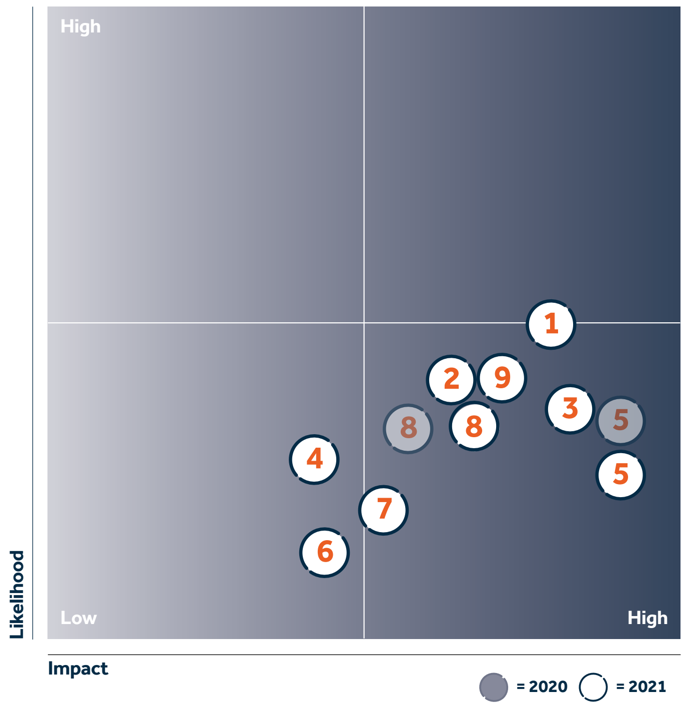
The Board is supported in its risk management responsibilities and in reviewing the effectiveness of the risk management framework by the Audit Committee and the Executive Risk Committee.

The Executive Risk Committee is advised by an external risk management specialist, and meets quarterly to assess the centralised risk register, the adequacy of and any changes in controls, and to undertake continuous identification of emerging risks. During 2021, the Executive Risk Committee expanded its remit to include monitoring of ESG risks and consideration of risk appetite in relation to the Company's Principal Risks. The work of the Executive Risk Committee is considered by the Audit Committee at each of its four scheduled meetings, and informs the Audit Committee's risk management discussions which include annual review of the risk management framework and oversight of internal and third-party assurance relating to the Principal Risks and over key financial controls. Setting risk appetite and consideration of strategic and emerging risks is performed by the Board. In line with good governance, the Board carries out an assessment of the Company's Principal Risks and Uncertainties and identifies any emerging risks, at least annually.

The Audit Committee, on behalf of the Board, also monitors the Company's system of risk management and internal control and conducts a review of its effectiveness at least once a year. The review entailed detailed consideration of the current risk assurance framework and planned adjustments for 2022. Detailed discussion also took place on the Company's risk and mitigating actions.

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

RISK HEAT MAP



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

Increased Decreased Unchanged

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. Customer ordering and interaction preferences continue to evolve, with a range of preferences across different customer groups.	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 closely monitors market activity on a daily basis at both an individual business and Company level. A KPI dashboard and balanced scorecard was introduced in 2021 providing detailed insight into the performance of each business on a standalone and comparative basis. This visibility allows the Company to take prompt action in response at both a regional or group level, including in the areas of sales activity, operational efficiency, inventory position, and cash management. The Company's Strategy (page 9) details its activities, particularly in the areas of i) 'Organic Revenue Growth' (capturing a larger share of the marketplace); ii) 'Modernisation and Digitalisation'; and iii) 'Customer Service', that will enable it to mitigate and outperform any variances in market demand, including any caused by COVID-19.	
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 continually improving its customer service propositions. The Company has increased its customer engagement and feedback activities to have greater insight into customer preferences to ensure its service proposition and offering remains competitive. Through the 'Modernisation and Digitalisation' objectives of its Strategy, the Company has introduced a curated suite of digital products to provide a competitive advantage. Additionally, the Company is increasing the investment in its network and systems to improve operating efficiency and performance both internally and for customers.	
3 **IT resilience and cyber security**	Given its importance, any prolonged system failure has the potential to adversely affect business performance.	Investment in IT is increasing year on year, with an ongoing investment programme incorporating spend on infrastructure and IT security to underpin the Company's resilience. All critical recommendations arising from an independent security assessment following a cyber incident in 2020 have been completed. No formal regulatory action was taken by the Information Commissioner's Office as a result of the incident (notwithstanding their right to revisit the matter if anything further comes to light). A further independent security assessment of IT systems (penetration testing) was conducted in 2021 with no material actions recommended. Penetration testing is now being conducted annually. All servers and PCs have 24-hour Alert Logic monitoring. On line employee training using a third-party has been rolled out across the group, including monthly training to increase employees' ability to identify and reduce cyber security risks. Board briefings on IT resilience and cyber security have increased, with three specific briefings by senior management in 2021. This will increase to four in 2022. The two new Non-Executive Director appointments during 2021 have enlarged the Audit Committee which has direct oversight of IT resilience and cyber security, and have added additional knowledge and experience.	

Area of risk	Potential impact	Mitigating actions	Risk change
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 is focused on improving the support to its workforce, including through cultural development, engagement, and review of rewards and benefits. During 2021, 'Values and Behaviours' and 'Leading through Change' workshops were rolled out across the group, as well as conferences and training held on projects forming part of the Strategy (page 8). Enhancements to rewards and benefits have been implemented from the beginning of 2022 along with a locally focused community programme. Information is given within the ESG Report (page 44). 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 has improved its retention and succession plans further in 2021, particularly in job categories where recruitment has become more competitive. Additionally, the Company is focused on developing its Diversity, Equity and Inclusion strategy. See People on page 49.	▶
5 **Health and safety**	If the Company were to breach health and safety laws and/or regulations it could have a material adverse effect on reputation, business performance and the welfare of its people.	Health and safety is a standing agenda item at Board Meetings. The Company has implemented the recommendations arising from a commissioned independent audit, and continues to enhance cultural awareness throughout the group including through its dedicated health and safety team and regular audits. ISO 45001 audits have been undertaken across all the UK's main sites as part of the Company's ongoing certification. Further information on health and safety is given within the ESG Report (page 44). **As a result of the actions taken, the level of risk has been judged to have decreased.**	▼
6 **Supply chain**	The Company operates an international supply chain, with purchases made across EU borders. There are numerous regulations, and ongoing changes to regulation. Product supply issues resulting from upstream raw material shortages, like those experienced during 2021, may impact the Company's ability to service customers. Additionally, any wrongdoing found in its supply chain could cause serious reputational risk for the Company and loss of stakeholder support.	The Company has long standing partnerships with a diverse supplier base across the globe, 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. During 2021, the Company worked closely with its suppliers on product availability, and was able to largely mitigate the industry wide supply issues and associated inflationary pressures, and maintain its inventory position, In 2021, the Company commenced an engagement programme with key suppliers, including consideration of upcoming changes to regulation, and engaged an independent party to conduct a full Supply Chain Risk Assessment commencing early 2022.	▶
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 specialist third-party advisers which helps to support the assurance process. See Audit Committee Report page 92. During 2021, an on line compliance training portal was implemented with courses related to Anti-Bribery, Modern Slavery and Human Trafficking, Cyber Security and Social Media Awareness being rolled out to appropriate staff members. Further courses will be rolled out 2022.	▶

Increased Decreased Unchanged

Area of risk	Potential impact	Mitigating actions	Risk change
8 **Environmental (incorporating climate change)**	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.	Since the publication of its first ESG Strategy Report in May 2021, which set out initial focuses and broader ambitions in sustainability and ESG, the Company has focused on its development and provided updates on its actions, including in the area of the environment, namely how it will: i) reduce its contribution to Greenhouse Gas ('GHG') emissions and climate change; ii) become a more sustainable business; and iii) increase the sustainability of the overall floorcoverings industry through engagement and example, and support the future transition to a circular economy. Full details are given within the ESG Report (page 44), which includes the Company's Task Force on Climate-related Financial Disclosures ('TCFD'). The Board has primary oversight of ESG, including environmental approach and actions. **Given the increasing regulation / legislation in relation to the environment, and increased focus on climate change (including regulatory disclosures in relation to climate-related risks and opportunities), the level of risk has been judged to have increased.**	Increased
9 **Change and decision making**	The Company has been implementing a business change strategy across the group, which has increased the level of change and decision making in the organisation. This change strategy must be sustained without impact on underlying business performance.	Certain projects under the business change strategy were largely enacted during 2021, with others becoming more embedded across the group and 'business as usual'. During 2021 'Leading through Change' workshops were rolled-out across the group, as well as conferences and training being held for employees on strategic projects. Additionally, expertise was brought into the group to support existing employees and project implementation. There has been an increased focus on internal communications, and also regular communication with other stakeholder groups effected by proposed and implemented changes. See further information within Stakeholder Engagement and Section 172 Statement on page 42. The Board has direct oversight of strategy, and the projects supporting its delivery, with the new Board appointments during 2021 increasing oversight and adding additional expertise.	Unchanged

Emerging Risks

Of the emerging risks facing the Company, only one has been assessed as being of any significance, 'Impact of digitalisation', albeit not currently material and not judged in any way a Principal Risk. The 'Impact of digitalisation' refers predominately to changes in end-consumer ordering preferences and their use of online only retailers instead of the Company's more traditional customer base. However, online only retailers make up a very small proportion of the market, and this is not anticipated to increase materially due to the technical expertise needed to assess and fit the majority of floorings, and end-consumers wishing to interact and physically see products before engaging with a third-party to fit their flooring.

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 2024, was chosen for the purpose of the viability assessment, consistent with prior years and consistent with the Company's three year rolling strategy plan, which includes investment opportunities and which is used to evaluate liquidity.

Sensitivity Analysis

Reporting on the Group's viability requires the Board to consider those principal risks that could impair the solvency and liquidity of the Group. In order to determine those risks, the Board considered the groupwide principal risks as set out in the Risk Management, Principal Risks and Uncertainties section on page 34.

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

The identified principal risks included that related to environmental (including climate change). It is the Board's opinion that environmental risks are unlikely to compromise the Group's viability over the assessment period, including due to the timing of any new potential legislation, or significant changes in consumer preferences towards more sustainable products that cannot be mitigated by the Company reflecting this in its product offering. The actions the Company is taking in relation to the environment are detailed on page 38.

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

Scenario A – Sustained Recessionary Environment

Scenario A is modelled on the basis that there is a sustained recessionary environment in both the UK and Continental Europe such that revenues in 2022 decline 4.0% compared with 2021 and then remain flat during 2023 and 2024. This scenario is judged severe against a base model that assumes growth over the assessment period.

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

Scenario B – Economic Crisis

Scenario B is modelled on the basis of a V-shaped economic crisis and then recovery, similar to the overall impact of COVID-19 observed in 2020 and 2021, such that revenues decrease 15% year-on-year followed by a recovery in following years. The majority of the 2022 decline is modelled to be recovered in 2023, with year-on-year revenue growth of 13%, and the remainder recovered in 2024.

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

Reverse Stress Test

The Directors have also considered a less likely, not plausible, more severe scenario where the Company experiences a revenue year-on-year decline of 23% in 2022 (reverse stress test). In 2020, when the Company had COVID-19 related temporary closures of operations, revenue in the year only declined 15% against 2019. In this scenario, the Group continues to operate within its current banking facilities, as refinanced on 17 January 2022 and detailed below, and covenant restrictions. However, should the reduction in revenue be greater than this, the Board would need to take mitigating actions to remain within its banking covenants.

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

Banking Facilities and Headroom

As at 31 December 2021, the Company had a net funds position excluding lease liabilities of £53.7 million, and had total banking facilities available of £104.8 million, including £76.6 million of committed facilities, and of which £97.3 million was undrawn.

On 17 January 2022 the Company refinanced and extended its banking facilities, which now expire in October 2026. At 2 March 2022, the Company had total banking facilities available of £110.5 million, including £81.5 million of committed facilities, and of which £109.7 million was undrawn. Cash outflows relating to the final ordinary dividend payment in May 2022 of £7.3 million and surplus capital return as detailed in page 18 will reduce the net funds position by a total of £37.3 million.

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.

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.

Introduction

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

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

Key stakeholders and stakeholder engagement

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

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

The Board considers the stakeholders most relevant to the Company's Business Model (page 30) and delivery of its Strategy (page 8) to be (in no particular order): its people; customers; suppliers; and shareholders (collectively the 'key stakeholders').

People

The knowledge, expertise and commitment of the Company's people supports the customer service proposition, and ultimately the profitability and success of the business. The methods the Company uses to engage with its people is detailed within the ESG Report (page 44). The Board receives regular updates from these engagements at Board Meetings, including from the Employee Forum which has Board representation. Additionally, Board members engage in more informal site visits, where they interact with the Company's people to understand their views in person.

Customers

Customers are at the heart of the Company's business as without them there would be no business to operate. Through providing customers with market leading service and solutions, the Company is best placed to achieve long-term sustainable growth. The methods the Company uses to engage with its customers include regular customer surveys, focus groups, and dedicated customer teams. The results of these engagement methods are reported to the Board for their wider understanding and decision making process.

Suppliers

The Company's relationships with suppliers are key to ensuring the Company can supply the right product at a competitive price in a timely manner to meet its customers' needs. The methods the Company uses to engage with its suppliers is detailed within the ESG Report (page 44) and the Company's Modern Slavery Statement (available at www.headlam.com), and includes physical meetings at both the Company's and supplier's sites. In 2021, the Company engaged with suppliers on a number of key areas, including: joint business plans and supply chain efficiencies; changes to regulation (including upcoming); sustainability ambitions; and supply chain risk assessment.

Shareholders

Shareholders own the Company through their ownership of shares in the Company. It is important that the Board is aware and evaluates their views on the operation, and strategic and corporate objectives, of the Company. The methods the Company uses to engage with its shareholders is detailed with the Corporate Governance Report (page 62).

Engagement on Key Strategic Decisions

Detailed in the table on pages 41 and 42 are, in the Board's opinion, the top six key strategic decisions taken in the year; the strategic rationale for those decisions; how the Company engaged with and sought to consider the key stakeholders most directly impact; and outcomes. The Board, together with the Executive Team, has responsibility for setting strategy and monitoring its delivery.

All the key strategic decisions were considered at Board level, and taken to support delivery of the Company's Purpose and Strategy (page 8) and which can be encapsulated by the fundamental aims of:

- Market leading customer service propositions
- Organic revenue growth outperformance against historic levels
- Improved operating efficiency, and achievement of stated 7.5% UK underlying operating margin run-rate in 2023
- Supporting its people, including through cultural development, engagement, and investment.

P – People **C** – Customers **S** – Suppliers **Sh** – Shareholders

Key strategic decision (no particular order)	**Strategic rationale for decision**	**Key stakeholders most directly impacted**	**Engagement with, and consideration of, those most impacted**	**Outcome(s)**
Organic Revenue Growth Actively target a larger share of overall £3 billion* UK market	Presents significant organic revenue growth opportunities which have not previously been actively pursued. Opportunity to outperform. To be delivered through various concurrent projects, including: multiple retailers targeting, trade counter network roll out, and digitalisation strategy.	**C** – Compelling and tailored service propositions for a larger proportion of the market. **P** – New teams and processes put in place to support delivery. Utilising an increased group approach to customer targeting.	Improved service propositions for all customer groups, including established groups. New app launched and trade counter 'blueprint' developed based on customer feedback. Expertise brought in to provide support, with conferences and training on revenue growth projects.	Good feedback from both customers and the Company's people. Initial new customer wins in multiple retailers customer group. Good take up of app, and initial data confirming 'blueprint' trade counters outperforming.
Board Changes Changes and additions to the Board	To bring further skills on to the Board to increase the evaluation and oversight of the Company's strategy and corporate objectives, and their timely delivery. Independent search process instigated for a new Chief Executive to drive delivery of the strategy, and focus on maximising the opportunities available.	**All** – The Company's strategic and corporate objectives, and delivery of, impact all key stakeholders.	Considered feedback from shareholders on Board composition, including most relevant skills and experience. New Board members engaging with a wide variety of key stakeholder groups, including through Capital Markets Day held in 2021 and increased site visits. Chief Financial Officer becoming Interim Chief Executive to ensure continuity.	Two new independent Non-Executive Directors appointed, both with extensive executive experience leading growth and customer-led strategies. Appointments assist in the continued development of internal controls, including risk management.
Modernisation and Digitalisation Modernisation of systems and processes, and launch of digital products	To improve servicing and offering to customers. Make operations more efficient, and lowering of the cost to serve. Enhancement and launch of a curated suite of digital products to support revenue growth and provide competitive advantage.	**C** – Benefit from more efficient way of doing business with the Company, with additional tools to support their own businesses. **P** – New teams, systems and processes put in place to support the digital strategy.	Trialling, and user testing before launch(es), making changes based on customer feedback. Expertise brought in to provide support, with conferences and training.	Good customer feedback and take up of digital products. See Chief Executive's Review (page 15)

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

Key strategic decision (no particular order)	Strategic rationale for decision	Key stakeholders most directly impacted	Engagement with, and consideration of, those most impacted	Outcome(s)
ESG Strategy Publication and implementation of a formalised ESG Strategy	To increase the sustainability of the Company to support its long-term success for the benefit of all stakeholders. To have an established approach to capturing opportunity and managing risk. To remain a viable investment proposition.	**Sh** – Increasing sustainability and regulations likely to lead to ESG related increases in costs. **S** – Sustainability requirements and new regulations likely leading to more complex operational dealings, but scope to deepen partnership approach. **P** – i) Likely more complex operational dealings, ii) increasing training requirements, and iii) additional working environment considerations.	Consultation with both internal and external stakeholders on most material ESG issues. Increased communication with all stakeholders on ESG matters, including suppliers on activity in relation to sustainability and regulation. Increased training for people, and communications programme to explain and embed ESG throughout the business.	Stakeholder groups signalling approval of the Company's initial ESG strategy, and actions. However, certain groups requesting increased level of disclosure and target setting, as addressed in the ESG Report (pages 44 to 56)
Reward / Benefits and Culture Changes to certain rewards and benefits. Focus on delivering cultural development.	Changes made, including to pension and bonus provisions, to: i) engender a more collaborative and 'group success' approach; ii) create consistency and fairness across the group; and iii) move to best practice. Delivering cultural change will better support people, and the successful delivery of the strategy.	**P** – Recent employee surveys and workshops signalled that feeling valued and rewarded was most important to the Company's people. Additionally, it was felt there was an absence of communication. Any change to reward / benefits is an emotive subject for people.	Consultation with affected people allowing for evaluation of feedback. Support and mitigation put in place for those most affected by changes. Emphasis placed on communications, and utilisation of various channels including the 'Myhub' employee engagement portal launched in 2021. 'Values and Behaviours' and 'Leading through Change' workshops across the group.	Investment in internal communications, training and workshops. Improvements to rewards / benefits coming into effect in 2022 include: i) enhanced and harmonised holiday entitlement; ii) equal sick pay; and iii) cost of living pay increase.
Restructurings Both business and infrastructure restructurings. Associated headcount reductions.	To improve the efficiency of the business, giving rise to cost savings and offsetting of cost inflation. Consolidation of delivery operations and network (including through property disposals). Move effectively aligning headcount with seasonal trading patterns, and customer servicing requirements / preferences.	**P** – People have been through a period of considerable change due to both implementation of the business change strategy and impact and consequences of COVID-19.	External expertise and training / workshops to support people in relation to changes, including to delivery operations ('Transport Integration'). Consultation with people affected by restructurings, allowing for feedback to be evaluated. Sought to fill existing vacancies, where possible, with those affected by restructurings.	No further restructurings currently anticipated under the business change strategy, with that communicated throughout the business. Close dialogue with business leaders concerning their trading performances and resourcing requirements.

P – People **C** – Customers **S** – Suppliers **Sh** – Shareholders

RESPONDING
to industry issues

KEY FEATURES OF THE MARKETPLACE IN 2021

Operating largely unaffected by COVID-19

Despite the ongoing impact of COVID-19 and related issues, including further lockdowns and closure of UK non-essential retail businesses from January to April 2021, the Company and its customer base managed to operate effectively throughout the year with minimal interruption.

Headlam's overall revenue performance in 2021 was remarkably unaffected by COVID-19, having rebounded strongly from the first half of 2020 which was significantly impacted by COVID-19, with a subsequent recovery to pre-pandemic levels. However, for Headlam and the marketplace generally, the commercial sector performed poorly and the Company's overall revenue performance was maintained through a robust residential sector and inflationary environment (described below) helping to offset a persistently weak commercial sector. Commercial sector activity – characterised by larger-scale projects, longer lead-times, and private / public subsidies – has a greater tendency to be deferred or meaningfully reduced due to economic backdrops or forecasts. Conversely, residential sector activity is largely comprised of a high volume of very small, mostly discretionary spend, orders by end-consumers. During 2021, the residential sector continued to be a beneficiary of COVID-19 as end-consumers continued to focus on home-improvements, albeit its positive performance softened in the second half of the year.

Increased engagement on sustainability

The issue of sustainability became ever more prevalent and discussed within the industry during 2021 as participants increasingly focused on efforts to move themselves and the industry as a whole towards a more sustainable position. Headlam increased its engagement with all its stakeholders on sustainability matters and its specific ambitions (as detailed in the ESG Report on page 44). Due to the collaborative approach needed to support change in the industry, engagement with suppliers on sustainability is key, and the Company's areas of engagement with suppliers during the year included:

- Changes in UK regulations (implemented and forthcoming)
- Promotion of sustainable products into the industry
- Environmental impact (emissions and recycling / product take-back schemes)
- Supply chain risk (including ensuring free from modern slavery and human trafficking)
- Joint business plans and improving supply chain efficiencies

In relation to customers, feedback from Headlam's bi-annual customer survey of which sustainability is a part continued to indicate that a large proportion of the market and customer base was yet to assign a premium to recyclable products, with low interest, particularly among residential sector customers, in paying a premium for sustainable flooring options. However, this is anticipated to change over the medium-term, with a steadily growing interest supported by changes in regulation and advances in technology reducing price points.

Industry-wide supply issues

Product supply issues as a result of upstream material shortages, some of which were caused or exacerbated by COVID-19 related issues, were a particular feature of the marketplace in 2021. These supply issues gave rise to significant double digit price increases for certain product categories. However, as is typical of the industry, these price increases are passed directly into the marketplace, with them being absorbed as demand for floorcoverings tends to be inelastic to price increases due to the relative infrequency of purchase by the end-consumer and proliferation of product at all price points. A positive of the inflationary environment was that it enabled Headlam to maintain its overall revenue performance in the year by offsetting volume weakness in the commercial sector.

Through working closely with its suppliers on product availability, Headlam was able to largely mitigate the supply issues and maintain its inventory position. Having the broadest product offering in the marketplace is a key competitive strength, however, product duplication and proliferation is a feature of the industry, and leads to an unnecessarily large number of SKUs. During the last three years Headlam has been focused on improving the profile of its inventory to give it a greater source of competitive and financial advantage for the benefit of its stakeholders. This includes: reducing the proportion of slow-moving stock and associated risk of obsolescence; improving the capacity for and availability of fastest-moving products; more efficient product category plans with suppliers; and more effective overall working capital management.

TANGIBLE PROGRESS
being made

Introduction
Headlam published its first ESG (Environmental, Social and Governance) Strategy Report in 2021, which outlined the Company's initial sustainability ambitions. The following is the Company's first full-form ESG Report.

Through collaboration with its people and external stakeholders, the Company has identified three core focuses under its ESG strategy:

- Reduce the Company's contribution to greenhouse gas ('GHG') emissions and climate change;
- Become a more sustainable business, including through cultural development and by increasing oversight of ESG related risks and opportunities; and
- Increase the sustainability of the overall floorcoverings industry through engagement and example, and support the future transition to a circular economy.

Outlined on pages 46 to 48 are the Company's actions to-date to address these focuses, with metrics, indicators, and targets provided to enable measurement of progress. The Company is committed to providing an update on ESG actions and future considerations on a bi-annual basis, with a full-form update being published alongside Annual Report and Accounts.

Foundational to the initiation and development of the Company's ESG strategy was the Materiality Assessment which was first published in March 2021, and has been reviewed and updated for this Report (see page 45). It has identified the Company's most material sources of ESG risk and opportunity ('material issues'), and provided the platform for the Company to develop action plans against the issues and establish indicators to measure progress. Detail on the key material issues, and the current main actions and future considerations in relation to each, are given on pages 46 to 48 of this Report. Of the six key material issues, the Company is considered to have a high influence and / or operational control over three. During 2021, multiple actions were focused on these 'high influence' issues alongside the progression of important scoping work on the other three issues where a collaborative approach with other industry participants is required to effect change (namely 'End-of-life disposal', 'Supply chain risk' and to a lesser degree 'Emissions: internal').

Much has been done in the area of protecting and supporting the Company's people, covering the broad spectrum of health and safety, cultural development, engagement, training, and rewards and benefits. Details are given within People on page 49, with diversity, equity and inclusion ('DEI') to be an area of prominent focus in 2022 as described on page 84.

Governance and Net Zero Ambition
As detailed in the Company's first TCFD disclosure on page 51, the Board has primary oversight and ultimate responsibility for delivery of the ESG strategy. Reflecting its importance, ESG is considered quarterly by the Board and during 2022 the Company is additionally proposing to establish an ESG Committee to assist with the more detailed aspects of its ESG agenda.

Aligned with the commitment to developing the ESG strategy, the Board is pleased to announce within this Report a net zero emissions* ambition for 2035, a major milestone for the Company. In support of this, during 2022 the Company will be undertaking associated transition planning work and next year's full-form ESG Report will provide some detail on a costed transition plan. Interim targets will also be expanded upon within the Company's bi-annual updates.

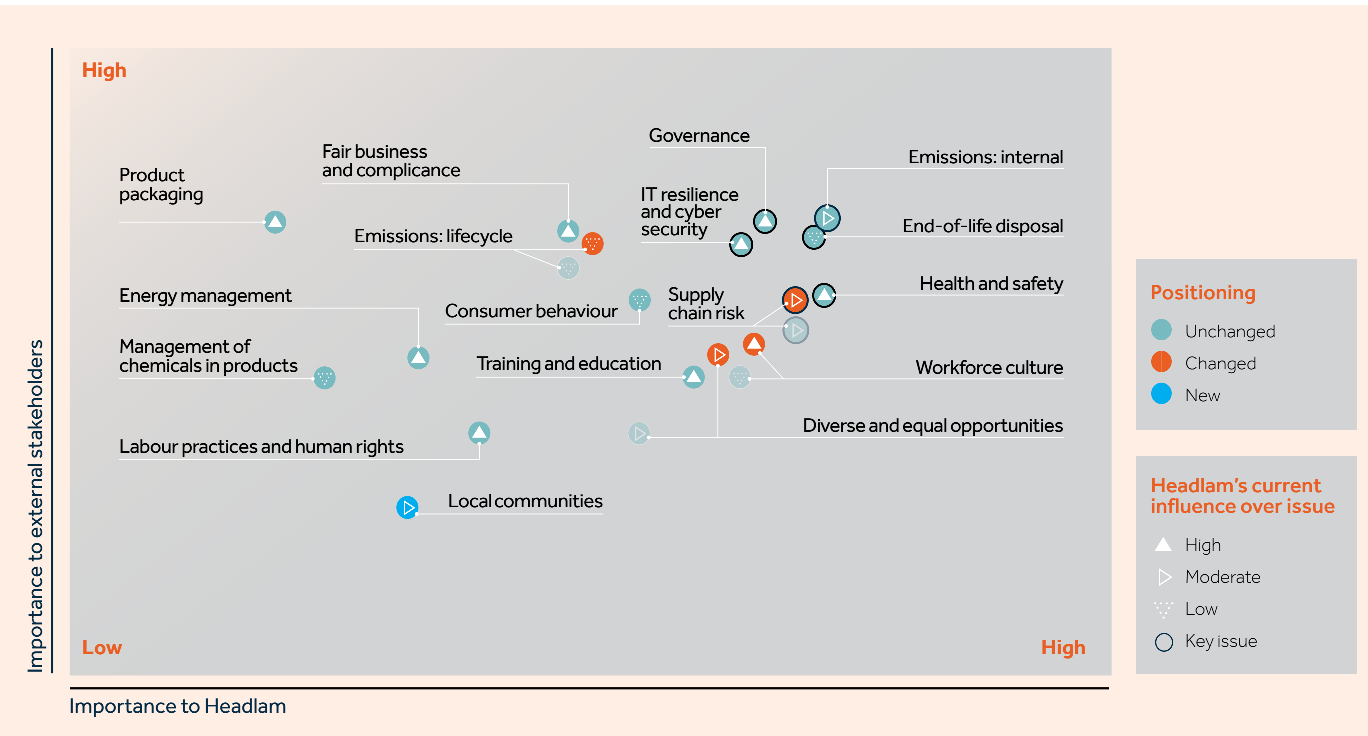
*Scope 1 and Scope 2

Materiality Assessment and Key Material Issues

The Materiality Assessment below follows accepted reporting frameworks including SASB and the Global Reporting Initiative ('GRI'). Changes to that published in 2021 are shown, with changes to the positioning of an issue reflecting a composite of likelihood and potential impact of 'raw' ESG risk (i.e. not considering risk mitigation actions undertaken by the Company during the last twelve months). The key material issues previously identified have not changed, and remain:

1. Emissions: internal
2. Health and safety
3. End-of-life disposal
4. Supply chain risk
5. Governance
6. IT resilience and cyber security

One new issue of 'Local communities' has been added, although not ranked amongst the key material issues. The addition reflects both its importance and the Company's intention to increase its actions in this area with a locally focused community programme to be implemented in 2022 which will build on the current Charitable Donations Policy which supports locally focused charitable giving and involvement. Further information is given on page 125. All of the issues identified by the Materiality Assessment continue to be monitored, and subject to various actions as appropriate, as part of the overall ESG strategy, with some of them described in this Report.



Headlam's current influence over issue	
△ High	Low
▷ Moderate	○ Key ESG issue

Positioning
Unchanged
Changed

Key Material Issues – Actions to Address

1. Emissions: internal (Captured under/as part of 'Environmental' Principal Risk)	
GHG emissions from transportation activities (commercial and non-commercial fleet), and natural gas usage and electricity consumption at sites	
Main actions	• Transport Integration project resulting in more efficient delivery fleet (commercial vehicle) utilisation and associated reduction in fleet number • Increasing the availability of plug-in hybrid and low emission vehicles across non-commercial fleet • Promotion of energy saving actions ('good energy behaviours') across the group • Auditing of sites, and upgrading of sites with more energy efficient technologies and equipment • Promotion of less carbon intensive ordering and delivery options (i.e. sales force realignment, online ordering, trade counter network. See Chief Executive's Review on page 15) A full list of the Company's actions in relation to reducing its internal emissions are given within its publicly available Environmental Policy (www.headlam.com)
Measurement of progress	• Transportation (Scope 1) emissions[1] per £ of revenue (tCO_2e) → 2021: 33; 2020: 29; 2019: – • Deliveries per commercial vehicle (see KPI on page 33) • Target of 50% of non-commercial fleet plug-in hybrid or low emission by end of 2022 (2021: 13.5%)
Future considerations	• Initial reduction target for internal emissions • Net zero emissions ambition for 2035, with associated transition planning work. • No viable options currently to move commercial fleet to electric powered vehicles, but will continue to actively monitor the situation

2. Health and safety (Captured under/as part of 'Health and safety' Principal Risk)	
Safety and protection of its people, customers and necessary visitors to site. Best practice low accident rates, and leading occupational health	
Main actions	• Implementing the recommendations arising from a commissioned independent audit • Enhancing cultural awareness, including through the dedicated health and safety team, training and regular audits • ISO 45001 audits undertaken across all the UK's main sites as part of the Company's ongoing certification • Removal from sale of certain hazard products • Progressing of work towards achieving ISO 14001 environmental accreditation The Company's risk mitigation actions in relation to health and safety are given within Principal Risks and Uncertainties on page 36.
Measurement of progress	• Number of incidents ('RIDDORs') (see KPI on page 33) • Number of road traffic accidents ('RTAs') where 'at fault' → 2021: 201; 2020: 197; 2019: 122[2] • Target of achieving ISO 14001 environmental accreditation by Q1 2023
Future considerations	• Increasing number of mental health first-aiders at all main sites • Development of internal management performance measures

[1]Defined as emissions from the Company's UK distribution commercial vehicles. Scope 1 emissions published for the first time in 2020.

[2]From May 2019 when accident management was introduced.

3. End-of-life disposal (Captured under/as part of 'Environmental' Principal Risk)	
Support the promotion of sustainable products, with associated reduction in industry waste. Through engagement and example, increase the sustainability of overall industry, and support future transition to a circular economy	
Main actions	• Working with suppliers to promote more sustainable products into the industry, and increase awareness by the end consumer • Supporting and engaging with industry bodies and suppliers focused on the recyclability / recycling of floorcovering products, and reduction of floorcovering waste to landfill (including membership of Carpet Recycling UK and Recoflor) • Bi-annual customer survey to better understand sustainability requirements and preferences • Using only recycled plastic packaging for product across operations (i.e. all locations using regranulated polythene packaging manufactured from 100% recycled polythene) • Reusing of other product protective packaging (poles and wooden pallets) A full list of the Company's actions in relation to reducing its waste, and supporting increased sustainability in the floorcoverings industry, are given within its publicly available Environmental Policy (www.headlam.com)
Measurement of progress	• Recycled protective plastic packaging (see KPI on page 33) • Launch of sustainable 'Wool Britannia' product range, with further launches in 2022
Future considerations	• Review of office waste management options across the group • Enlarged sustainable product offering, and education of sales teams • Following advances and identification of viable solutions, investment to support recycling technologies and infrastructure (including in relation to EPR[2] scheme, see TCFD on page 51)

[2]Extended Producer Responsibility

4. Supply chain risk (Captured under/as part of 'Supply chain' Principal Risk)	
Ensuring supply chains are free from modern slavery and human trafficking. Engaging on industry issues (including changes in regulation and sustainability). Capturing opportunity through strategic partnerships and improving supply chain efficiencies	
Main actions	• Engagement programme with suppliers on industry sustainability issues, including changes to regulation and potential sustainability partnerships • Supply Chain Risk Assessment being conducted by an independent party • Working closely with suppliers to mitigate the industry wide supply issues evident in 2021 and 2022 (as of the date of this Report) • Improved inventory management • Increasing supply chain efficiencies, including through joint business plans, buying and deliveries The Company's risk mitigation actions in relation to Supply chain are given within Principal Risks and Uncertainties on page 36
Measurement of progress	• Target of the top 50 suppliers[3] assessed under the independent Supply Chain Risk Assessment by end of 2022 • Inventory turn (see KPI on page 33)
Future considerations	• Implementation of a Supplier Sustainability Procurement Charter (includes defining a common set of minimum standards and principles) • Updated Scope 3 assessment (includes engagement with suppliers on their Scope 1 and 2 emissions, sustainability actions and ambitions)

[3]By purchases, and accounting for approximately 80% of the Company's spend with suppliers

Headlam's current influence over issue		Positioning
△ High	Low	Unchanged
▷ Moderate	○ Key ESG issue	Changed

5. Governance (Captured under/as part of 'Legislation/regulation' Principal Risk)

Strong governance and oversight, with effective structures for communicating throughout the business. Robust processes in place to both limit any potential risks to the business and operate as effectively as possible. Openness and transparency in all dealings and communications

Main actions	• Continued focus on, and improvements to, risk management and internal control (see Risk Management on page 34) • Increased evaluation and oversight of governance, strategic and corporate objectives though new Non-Executive Director appointments • Multiple actions focused on all the identified key material issues (as detailed in this Report) • Increased oversight and development of ESG strategy, with timetables articulated on certain disclosures (see TCFD on page 51) • Third-party expert appointed to conduct a full diversity review, including a Board debate, and subsequent engagement with internal stakeholders (see Nomination Committee Report on page 84) • Shareholder engagement on areas including remuneration and capital allocation A full list of the Company's actions in relation to corporate governance are given within Corporate Governance and the Committee Reports on pages 62 to 120
Measurement of progress	• ESG Committee to be established in 2022 to assist the Board with the implementation of ESG strategy • Delivery on stated strategic and corporate objectives (see pages 8 and 9)
Future considerations	• Emission targets and commitments, and climate-related scenarios under TCFD (see TCFD on page 51) • Introduction of ESG metrics into Executive Directors flexible remuneration (see Remuneration Report on page 96) • Improve diversity at Board level and devise a Diversity, Equity and Inclusion strategy for the wider business.

6. IT resilience and cyber security (Captured under/as part of 'IT resilience and cyber security' Principal Risk)

Robust and flexible infrastructure to ensure protection whilst also providing operational gains. Digital enhancements and enablers to capture customer opportunity

Main actions	• Independent security assessments, with recommendations completed • Increased Board and Committee briefings and / or oversight • New online employee training, including increasing the ability to identify and reduce cyber security risks, +1,300 individual courses completed through online portal since launch in April 2021 • Relaunched B2B websites, with improved functionality • Launch of new industry-leading app (see Strategy in Action on page 10) The Company's risk mitigation actions in relation to IT resilience and cyber security are given within Principal Risks and Uncertainties on page 36.
Measurement of progress	• Percentage of orders placed online, with target of 30% for digital channels (B2B websites and app) → 2021: 22%; 2020: 19%; 2019: 11% • Number of reportable cyber incidents → 2021: 0; 2020: 1; 2019: 0
Future considerations	• New functionality added to digital products • Further digital support and enablers, including Order Management System ('OMS')

People

The Company is focused on improving the support to its people, including through cultural development, engagement, and review of rewards and benefits. During 2021, investment was made in internal communications, training and workshops. 'Values and Behaviours' and 'Leading through Change' workshops were rolled out across the group, as well as conferences and training held on projects forming part of the Strategy (page 8). These workshops and new performance management training will continue throughout 2022, with a target of all line managers having received training by end of Q1 2022.

Importance was placed on utilising and promoting the 'MyHub' engagement portal that was launched in 2021, and considering all the feedback available to the Company including from the established Employee Forum which acts as the formal workforce advisory panel to the Board and met five times in 2021 (as detailed on page 68).

Throughout 2022, several changes and improvements to rewards and benefits for the Company's people will be implemented, including:

- Moving to one pension for all employees (Master Trust Pension, effective 1 April 2022), providing a more generous and flexible contribution structure, and creating consistency and fairness across the group;
- Introduced a common approach to bonus provisions[4] for senior management and sales leadership roles, driving a more collaborative and 'group success' approach;
- Enhanced and harmonised holiday entitlement;
- Equal sick pay for all colleagues; and
- Cost of living pay increase for all employees (effective 1 January 2022).

Alongside the rewards and benefits above, the Company continues to provide death in service benefits through the Headlam Group Life Assurance scheme, a HM Revenue & Customs approved Save-As-You-Earn Sharesave scheme ('SAYE') and an Employee Assistance Programme which includes mental health support. The Company will also review National Living Wage ('NLW') in line with the 2022 rise, and anticipates it will only be necessary to increase a very small number of its peoples' base pay.

A key focus for 2022 is developing a Diversity, Equity and Inclusion Strategy. As detailed in the Nomination Committee Report on page 79, in order to increase diversity the Committee has appointed a third-party expert to conduct a comprehensive baseline review across the Company during the first half of 2022. Outcomes of this review will be discussed by the Board, and a strategy put in place to address areas where improvement is needed. The below table shows the gender diversity of the Company as at 31 December 2021:

Table showing gender diversity:

Employees	Executive Directors	Executive Team	Managers	Other	Total
Male	1	1	249	1,499	1,750
Female	0	3	61	425	489
Number of employees at 31 December 2021	1	4	310	1,924	2,239

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 2021 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 1.8% (national average: 15.4%)
- The proportion of men and women receiving bonuses:
  - HFD – men 88.9%, women 81.2%
  - MCD – men 97.2%, women 93.6%
  - PLC – men 0.0%, women 0.0%

[4] 95% of the workforce have a performance-related bonus opportunity available to them without subscription, and bonus opportunities cover areas including sales and operating profit

RIDDOR Detail

None of the 19 RIDDORs in 2021 (see KPI on page 33) resulted in serious or ongoing life-changing injury. The below table details the type of incidents in 2021, and the prior year.

	RIDDORs	
Type of Incident	**2021**	**2020**
Handling	6	3
Struck by moving vehicle	5	2
Slip, trip, fall	4	6
Struck by stationary object	–	–
Fall from height	4	–
Other	–	1
Total	19	12

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 RIDDOR incidence rate – 950 RIDDORs per 100,000 employees (compared against an HSE benchmark (from 2020/21) of 1,104 RIDDORs per 100,000 employees for 'Warehousing and support activities for transportation')
- Headlam's RIDDOR frequency rate – 4.86 RIDDORs for every 1,000,000 hours worked (compared against a HSE benchmark of 3.77 RIDDORs per 1,000,000 hours worked in 'Transportation and storage')

Source: www.hse.gov.uk

Local Communities

It is proposed that each site across the group will be allocated a certain monetary amount per employee on site by the Company, with the total to be donated to a local cause from a voted-upon shortlist, and that this will be replicated annually. In addition to monetary donations, charitable giving will also continue to be undertaken through donations of floorcovering products to identified local good causes.

Environment

Task Force on Climate-related Financial Disclosures ('TCFD')

This TCFD disclosure forms part of the Company's full-form ESG Report as set out on pages 44 to 55. The table below and on pages 52 to 54 details Headlam's responses in alignment with the TCFD recommendations. The Company has provided responses across the TCFD pillars, and aims to advance the maturity of its climate-related actions and disclosures on an annual basis. In this regard, the Company anticipates providing a full qualitative scenario analysis within its next full-form ESG Report published alongside the 2022 Annual Report and Accounts, followed by a quantitative scenario analysis published alongside the 2023 Annual Report and Accounts.

Governance	Disclosure
The Board's oversight of climate-related risks and opportunities	The Board has primary oversight and ultimate responsibility for ESG strategy and performance, which includes the approach and actions in relation to climate-related issues. ESG is considered quarterly by the Board, and four discussions took place at Board Meetings during 2021. During 2022, the Company is proposing to establish a ESG Committee to assist the Board with the more detailed aspects of its ESG agenda, and to hold management to account on the implementation of the ESG strategy approved by the Board. While ultimate responsibility for risk governance sits with the Board, the Audit Committee assists in risk oversight (as described within Risk Management on page 34 of the 2021 Annual Report and Accounts). During 2022, ESG material issues will be reported to the Audit Committee by the Executive Risk Committee (detailed below) and discussed at each of their quarterly meetings, with management's approach to mitigating risk and capturing opportunity challenged appropriately.
Management's role in assessing and managing climate-related risks and opportunities	The Company has an established Executive Risk Committee which meets quarterly and comprises the Chief Financial Officer, members of the Executive Team, senior managers and heads of departments (including from operations and finance). Its role is to review identified risks, including the likelihood and potential impact of each risk, establish and monitor the effectiveness of mitigating and opportunistic actions, and consider emerging risk. During 2021, the Committee, which is supported by an external risk management specialist, expanded its remit to include monitoring of ESG material issues (including climate-related). During 2021, an ESG Working Group was also established. The Working Group meets monthly and is comprised of members of the Executive Team, senior managers and department heads, with representatives reporting to the Chief Executive on outputs. Its principal activity is the day-to-day management and delivery of projects in relation to the Company's ESG strategy, with projects covering actions to both mitigate climate risk and capture opportunity. The projects related to climate are detailed in the Company's ESG Report (pages 44 to 55).

Strategy and Risk Management	Disclosure
The organisation's processes for identifying and assessing climate-related risks	The Company's risk governance and management processes are detailed within Risk Management, and Principal Risks and Uncertainties on page 36 of the 2021 Annual Report and Accounts. Additionally, the Company publishes an annually updated Materiality Assessment (on page 45 of this ESG Report). Its preparation includes a qualitative assessment of ESG risks, inclusive of climate-related, on the composite bases of likelihood and potential impact of 'raw' risk. Risks considered include Transition Risks, such as market, policy and legal (both existing and emerging), technology, and reputation, and Physical Risks (both acute and chronic). This process allows the Company to both identify climate-related risks and opportunities and determine their relative significance to the business.

Strategy and Risk Management continued	**Disclosure**
How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Climate-related risks are considered as part of the identified 'Environmental (incorporating climate change)' Principal Risk and, therefore, integrated into the Company's overall risk management process. However, notwithstanding the Company's considered relatively low exposure in the medium-term to climate-related risk as set-out in the risk table below, the Company recognises there is more that can be done to assess and integrate specific climate-related risks into its risk management, and will undertake work in this regard during 2022.
The climate-related risks and opportunities the organisation has identified over the short, medium and long term The impact of climate-related risks and opportunities on the organisation's business(es), strategy and financial planning The organisation's processes for managing climate-related risks	The below table details the Company's key climate-related risks. Risks have been categorised in alignment with the TCFD recommendations and with associated time horizons. Time horizons have been defined by the Company as short term (< 2 years), medium term (2–5 years), and long term (> 5 years) for the purpose of this TCFD disclosure. This is the Company's first TCFD disclosure, and in future years the Company aims to explore the financial materiality of identified risks in greater detail. Currently only the 'Transition: Policy and Legal: EPR* scheme' risk listed below is judged to potentially have any material financial impact when taking into account all factors, including likelihood and potential impact.

Risk categories	Description	Impact	Mitigation actions
Transition: Market	Transitioning to more sustainable business and operating practices. Time horizon: short / medium term Likelihood: high Impact: low	Introduces transition risk into the business, including through implementing new ways of operating. A large proportion of the 'change' projects are already underway, with a number resulting in operating efficiencies and associated cost savings which will help offset any related costs, although not material.	Dedicated internal team and control framework in place that oversees change projects in the business. Actions required to implement ESG strategy considered as part of the annual budgeting process. List of projects include changes to commercial and non-commercial fleet and operations to reduce GHG emissions (see ESG Report).
Transition: Policy and Legal	Financial impact of potential new legislation / regulation. Time horizon: medium / long term Likelihood: high Impact: high	Implementation of a potential EPR* scheme on bulky waste could reduce the profitably for the Company of certain products it sells. Likely the government will undertake a consultation within the next five years (although it is considered unlikely that the scheme would be implemented within that period).	Likely increase in sustainable products available, and ongoing advances in recycling technologies and infrastructure, increasing the proportion of products able to be recycled over the next few years. With associated lowering of recycling-related costs. Company able to use its scale and network to be the preferred strategic partner for suppliers, and defray costs.

*Extended Producer Responsibility

Strategy and Risk Management	Disclosure			
continued	**Risk categories**	**Description**	**Impact**	**Mitigation actions**
	Transition: Market	Changing consumer preferences. Time horizon: medium / long term Likelihood: high Impact: medium	Low current interest among a large proportion of consumers in paying a premium for sustainable flooring products, with sustainable products making-up a small proportion of overall offering. This is anticipated to change over the coming years. Potential increase in demand for 'hard' flooring as a result of rise in climate temperature.	Working closely with suppliers on examining and promoting sustainable product offerings. Due to leading position, the Company is best placed to promote suppliers' products into the market, and can quickly alter its offering to reflect consumer preferences.
	Physical: Chronic and Acute	Supply chain disruption. Time horizon: long term Likelihood: medium Impact: medium	Potential raw material shortages due to effects of climate change, with knock-on impact on product supply / availability.	Scale and close strategic partnerships with suppliers should enable the Company to preserve levels of availability (as demonstrated during the recent period of industry wide supply issues). Proliferation and homogeneous nature of certain products allowing for substitution options.
	Physical: Chronic and Acute	Asset damage. Time horizon: long term Likelihood: low Impact: low	Damage to physical assets as a result of storm or flooding.	The Company's assets are not expected to be exposed to high physical climate-related risk due to geographies it operates in. Issue to continue to be monitored.
	As referenced above, a number of the risk mitigation actions can translate into opportunities for the Company, for example: cost savings from efficiency-related 'change' projects; exclusive sustainable product offerings; ability to manage costs due to network and scale; and being the preferred strategic partner for suppliers and other industry bodies (including recycling technology providers) due to market leading position.			
Resilience of the organisation's strategy, taking into consideration different climate-related scenarios	The Company's main focus to date has been on the fundamentals of risk identification and development of associated mitigating actions. Given this focus, alongside resource requirements and the considered relatively low exposure in the medium-term to climate-related risk per the risk table disclosure above, climate-related scenarios have not been considered for this first TCFD disclosure. The Company will continue to develop its reporting and anticipates providing a full qualitative scenario analysis within its next full-form ESG Report published alongside the 2022 Annual Report and Accounts, followed by a quantitative scenario analysis published alongside the 2023 Annual Report and Accounts.			

Task Force on Climate-related Financial Disclosures ('TCFD') continued

Metrics and Targets	Disclosure
Metrics used by the organisation to assess climate-related risks and opportunities	To provide a tool to assess the Company's progress in relation to climate-related risks and opportunities, certain KPIs and targets have been introduced within the ESG Report. These are: KPI • Recycled protective plastic packaging usage (page 33) • Deliveries per commercial vehicle (with associated reduction in fleet number) (page 33) • Transportation (Scope 1) emissions** per £ of revenue (page 56) Target • Net zero emissions ambition for 2035 • Percentage of non-commercial fleet plug-in hybrid or low emission (page 46) • ISO 14001 environmental accreditation (page 46) • 30% of sales coming from digital channels (less carbon intensive ordering method) (page 48) An intensity metric is additionally given within the Company's SECR Disclosure (page 56 of the 2021 Annual Report and Accounts). Further KPIs and targets will be introduced in subsequent full-form ESG Reports.
Scope 1, Scope 2 and Scope 3 greenhouse ('GHG') emissions, and the related risks	The Company's Scope 1, 2 and 3 emissions are summarised on page 55 of the ESG Report, giving comparative years where available.
Targets used by the organisation to manage climate-related risks and opportunities and performance against targets	The targets introduced by the Company to date are detailed above, with further targets to be introduced in subsequent ESG Reports. The Company anticipates introducing an initial reduction target for direct internal (Scope 1 and Scope 2) GHG emissions, as well as a costed decarbonisation transition plan to support the net zero emissions ambition, with its next ESG Report to be published alongside the 2022 Annual Report and Accounts.

**Defined as emissions from the Company's UK distribution commercial vehicles

GHG emissions

As detailed within the Streamlined Energy and Carbon Reporting ('SECR') disclosure on page 56 which details the Company's Scope 1 and Scope 2 GHG (direct internal) emissions, over 80% of the Company's internal emissions arise from fuel sources used in its transportation commercial fleet, with the remainder mainly accounted for by natural gas usage and electricity consumption at sites.

Scope 3 emissions are GHG emissions that the Company is indirectly responsible for outside its own operations – from the goods the Company purchases to the disposal of floorcoverings once sold. In 2021, the Company conducted its first Scope 3 emissions assessment following the GHG Protocol Corporate Value Chain (Scope 3) Accounting Standard methodology in conjunction with its top 15 suppliers. The assessment is available to view at www.headlam.com and is summarised below. From this assessment the Company estimates that the sources of its indirect GHG emissions were: 1) Manufacture of purchased goods and services (70%); 2) End-of-life sold products (23%); and 3) Other plus Upstream transport (7%). Also from this assessment alongside the SECR disclosure, the Company's indirect emissions far exceed its direct internal emissions:

- Scope 3: 97.3% of total emissions*
- Scope 1 and 2: 2.7% of total emissions*

The Company will next engage with suppliers on a Scope 3 emissions assessment in late 2022, and this will be performed annually thereafter. Undertaking this work is a valuable tool to understand supply chain emissions, and importantly engage with individual suppliers on their own environmental / sustainability ambitions and supply chain efficiencies. It serves as an important framework, amongst other forms of engagement, to deepen the partnership approach with suppliers most able to demonstrate responsible business conduct and supply chain efficiencies.

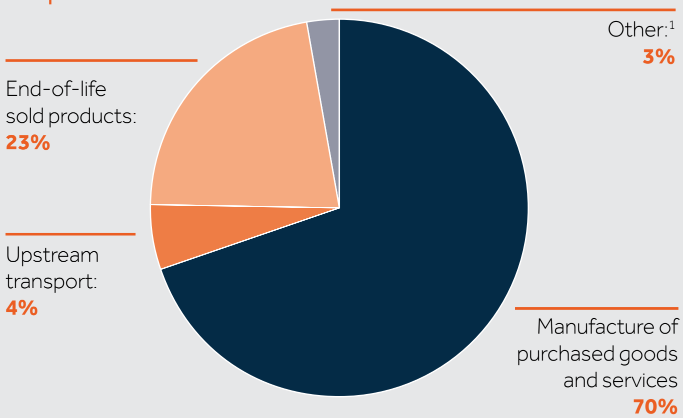
Water

The Company is not a large consumer of water, which it primarily uses for cleaning its commercial vehicles, and is engaged in limiting usage where possible. Water consumption in 2021 was 31,422 cubic metres** (2020: 36,640 cubic metres).

* Scope 1 and 2 emissions data is 2021 re-stated to remain consistent with re-classification of grey fleet within Scope 3. Scope 3 is 2020 data, also re-stated for consistency.

**Excludes water consumption by the Swiss operations disposed of in 2021.

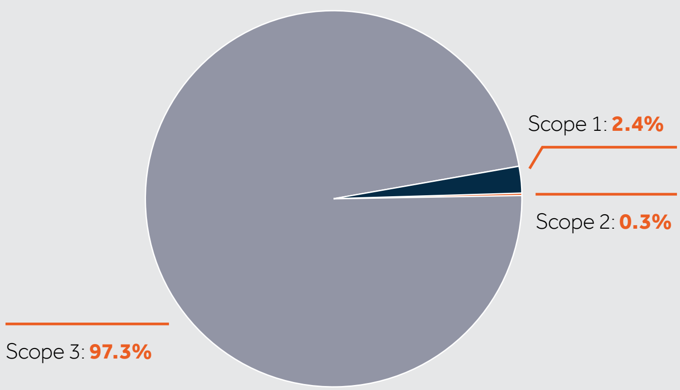
Scope 3 emissions*:



[1] Waste generated in operation, employee commuting, capital goods, and fuel-related activities not included in Scope 1 and 2.

Category percentages re-stated to remain consistent with reclassification of grey fleet within Scope 3.

Headlam's Scope 1, 2 and 3 emissions*:



Key

Scope 1	Direct GHG emissions, predominantly arising from Headlam's transportation activities
Scope 2	GHG emissions generated from purchased electricity at Headlam's sites
Scope 3	Indirect GHG emissions produced outside Headlam's own operations

Summary

This disclosure alongside and in conjunction with the information contained within the ESG Report on pages 44 to 55 summarises the energy usage, associated emissions, energy efficiency actions being undertaken and energy performance for Headlam Group plc's UK operations under the government policy Streamlined Energy and Carbon Reporting ('SECR'), as implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. This disclosure also summarises the methodologies utilised for all calculations related to the elements reported under Energy and Carbon. With the energy efficiency actions detailed in the ESG report, this disclosure fully complies with the reporting regulations.

This disclosure, and full supporting report, has been prepared by Net Zero Compliance (a division of Inspired Energy PLC) in conjunction with members of Headlam's Executive Team for Headlam Group plc by means of interpreting the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as they apply to information supplied by Headlam Group plc and its energy suppliers. The following figures demonstrate year on year changes in consumption and resulting emissions for Headlam Group plc for 2021 and 2020.

Scope 1 consumption and emissions relate to the direct combustion of natural gas, and fuels utilised for transport operations associated with the commercial fleet. This year, to improve the granularity of Headlam's GHG reporting and reflect transportation emissions associated with the grey fleet in alignment with the GHG Protocol, these emissions will now be grouped under Scope 3 emissions (business travel). Here the grey fleet describes the use of private vehicles for business purposes. To ensure consistency, the previous year's emissions have been re-stated in alignment with this approach, and will continue to be disclosed using this categorisation in future years. Scope 2 consumption and emissions relate to emissions associated with purchased electricity in day to day business operations.

Totals (UK)

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

Utility and Scope	2021 Consumption (kWh)	2020 Consumption (kWh)
Grid-Supplied Electricity (Scope 2)	7,010,536	6,965,268
Natural Gas (Scope 1)	5,473,079	5,597,780
Transportation commercial fleet (Scope 1)	53,596,932	50,819,475
Transportation grey fleet (Scope 3)	23,693	144,414
Total	66,104,240	63,382,522

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	2021 Consumption (tCO_2e)	2020 Consumption (tCO_2e)
Grid-Supplied Electricity (Scope 2)	1,488.55	1,623.88
Natural Gas (Scope 1)	1,002.45	1,029.26
Transportation commercial fleet (Scope 1)	12,694.87	12,191.07
Transportation grey fleet (Scope 3)	5.49	33.92
Total	15,191.36	14,878.07

Intensity Metric (UK)

An intensity metric of tCO_2e per £m revenue has been applied for the annual total emissions of Headlam Group plc and chosen to align with best practice as set out by UK Government environmental reporting guidelines. The methodology of the intensity metric calculations are detailed below, and results of this analysis is as follows:

Intensity Metric	2021 Intensity Metric	2020 Intensity Metric
tCO_2e/£m revenue	25.93	29.5

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 group 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 01/01/2021 – 31/12/2021. We note that between 2020 and 2021, emissions factors related to electricity consumption have reduced due to the increasing decarbonisation of the grid. As such, Headlam's carbon emissions associated with Scope 2 have decreased between 2020 and 2021.

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 2021 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. The Group disposed of its Swiss subsidiary in 2021, and the remaining French and Dutch operations only accounted for 12.2% of total revenue in 2021 (excluding any contribution in the year from the Swiss operation).

The ESG Report on pages 44 to 55 details the Company's Scope 3 emissions, as well as the intention to set an initial reduction target for Scope 1 and Scope 2 emissions, and the Company's net zero direct emissions (Scope 1 and Scope 2) ambition for 2035.

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 44) SECR Disclosure (page 56) Corporate Governance Report (page 64)
People	Stakeholder Engagement and Section 172 Statement (page 40) ESG Report (page 44) Corporate Governance Report (page 64)
Social matters	Stakeholder Engagement and Section 172 Statement (page 40) ESG Report (page 44) Corporate Governance Report (page 64)
Respect for Human Rights	Other Statutory Disclosures (page 124)
Anti-Corruption and Anti-Bribery matters	Corporate Governance Report (page 64) Audit Committee Report (page 86) Other Statutory Disclosures (page 121)
Information disclosed in support of the Matters	
Business model	Business Model (page 30)
Policies pursued, due diligence processes implemented, and outcomes	ESG Report (page 44) Corporate Governance Report (page 64) Audit Committee Report (page 86)
Principal risks, impact and mitigation	Risk Management, and Principal Risks and Uncertainties (page 34)
Non-financial key performance indicators	Key Performance Indicators (page 32) ESG Report (page 44)

This Strategic Report was approved by the Board on 9 March 2022 and signed on its behalf by:

Chris Payne
Chief Executive

9 March 2022

BOARD OF DIRECTORS

- Two Non-Executive Director appointments during 2021 adding extensive experience, including developing and leading growth and customer-led strategies.
- Continued development of the risk management and internal control framework led by the Audit Committee.

Committees

● Audit ■ Nomination ◆ Remuneration _ Denotes Chair

Philip Lawrence
Non-Executive
Chairman

Philip was appointed a Non-Executive Director in June 2015 and became Non-Executive Chairman on 1 June 2018, having been assessed as independent on appointment. As announced on 8 March 2022, Philip will step down from the Board at the AGM in May 2022.

Philip is currently Non-Executive Chairman of Airband Community Internet Limited, which is majority owned by the global investment company abrdn, 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. He helped lead the Coal Authority into a circular economy through recovery of waste products, and thermal energy extraction.

Board Director who has accountability for ESG.

Committees

■ ◆

Chris Payne
Chief Executive
and Chief Financial Officer

Chris joined the Company as Chief Financial Officer in 2017, and was appointed Chief Executive on 8 March 2022. An independent search process is underway for a Chief Financial Officer.

Previously Chris was at Biffa plc, the UK integrated waste management company, where he was Group Commercial Finance Director, a member of the Group Executive Team with responsibilities for the operational finance teams and divisional Finance Directors, commercial pricing and leading the M&A function. Prior to that, Chris held finance and commercial director positions at several listed businesses. He is a qualified Chartered Accountant having trained with KPMG and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Chris chairs the Company's Executive Risk Committee, and as part of this remit has lead oversight of the identified risks relating to IT, change and decision making.

Board Director who has accountability for health and safety, IT resilience and cyber security, and diversity.

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 will become Non-Executive Chairman upon shareholder approval at the AGM in May 2022

Keith is currently Non-Executive Chairman of Revolution Bars Group Plc, and a recent Non-Executive Director of the London Legacy Development Corporation having stepped down in September 2021 after 11 years. 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 public company Non-Executive roles, including Superdry Plc, Safestore Plc, Goals Soccer Centres plc, JE Beale Plc, Thorntons Plc, Pennpetro Energy Plc and Altitude Group plc.

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

Committees

● ■ ◆

- In line with best practice, Audit Committee comprised of only independent Non-Executive Directors, and no Executive presence on Nomination Committee.
- Board have primary oversight of ESG strategy, including cultural development, with commitment to furthering its scope and implementation.

Amanda Aldridge

Independent
Non-Executive Director

Amanda was appointed a Non-Executive Director in February 2018, and 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 from 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

Simon King

Independent
Non-Executive Director

Simon was appointed a Non-Executive Director in May 2021, and is a representative on the Company's Employee Forum*. Simon will become Senior Independent Director upon shareholder approval at the AGM in May 2022.

Simon has over 35 years of executive experience. He was most recently an Executive at Travis Perkins plc where he held the position CEO of Wickes, one of the UK's leading home improvement retailers, until 2019. Prior to that, Simon held a number of CEO and COO positions in businesses including Walmart, Savola Group in the Middle East, and Tesco's businesses in Continental Europe and Asia. Simon is a Non-Executive Director of SIG plc, a leading supplier of specialist building materials to trade customers, having joined their Board in 2020. He also holds an advisory role for the online horticulture business Garden on a Roll.

Simon has highly relevant skills and experience in the areas of B2B and B2C distribution, and workforce engagement through his time managing a workforce, and of modernising businesses for digital success.

Board Director who has accountability for Workforce Engagement.

Committees

*The Employee Forum acts as the formal workforce advisory panel to the Board.

Stephen Bird

Independent
Non-Executive Director

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

Stephen has extensive executive experience developing successful, customer-led growth strategies to help businesses grow and adapt to changing markets, including leading transformational digitalisation and customer service programmes. Prior to joining The Vitec Group plc, Stephen was Managing Director of Weir Oil & Gas, part of Weir Group plc, and has held senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth plc and Technicolor Group.

Committees

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 change 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 Executive Committees dedicated to Sustainability (incorporating ESG) and Risk.

Catherine Miles
Director of Investor Relations and ESG

Catherine was appointed Director of Investor Relations and 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. Prior to this she was Communications Director and Company Secretary at an AIM listed company, and initially worked in the Financial PR industry.

Catherine is highly involved in both external and internal stakeholder engagement activities, and regulatory compliance and reporting. She heads up the ESG function, being the day-to-day overseer of ESG strategy, activity and reporting, and is a member of the Executive Committees dedicated to Sustainability (incorporating ESG) and Risk.

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 plc. 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 is a member of the Executive Risk Committee and a trustee of the Company pension schemes.

A recruitment process is currently underway for a People Director who will join the Executive Team upon appointment


headlam
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CHAIRMAN'S INTRODUCTION
to the Corporate Governance Report

Philip Lawrence Non-Executive Chairman

Good corporate governance is the ethical conduct of business and the foundation of success, providing a solid base from which we build our strategic vision and purpose

I am pleased to present the approach your Board has taken on Corporate Governance for the year under review. As we charted a course through the continuing COVID-19 restrictions in 2021, the Board has strengthened its monitoring and oversight of the implementation of its approved strategy and operational objectives. It takes its responsibility to ensure the necessary resources are in place for the Company to meet its objectives very seriously.

Board Changes in 2021

Successful companies are those led by an effective Board comprised of directors with appropriate and compatible skills, which are harnessed to optimise strategy, oversee its implementation and promote long-term sustainable success. Getting this right will generate value for shareholders over the long-term and contribute to the wider society as a whole. Following detailed review of our skill mix and future skill requirements, we have taken a number of steps to strengthen the Board during the year under review.

Following 30 years of service, Steve Wilson stepped down from the Board, and as Chief Executive, on 6 October 2021. Over the years Steve was fundamental to the success of the Company and we offer him our gratitude for his dedication and contribution, and wish him all the very best for his future success. Steve leaves a business with more opportunity than ever before and the Nomination Committee has led a robust and transparent search for Steve's successor. Chris Payne, supported by the Board and the finance and operational teams, has provided important continuity by agreeing to act as Interim Chief Executive in addition to his role as Chief Financial Officer whilst a search was undertaken.

Following a thorough search, I am delighted to confirm that the Board has appointed Chris Payne to the role of Chief Executive on a permanent basis. The Board believes that Chris is the best person to drive delivery of the business change strategy as outlined in the Strategic Report and that he will be at the forefront of its enthusiastic implementation. We have now commenced an independent search process for a new Chief Financial Officer.

During the year we agreed to broaden the skills and experience on the Board and strengthen the oversight of executive management through the addition of a further Non-Executive Director. Alison Littley stepped down from the Board on 31 March 2021 and Keith Edelman assumed the position of Interim Remuneration Committee Chair. We subsequently appointed two new Independent Non-Executive Directors. Simon King joined the Board on 14 May 2021 and brings with him a wealth of executive retail experience, latterly as CEO of Wickes. In addition to attending our Employee Forum, Simon has agreed to undertake the newly created role of designated Non-Executive

Director for workforce engagement and will be a key driver in shaping its duties over the next year. Stephen Bird joined the Board on 13 September 2021 and is currently Chief Executive of The Vitec Group plc. Stephen has extensive executive experience developing successful, customer-led growth strategies to help businesses grow and adapt to changing markets, including experience of leading digital transformations and customer service programmes. Both Simon and Stephen have already made significant contributions to the workings of the Board and their respective expertise and strengths will ably assist the Company in delivering future success.

Board Changes in 2022

As announced on 8 March, we are also intending to make further changes to the Board during 2022. After seven years at the Company, supporting and then leading significant change in the Boardroom, the business is in a significantly better place to grasp the opportunities of organic growth and scale. It is my intention to step down from the Board with Keith Edelman taking the role of Chairman from the conclusion of the AGM. Keith will become Chair of the Nomination Committee and Simon King will take on the roles of Senior Independent Director and Chair of the Remuneration Committee. Simon has served on the Headlam Remuneration Committee since appointment and previously served on a remuneration committee for over 12 months. All of these changes will take effect from the date of the Company's Annual General Meeting. We have also announced that we will look to appoint a Non-Executive Director later in the year.

Board Evaluation

The timing of the Board changes in 2021 influenced the method by which the Board evaluation was carried out as the Board adapted to the circumstances. In 2020 the Board undertook a full externally facilitated interview-based board evaluation. Given the timing of the Board changes towards the end of the year, it was considered more appropriate to allow the Board to properly adjust before a similar review was conducted. An on line questionnaire-based evaluation of the Board and its committees was therefore performed. The evaluation was externally facilitated by the independent consultancy, Independent Audit Limited, who provided an assessment of the results in the context of the outcomes of their 2020 review. This enabled consistency with the previous year's review and a more accurate reflection of achievements during the year to be acknowledged. Further information on the process and outcomes are set out on page 77.

Key Areas of Focus in 2021

The following have been key areas of focus for the Board during the year:

Board development and succession planning

The Board changes have refocused the skills and experience on the Board, providing additional executive, business transformation and digital experience in customer-centric businesses. Implementing business development and modernisation, in addition to considering our key stakeholders (customers being one), are key strategic objectives and the strengthening of these skills on the Board will help with driving this change. The Nomination Committee has discussed succession planning for the Board and Executive Team. With our two new additions to the Board, a new Chief Executive appointed, and the Board changes to take place in 2022, we believe that we will have a strong Board to take the opportunities to drive Company performance for long-term sustainable success as they present themselves.

Strategic priorities

The Board has developed, agreed and acted in accordance with its strategic priorities. These included developing Group strategy; driving business performance; demonstrating leadership of cultural change; and providing leadership on ESG. Each of these has been driven by the Board during the year under review and further information can be found throughout this Report. The strategic priorities for 2022 have been developed by the Board and will focus on: continued development of the Company's executive leadership; refinement of Group strategy and oversight mechanisms; leadership of ESG strategy and practice; and cultural change.

Diversity

As a Board, we recognise the benefits that diversity of gender, ethnicity and background can bring to the decision-making process and we are monitoring the reports being released on this subject, including the report prepared by the FTSE Women Leaders Review and the report by the FRC in conjunction with the London Business School. Until 31 March 2021, the Company's Board consisted of 1/3 female representation. With the departure of Alison Littley and the appointment of Simon King and Stephen Bird, female representation on the Board has reduced to 17% (one out of six directors). When making the decision to appoint Simon and Stephen, the Nomination Committee agreed to do so due to the outstanding quality of both candidates.

The Board has a number of appointments to make in 2022 and through those will improve diversity around the Board table. Further information is outlined in the Nomination Committee Report on page 79.

Leading culture

We understand the importance of the Board leading by example and promoting the desired culture throughout the organisation. All Board members are expected to act with honesty and integrity and actively promote the Group's values and behaviours which have been rolled out throughout the organisation during the year. A full cultural strategy has previously been developed and approved by the Board, and its implementation is being monitored regularly. More information is set out on page 66.

Environmental, Social and Governance

Environmental, Social and Governance ('ESG') has been a major focus during 2021. We issued our first ESG strategy report in May 2021 having worked with our external specialist, prepared our materiality assessment, and issued an update on our progress in November 2021. We have committed to updating our stakeholders every six months on the Company's progress in ESG matters. I am delighted to include within the ESG Report, the Company's first reporting against TCFD guidelines.

We recognise that ESG is more than reducing carbon emissions and requires collaboration with our key stakeholders. However, we have for the first time announced a net zero emissions ambition by 2035. This underlines our commitment to our corporate responsibilities. The ESG Report is provided on pages 44 to 55.

Risk management framework

We have continued to develop our risk management framework with the extension of the remit of the Executive Risk Committee to include the ongoing monitoring of Principal Risks and those associated with ESG. New terms of reference for the Executive Risk Committee have been drafted and approved. The Board has overseen the implementation of all critical recommendations received from the external specialist's review of our IT and cyber security, which was undertaken following a cyber incident in November 2020. Further information on cyber security is available on page 36.

Stakeholder engagement

At Headlam we recognise the importance to the business of understanding our stakeholders. We are dedicated to bringing their views into our decision-making process and are focussed on improvement in this area. During the year, we have continued to operate our Employee Forum. We have engaged with our Forum on executive pay with the results of such engagement being reported back to the Board and Remuneration Committee. We also engage actively with our other key stakeholders (customers, suppliers and shareholders). Further information is outlined in our Stakeholder Engagement and Section 172 Statement on page 40.

Key Areas of focus for 2022

We exited 2021 excited by the opportunities that lay ahead for the long-term sustainable success of the Group. We will continue our focus on the governance improvements we are making, especially with respect to cultural change, diversity and the evolution of our ESG strategy and KPI reporting which will enable us to seize opportunities as they present themselves. We are building a culture where everyone's contribution and ideas are valued and then, as an organisation, we will be nimbler, more accepting of change and consequently more successful.

I am confident that we have the correct strategy and governance arrangements in place and your Board is looking forward to the future with excitement and confidence.

Philip Lawrence
Non-Executive Chairman
9 March 2022

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 the achievement of our strategic goals.

Compliance Statement

It is the Board's view that, throughout the financial year ended 31 December 2021, 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 provision 36.

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". As intended and set out in the Directors' Remuneration Report for the year ended 31 December 2020 such a policy was developed as part of the Remuneration Policy review and implemented and adopted from the date of the 2021 AGM but was not applied retrospectively. The Policy is fully outlined in the Remuneration Committee Report on page 99.

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 121 to 125. The Company has also complied with the relevant requirements of the Disclosure Guidance and Transparency Rules, the Listing Rules, Directors' Remuneration Reporting regulations and narrative reporting requirements.

The Corporate Governance section of this Annual Report and Accounts explains how the Code principles have been applied.

Implementation of the Principles of the Code

Board leadership and company purpose	
The Board is responsible for: • Promoting the long-term sustainable success of the Company and establishing the Company's purpose, values and strategy (ensuring that its culture is aligned). • Ensuring the necessary resources are in place to meet objectives and measure performance against them within a framework of effective controls. • Engaging with stakeholders to inform decisions and ensuring that workforce policies and practices are consistent with the Company's values and support long-term success.	Board of Directors – page 58 Leadership and purpose – page 64 Board activities during the year – page 73 Succession planning – page 83 Considering stakeholders in decision making – page 40.
Division of responsibilities	
The Chair leads the Board and is responsible for its overall effectiveness in driving the Company. There is clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The Non-Executive directors dedicate sufficient time to meet their responsibilities and provide constructive challenge, strategic guidance, specialist advice and hold management to account. Board policies and processes are in place to ensure that the Board functions effectively.	Board Roles – page 71 Division of responsibilities – page 68 Nomination Committee report – page 79 Dealing with Directors' conflicts of interest – page 68
Composition, succession and evaluation	
Formal, rigorous and transparent procedures are in place to support Board appointments, led by the Nomination Committee, which considers the importance of diversity in decision making. The Nomination Committee regularly reviews composition of the Board and Committees to ensure appropriate combination of skills, experience and knowledge and to plan for the progressive refreshing of the Board. Annual evaluation of the Board's composition, diversity and effectiveness.	Nomination Committee report – page 79 Appointments to the Board – 82 Diversity Policy – page 84 Board composition – page 84 Board evaluation – page 76
Audit, risk and internal control	
The Board has established formal and transparent policies and procedures to ensure the integrity of the independence of the Group's external audit, and to satisfy itself of the integrity Group's financial statements and to confirm that they represent a fair, balanced and understandable assessment of the Company's position and prospects. Procedures have been established to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.	Audit Committee report – page 86 Fair, Balanced and Understandable statement – page 94 Risk Management and Internal Control – pages 34 to 38 and page 92
Remuneration	
The Board, through its Remuneration Committee, determines Director and Senior Management remuneration policies and practices and ensures they align to the Company's purpose, values, and promote the successful delivery of the Company's long-term strategy. Each element of performance related pay allows for the independent exercise of judgement and discretion when authorising remuneration outcomes. Controls have been implemented to ensure that no Director is involved in deciding their own remuneration.	Remuneration Overview – page 98 Directors' Remuneration Policy – page 99 Directors' Annual Report on Remuneration – page 109 Statement of implementation of Remuneration Policy in 2022 – page 118

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, including generating value for shareholders and contributing to wider society. This responsibility includes: setting the Company's purpose, values and strategy; reviewing and promoting the desired organisational culture; ensuring the necessary resources are available to meet agreed objectives; and ensuring that all of these elements are aligned. The Company's purpose is detailed on page 8.

A strategy day was held in September 2021 at which the Board and senior management examined Group strategy and its vision and mission in detail along with those members of senior management responsible for its implementation. Not only did this allow the Board to discuss strategy with appropriate managers in a formal setting but it also allowed for a full question and answer session and debate.

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 held within the boardroom or elsewhere in the business.

The performance of the Group has and will be improved by realigning the Group's businesses towards a much more collaborative and unified approach. The Board wishes to preserve the local, customer focused attributes of the culture, whilst encouraging collaboration between the Group's businesses with a centralised approach where it makes sense to do so to leverage scale. To this end, various cross business interest groups have been set up to help with the dissemination of best practice, including forums which are job related.

Following the bottom-up culture capture exercise that was carried out during 2020, the Board has approved a detailed people and culture strategy which includes initiatives spanning the next three years. Board oversight of this strategy includes a detailed update on progress every six months with KPIs reported to the Board at each meeting from January 2022 as the culture strategy implementation gets underway. Two key elements of the culture strategy are: the embedding of the Company's values and behaviours; and developing change management capability across the site management community.

In last year's Annual Report, we noted that we had work to do to find more accessible and modern ways of communication with our staff. During the year we have implemented a new employee engagement portal ('MyHub') for our UK colleagues as referenced in People on page 49.

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

- Increasing the focus on the health, safety and working practices of our colleagues;
- Reviewing and revising remuneration structures for senior management;
- Implementing an absolute requirement to observe good business practice and abide by applicable laws and legislation;
- Approving the people and culture strategy, and monitoring its implementation;
- As part of the decision-making process, ensuring a focus on risk, opportunity and the effect of decisions on stakeholders;
- Ensuring a sound system of internal controls including a fully implemented delegation of authority matrix which details responsibility for decision-making;
- Undertaking 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. During the year the Audit Committee requested the strengthening of the Whistleblowing Policy with the addition of an externally managed helpline to allow truly anonymous reports to be filed. This will be implemented in 2022.

The Board is pleased to report that the values and behaviours have been fully rolled out throughout the business during the year, through workshops with management and colleagues. The members of the Executive Team have also completed a roadshow to all site leaders to further embed and emphasise the Company's purpose, mission and vision.

The Board continues to monitor culture in a number of ways in addition to its annual cultural strategy review. During 2022, it will continue to consider employee retention figures, health and safety performance and progress towards its cultural aims, including KPIs, at each Board meeting. More detailed updates will also be provided by members of the Executive Team on specific items and from the Employee Forum following each meeting.

Environmental, Social and Governance Responsibilities

The Board is ultimately responsible for climate related issues and takes its commitment to wider ESG matters very seriously. The past year has seen significant progress in this area of its responsibility, noting that day to day responsibility for ESG matters has been assigned to the Director of Investor Relations and ESG. Working with an external specialist, the Board has approved and overseen the development of the ESG strategy and the preparing of a materiality assessment and has held deep dives into various items within the wider ESG programme in addition to approving the progress update released in November 2021.

The Board has released a full form ESG Report within this document (page 44) and has reported its first disclosures in line with the recommendations of the Task Force for Climate-related Financial Disclosures ('TCFD') page 51. These disclosures detail our areas of priority in relation to ESG.

During the year it has reconsidered and approved its Environmental Policy (the 'Policy') which is available on the Company's website (www.headlam.com). The Policy sets out the Company's ambition and approach to each of the Company's major areas of impact. The Company has initiatives in place to minimise its impact in each area as detailed in the ESG Report (page 46).

Over the next year the Board will oversee further developments in ESG, including evolving its approach to climate-related risks. The Board will fulfil its oversight responsibilities through detailed reports on a bi-annual basis with any additional ad-hoc topics for discussion as arise during the year.

Philip Lawrence, the Non-Executive Chairman, is accountable for overseeing ESG matters (including climate change), and the Board will continue to monitor progress in this area.

During 2022, the Company will establish an ESG Committee to assist with the more detailed aspects of its ESG agenda and to implement the ESG strategy approved by the Board.

Relations with shareholders

Information on stakeholder, including shareholder, interaction is contained within the Stakeholder Engagement and Section 172 Statement of the Strategic Report on pages 40 to 42.

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); investor presentations; webcasts; and 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, strategy and other matters. Feedback is subsequently sought and considered by the Board after these interactions. These meetings are typically hosted by the Executive Director(s) and the Director of Investor Relations and ESG. The Company also retains a Financial PR and IR adviser, alongside its two brokers, to further facilitate interaction and support its communication with the investment community.

The Company offers larger shareholders meetings at Company locations to help with a fuller understanding of the business and to introduce other members of the Executive and senior teams. A Capital Markets Day for the Company's larger institutional shareholders was hosted by the Board at the new Ipswich facility in July 2021. The event, which Non-Executive Directors attended, featured presentations from managers responsible for projects under the Company's business change strategy on such items as revenue growth opportunities and efficiency improvements. Visitors also received a tour of the facility. A webcast of the event was made available to view by all on the Company's website along with the presentational materials used. During 2021, the Company also participated in events and presentations aimed specifically at private investors.

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, as illustrated by the Capital Markets Day. 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. The Senior Independent Director additionally makes himself available to meet with shareholders as and when requested.

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 and actions.

Annual General Meeting

In 2021, the Company recommended that shareholders did not attend the Annual General Meeting ('AGM') in person due to the continuing pandemic, but that instead shareholders should vote by proxy and follow proceedings of the AGM remotely. Whilst the 2021 AGM was held onsite with the Chairman, Chief Executive and Company Secretary attending in person, all other Board members attended via video conference. The Company made available arrangements for shareholders to engage in a question and answer session prior to the formal business of the meeting. Additionally, arrangements were made to allow shareholders to submit questions by email in advance of the AGM and receive a written answer in respect of frequently asked questions. Both of these facilities were put in place to encourage shareholder engagement and enable questions to be asked of the Board on the running of the Company. Voting on all resolutions was conducted by poll.

The Company is looking forward to being able to again welcome shareholders physically to its 2022 AGM. The Chairman of the Board and the Chairs of each Board Committee will be available at the meeting location to answer shareholders' questions which can be asked either in person or via the online platform. The Company is again offering shareholders the opportunity to follow the business of the meeting remotely. More information on how to attend and ask questions, is set out in the Notice of AGM issued as a separate document to this report, and which is also available on the Company's website. All shareholders present at the AGM will have the opportunity to communicate directly with the Board at the AGM. There will also be an opportunity to meet with the Directors after the meeting.

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

Employee Forum

The Board is keen to understand the views of its stakeholders, which importantly includes its people. Every day invaluable knowledge is amassed by our people that we, as a business, need to understand to inform our strategy and service propositions. It is equally important that the Board understands the views of its colleagues on areas that directly affect them. 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 2021. We will look to resume holding this in person as soon as practicable.

The Forum, which is chaired by the Chief Executive, has proved to be an invaluable opportunity to: discuss business plans, strategy and ideas; assist with the dissemination of information throughout the workforce; and keep colleagues up to date. In addition, members of the Employee Forum are called upon to be involved in groupwide projects. Following each meeting, an update is provided to the Board by the Non-Executive Director who attends the Forum. The Employee Forum has been engaged in discussions on: the new colleague communication and benefits platform; buying and sales strategy; approach to ESG; the alignment of executive remuneration with wider pay policy and strategy; network and transport consolidation; business website updates; trade counter development and the development of the myheadlam app, amongst other things.

Dealing with Directors' conflicts of interest

Procedures are maintained by the Board whereby potential conflicts of interest are reviewed regularly and upon appointment to the Board or prior to taking on an external appointment. A review of these procedures was undertaken during the year and it was agreed that they remained appropriate and effective and were therefore re-approved. The operation of these procedures mean that the Board may be reasonably assured that any potential situation where a director may have a direct or indirect interest which may conflict, or may possibly conflict, with the interests of the Company will be identified and, where appropriate, dealt with in accordance with the Companies Act 2006 and the Company's Articles of Association.

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 both included on a register which is maintained by the Company Secretary and reviewed annually as it was in 2021. 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 appointment process for both Simon King and Stephen Bird, their other commitments were considered in addition to whether or not a conflict or potential conflict would exist with the interests of the Company. In each case, it was agreed that no potential conflict existed and that the interests of either candidate would allow sufficient time to be dedicated to their role with the Company. Both Directors were subsequently appointed to the Board.

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. 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 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 and Committee structure

Group Board

Responsible for setting the Group strategy, including ESG strategy, and 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 79

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 86

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 96

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

Board responsibilities

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

Board Committees and delegation

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

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

Board balance

Until the departure of the Chief Executive in October 2021, the Board consisted of the Non-Executive Chairman, two Executive Directors and four Non-Executive Directors (one of whom was the Senior Independent Director). As such, at least half the Board, excluding the Chairman, were Non-Executive Directors in accordance with the Code. Temporarily only one Executive Director serves on the Board, as Chris Payne performs the dual role of, Chief Executive (previously Interim) and Chief Financial Officer whilst the recruitment process for a new Chief Financial Officer takes place. The Board has ensured that suitable expertise and resources are in place to support Chris during this time and intends to appoint an Interim Chief Financial Officer shortly while the search process is ongoing.

The Board undertook a review of the size and balance of the Board and confirmed that the balance achieved between Executive and Non-Executive Directors was in compliance with the Code during the year and, once a new CFO is appointed, appropriate to meet the business and operational objectives. Decisions are made by the Board following detailed consideration of the items under review and no one individual or small group of individuals dominate the Board's decision-making. The Nomination Committee will keep this under review.

Independence

The Company recognises the importance of its Non-Executive Directors remaining independent of executive management in character and judgement in order for them to effectively support and challenge management's proposals. The Board has considered the independence of the four Non-Executive Directors and, taking into account the Board's review of the Conflicts of Interests register, consider that all remain independent in character and judgement and free from any business or other relationship that could materially interfere with the exercise of independent and objective judgement. None of the circumstances outlined in the Code that may impair, or could appear to impair, independence apply in the case of any Non-Executive Director. 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. Keith Edelman, who takes the role of Chairman after the AGM was also independent upon appointment to the Board. 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 annually and will do so at the 2022 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 below:

Role	Responsibilities
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 • Accountable for overseeing ESG matters and strategy.
Chief Executive Chris Payne	• 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, and compliance; and • Responsible for health and safety and Group diversity initiatives.
Chief Financial Officer Chris Payne (a recruitment process is underway to fill this role on a permanent basis)	• 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; • Responsible for managing the Group's I.T. department, infrastructure and cyber security; • In conjunction with the Executive Team and Executive Risk Committee, oversee the Group's risk profile and risk management process; and • Responsible for implementing the Group's corporate development strategy.
Senior Independent Director Keith Edelman	In addition to their role as a Non-Executive Director: • Act as a sounding board for the Chairman on Board related matters; • Lead the effectiveness evaluation of the Chairman; • Act as an intermediary for other Directors when necessary; • Be available to shareholders who wish to discuss matters which cannot be resolved otherwise; and • Work with the Chairman, other Directors and/or shareholders to resolve significant issues and to maintain Board and Company stability in periods of stress.
Independent Non-Executive Directors Amanda Aldridge Stephen Bird Simon King	• Provide effective and constructive challenge; • Critically assess the strategy proposed by management and provide strategic guidance; • Offer specialist advice to management using their experience and expertise; and • Scrutinise the performance of management in the implementation of the approved strategy.

The Role of the Company Secretary

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

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

Attendance at Board meetings

The Board met fifteen 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.

A record of Directors' attendance at 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[1]	Non-Executive Chairman	14	14
Amanda Aldridge	Independent Non-Executive Director	15	15
Stephen Bird	Independent Non-Executive Director	4	4
Keith Edelman	Senior Independent Director	15	15
Simon King[2]	Independent Non-Executive Director	8	9
Chris Payne[3]	Chief Financial Officer	13	14
Former Directors			
Alison Littley	Independent Non-Executive Director	2	2
Steve Wilson	Chief Executive	11	11

1 Philip Lawrence absented himself from one ad-hoc Board meeting during the year which was dealing with a matter upon which he was conflicted.
2 Simon King was unable to attend one single item ad-hoc board meeting held at short notice and submitted his views in advance of the meeting.
3 Chris Payne absented himself from one ad-hoc Board meeting during the year which was dealing with a matter upon which he was conflicted and additionally was unable to attend one ad-hoc Board meeting held at short notice and submitted his views in advance of the meeting.

Additionally, an offsite strategy day was held with the Executive Team to assist with the development of Group strategy and strategic objectives. Other members of senior management responsible for certain areas attended the strategy meeting and provided an update on various focus areas within their remit. This provided the Board with an opportunity to meet senior leaders in a more formal way and constructively challenge the detailed direction of strategy implementation.

During the year under review, the Non-Executive Directors and the Chairman regularly met without management present, usually before a board meeting or after formalities had been concluded. Two additional ad-hoc meetings of the Non-Executive Directors and the Chairman took place to discuss items of importance. The Senior Independent Director also held a meeting of the Non-Executive Directors without management or the Chairman present.

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 2021

The key activities of the Board during 2021 are outlined in the following table. The Board paid specific attention to assisting management in the delivery of the Group's strategic objectives and the approach taken in relation 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 in addition to reports on health and safety, specific agenda items which included the consideration of the views of stakeholders (including employees, suppliers, customers and shareholders) and Human Resources. Other items are included on the Board agenda at each meeting in accordance with the Board's annual workplan such as culture and ESG matters. The Board receives an update from the Company Secretary on a quarterly basis including updates on matters of corporate governance and ESG. Matters requiring attention between these quarterly Company Secretarial updates are shared at the next meeting, or between meetings as required.

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

2021 Board Activities

ESG and stakeholder engagement

- Interacted with shareholders and the wider investment community;
- Reviewed investor relations programme and feedback provided by the Company's investors, stockbrokers and financial PR agency plus reports on investor roadshows;
- Considered the findings of an in-depth customer insight survey and its impact on strategy and operations;
- Discussed feedback from the Employee Forum via the Chief Executive and the NED who attends the Forum;
- Conducted an ESG materiality assessment; and
- Reviewed and approved the Company's ESG Strategy (see page 44) and Environmental Policy.

Financial and performance reporting

- Approved the Company's annual and half-year results;
- Reviewed the Company's capital allocation priorities;
- Reviewed and approved the Company's dividend policy;
- Approved the UK Tax Strategy;
- Reviewed the Company's performance against KPIs, 2022 budget, operating and project milestones; and
- Reviewed and approved the Company's 2022 budget.

Strategy and management

- Through detailed interaction at Board meetings, review the operational, people, cultural and IT plans that underpin Company strategy implementation;
- Approved the KPI dashboard to be presented to each meeting; and
- Considered the impact of Company culture on initiatives and projects.

Governance and culture

- Approved a culture strategy in the context of the Group's strategic aims and taking into account the results of the culture capture exercise;
- Participated in and reviewed the results of an externally facilitated Board and Committee self-evaluation exercise and agreed areas of focus for 2022;
- Approved the Statement of the Responsibilities of the Chairman, Chief Executive and Senior Independent Director, the Schedule of Matters Reserved for the Board and the terms of reference of each Board Committee;
- Reviewed and approved the Board's principal policies, including the Modern Slavery Statement; and
- Reviewed the Company's Register of Conflicts.

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 business change strategy and the planning, trialling and roll out of each particular project, including e-commerce approach, transport integration, South East consolidation and customer insight;
- Reviewed the Company's trade counter proposition;
- Considered post-implementation review following the completion of operational projects; and
- Conducted assessments of potential acquisitions, whilst being cognisant of the market, general economic background and effect on (and views of) key stakeholders.

Internal controls and risk management

- Completed an assessment of the Company's emerging and principal risks and risk appetite;
- Monitored health and safety performance and implementation of continual improvements to procedures;
- Monitored the implementation of recommendations arising out of the external review of IT security and ensured the completion of a further penetration test;
- 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, Fraud and Anti-Money Laundering policy and Whistleblowing policy;
- Received and considered reports on compliance with financial, regulatory, corporate responsibility and environmental commitments; and
- Approved the Company's insurance programme.

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 review and update the centralised risk register and undertake ongoing identification of risks. During the year the Executive Risk Committee has taken responsibility for monitoring risks against risk appetite (which is set by the Board) and the ongoing review of principal risks and risks relating to ESG (including climate-related risks). The Executive Risk Committee reports on its activities to the Audit Committee which reports to the Board following each meeting. Response to and remediation actions in respect of any significant control failings are considered by the Audit Committee and reported to the Board as considered necessary. Under Board paper guidelines implemented during the year, papers submitted to the Board should include the risk and opportunities relating to each item under review, allowing the Board to assess risks relating to each decision as it is taken. The Board carries out an assessment of the Company's principal risks and uncertainties for the annual report and accounts and the interim statement. This assessment includes a detailed review of each of the Company's principal risks including changes to the risk profile and whether each risk is within appetite or not.

Emerging risks are considered by the Board at least annually. Further information on the Company's approach to risk management is available in the strategic report on page 34 and in the Audit Committee report on page 92.

The Directors confirm that they have carried out a robust assessment of the principal risks and uncertainties and the 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 34 to 36. The Board considered detailed papers on the risk framework, feedback from the Audit Committee and conducted blue-sky thinking to identify significant new or emerging risks.

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

Information security risk

Information security is vital to protect Company data from loss, theft and damage and to ensure the continuity of business operations. The Company needs access to the data it holds in order to be able to service its customers and run the business for the benefit of all stakeholders. The Board has delegated to the Audit Committee responsibility for oversight of assurance over information security as part of its risk management oversight responsibilities. The Audit Committee is briefed by senior management at each of its four meetings on the activities of the Executive Risk Committee which has operational responsibility for information security risk. The Board is also briefed regularly on information security matters by senior management, both as part of its annual risk management assessment and additionally as part of deep dive reviews. During 2021, the Board was briefed three times on information security matters. The Board has also approved an e-commerce and digital strategy within which information security good practice is built in to the design and delivery of projects to enhance our digital presence. An independent review of the Company's information security is undertaken every three years and, in line with good practice, penetration testing is conducted annually with the last penetration test carried out in June 2021.

The Company is mindful that many cyber attacks enter via the email system. A monitoring solution has been implemented to limit exposure to that form of attack and which additionally requires email recipients to confirm on an ad-hoc basis if links are safe or not as part of their training. Other training undertaken on cyber security includes an annual online cyber security awareness course and regular monthly "bitesized" training.

External cyber security review

Following the cyber security incident in November 2020, the Company engaged an external specialist to complete a review of its information security systems. The implementation of the recommendations since receiving the finalised report has been a focus for the Board which has received regular updates on progress from senior management. The Board is pleased to confirm that all critical recommendations have been implemented successfully.

Compliance training

The Board has been monitoring the roll-out of the Company's on line compliance training portal. To date courses on Anti-Bribery and Corruption, Social Media Awareness, Cyber Security and Modern Slavery and Human Trafficking have been provided to appropriate personnel throughout the business. Further courses will be made available during 2022. It is the intention that these courses be repeated by relevant personnel at regular intervals.

Additionally, detailed data protection ('GDPR') training was delivered by video-conference to management and other selected colleagues with further on line awareness training to follow.

In accordance with its commitment to excellent health and safety practice all General Managers and the Executive Team attended an IOSH approved Safety for Executives and Directors course.

Board Oversight

Non-Executive Directors perform a key role in scrutinising and holding management and individual Executive Directors to account against agreed objectives. During the year the Board has continued to oversee progress towards its operational and strategic objectives. It has strengthened the reporting to the Board of key business KPIs and those relating to its operational initiatives. During 2022, key ESG KPIs will be presented to each meeting to assist with its oversight of progress towards its ESG strategy.

The Board performs deep dives into areas of importance such as sales, buying and e-commerce and digital, and conducts post implementation reviews of its larger structural projects, the most recent being in relation to South East network consolidation. At each meeting the Board challenges management on pace and progress towards previously agreed targets.

In December, the Board considered in detail various operational initiatives, noting the significant progress made during 2021 and the plans for continued development in 2022. The Board challenged management on the pace of implementation of projects with an overlay of business risk and importance applied to each project in prioritising the various activities. The Remuneration Committee has based the annual bonus strategic targets partly on elements of the agreed 2022 operational plan, reflecting the importance of achieving certain operational goals and realising growth opportunities.

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 82.

Induction

Upon joining, each new Director receives a tailored induction programme relevant to their experience, expertise and committee membership. Particular emphasis is placed on the new Director visiting several operating locations and businesses and meeting the associated senior managers and colleagues to aid with deep understanding of the Group's business operations. The Director is also able to accompany a salesperson and a driver for a day to help develop an allround 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 senior colleagues, including other Directors and each member of the Executive Team, in addition to 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 Group and current strategy documents;
- Briefings on Directors' duties and responsibilities;
- Information on Board meeting procedures;
- Board and committee minutes;
- Group policies;
- Matters reserved for the Board and Committee terms of reference;
- Financial budgets;
- Shareholder and other stakeholder feedback;
- Customer insights; and
- Relevant industry and financial reports.

Simon King – Induction

Describe your induction process

I followed a thorough induction process which was a combination of meetings with Board members, senior management, site leaders and external advisers. I was fully briefed on all aspects of strategy and operations, including health and safety, investor and workforce engagement, culture, governance and risk.

Who did you meet as part of your induction process?

I spent time as part of the structured induction programme with all Board members and members of the Executive Team to understand strategy and areas of focus for the Group, in addition to Board procedures and process. Outside the formal induction programme, I had further meetings with the Company's brokers and external audit partner. I also met with various site leaders and other colleagues around the business to understand the challenges they experience every day.

Did you visit any Group businesses as part of your induction?

I visited various sites around the core distribution business, including some of our larger sites at Ipswich, Coleshill, Mercado and Tamworth, plus two smaller sites, Kidderminster and Thatcham. I also visited various trade counters and our ceramics specification business, Domus.

What were your first impressions of our people?

We have some great people around the Group who are dedicated to Headlam and to achieving excellent service for our customers. Many of our people have dedicated themselves over many years to their local businesses and there is a vast amount of knowledge of the flooring industry which we as a Board are anxious to build into our decision-making.

What specific induction did you receive for your role on the Board Committees?

The Company Secretary provided an outline of the governance framework including the roles and responsibilities of each of the Board committees. I met with each of the Chairs of the Board Committees to understand the priorities of each committee. For the Remuneration Committee, I additionally met with FIT Remuneration Consultants LLP (the independent adviser to the Remuneration Committee) and for the Audit Committee, I met separately with the lead partner from the External Auditor, PwC.

Which aspects of your induction did you find particularly useful?

Visiting the sites around the business helped me understand the challenges faced by the business every day and gave me a true insight into the quality of our people and how we go about achieving our aims for our stakeholders. Also, visiting our smaller customers on the high street and listening to the sales team regarding relationships with multi-site customers gave me an insight into the importance of providing a great service and an appreciation of our customers' views and requirements .

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 FRC Board Effectiveness guidance.

Training and development

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

Training and development (as did the format of Board meetings until later in the year) once again had to take into account the circumstances of the continuing pandemic. Virtual seminars and on line courses run by professional bodies on various commercial, operational and regulatory matters were attended by the Directors as part of their ongoing development. Such courses included short webinars and conferences in additional to longer term courses on items of importance including sustainability strategies, remuneration and regulatory updates. 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 2021, training also included presentations by the Executive Team to the Board on items within their remit, including ESG, branding, culture and cyber security. In addition, the Company Secretary provides regular updates on developments in Corporate Governance.

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

Composition, Succession and Evaluation

Board Evaluation

Progress on 2020 evaluation

In the 2020 Annual Report and Accounts we reported on the external interview-based board evaluation that had been conducted by Independent Audit Limited. The Board reviewed progress against these actions midway through the year to ensure they were being progressed and again at the end of the year. Details of progress on the actions arising out of the 2020 evaluation are shown below:

2020 Outcomes, actions and progress

	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.
Progress made in 2021	The review of ESG related risks has been assigned to the Executive Risk Committee and are subject to direct oversight by the Audit Committee. Emerging risks are also considered at each Executive Risk Committee with a further annual review by the Board.	Group values and behaviours have been implemented with workshops held with colleagues throughout the business. The Board has agreed and received progress updates on its cultural strategy.	Branch succession plans have been developed and senior leader succession plans updated.	Two new Non-Executive Directors have been appointed both chosen carefully for their complimentary skills and experience. This is already evident in Board discussions. A full Board skills assessment was again completed during the year.

2021 Board Evaluation

The Code recommends that there should be a formal and rigourous annual evaluation of the performance of the Board and its Committees 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. Despite being outside the FTSE350 index, the Board were in agreement to undertake an externally facilitated self-evaluation in 2021 based on a confidential online questionnaire. Following the successful 2020 externally facilitated interview-based evaluation, and to maintain continuity with the previous review, the Board again appointed Independent Audit Limited ('Independent Audit') to manage the process. Independent Audit were additionally asked to report on progress against the actions identified in 2020 and arising out of the 2021 evaluation. Independent Audit have no other connection to the Company or its Directors.

Preparation for the evaluation included a scoping discussion between Independent Audit and the Chairman together with the Company Secretary. Evaluation questionnaires were approved in advance by the Chairman and the Chairs of each Board Committee before being circulated for completion. The questionnaire responses were anonymous which helped to underpin their honest completion. The resulting report was discussed in draft with the Chairman and Company Secretary, prior to being submitted to the Board at its December 2021 meeting. Each Committee reviewed the results of its own evaluation at their next meeting and the Nomination Committee additionally reviewed the results as they related to Board composition and size, diversity and succession planning. Further detail on the Nomination Committee deliberations can be found in the Nomination Committee report.

The effectiveness review noted the positive evolution in Board performance in several key areas in addition to highlighting areas which would benefit from further improvement. Following careful consideration of the findings of the review, the Board and its committees noted a number of strengths, including:

- financial oversight;
- committees have well-defined mandates, add value and support the Board well in fulfilling its obligations; and
- keep up to date with governance and industry developments to stay relevant and effective in its oversight of the business.

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

2021 outcomes and actions

	Strategy	Culture and People	ESG	Diversity
2021 Outcomes	To further the strategy setting process, underpinned by purpose and values and improve visibility of strategy implementation.	To further develop how the Board considers people and behaviours to support the delivery of strategy.	To continue to develop ESG approach (including approach to climate risk) and assimilate into strategic decision-making.	To continue work to develop diversity initiatives throughout the organisation as a whole and plan for diversity at Board level.
Actions for 2022	To re-visit the purpose and agree a method of ongoing monitoring of its implementation.	To identify sources of additional information on culture and behaviours and feed the information into the decision-making process.	To focus on ESG leadership and oversight and establish an ESG Committee.	To undertake a business-wide diversity assessment and develop a cohesive plan for the furtherance of diversity targets within the business.

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 results of the Board evaluation and consultation with other Directors, provided feedback to the Chairman on his own performance. The output of the 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. During the year he has been instrumental in clarifying the priorities of the Board, setting the cultural tone; and leading the development of the Board and the induction of the new Directors.

Individual director performance reviews

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

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

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 2021. The Nomination Committee continues to play a vital role in the stewardship of the Company. During the year, we have taken significant decisions in furthering our objective to strengthen the Board in pursuit of long-term sustainable value for all stakeholders. In line with best practice, we have amended the Committee's membership such that the Chief Executive is no longer a member, but attends at my invitation for appropriate items of discussion. The Committee is therefore comprised solely of the Non-Executive Directors with the Non-Executive Chairman as Chair.

Strengthening our Board
A key focus during the year was the performance of various evaluations of the key skills required for the effective stewardship of the Group against the skills present around the Board table. The Nomination Committee has performed a leading role in the Board developments which are already proving to have a significant impact on Board discussions.

Chief Executive
After nearly 30 years of loyal service, Steve Wilson stepped down from the Board as Chief Executive and Director on 6 October 2021. During the last five years as Chief Executive, Steve pioneered the development of our new strategy. In commencing the search for a new Chief Executive, the Committee reviewed and updated its previously approved skills and experience matrix required for the Chief Executive's role and used this as the basis for the candidate profile used in the search. Warren Partners, who led the recruitment process, were instructed to present a diverse list of candidates for the Committee's consideration. Following a thorough recruitment process, it was with great pleasure that the Nomination Committee recommended to the Board that Chris Payne be appointed as Chief Executive and the Board approved his appointment.

Non-Executive Director Changes
Alison Littley stepped down from the Board on 31 March 2021 by which time an open and transparent external search process was underway to bring an additional two Non-Executive Directors to the Board with significant experience in related industries, developing customer led growth strategies including leading digital transformations. Following a robust external search carried out by Ridgeway Partners LLP, and consideration of a diverse candidate list, the Committee was pleased to recommend to the Board that Simon King, and subsequently Stephen Bird, both be appointed to the Board, which it approved. Simon King and Stephen Bird joined the Board on 14 May 2021 and 13 September 2021 respectively. Both Simon and Stephen have already made significant contributions to the decision-making process and Board discussions. Further information on the process undertaken for Board appointments is shown later in this report.

Prior to and during the recruitment process, the Committee held a full discussion on the need for gender and ethnic diversity, and we acknowledge that while considered the best candidates, appointing two male Non-Executive Directors has negatively affected the gender balance on the Board. Following due and careful debate, it was considered important to the creation of long term sustainable value for the Group to ensure that the best candidates fitting the skill requirements were appointed. Due to the quality of the two candidates remaining at the end of the process, it was agreed that both should be appointed, as they each have complimentary skills to assist the Board in driving strategy.

The Committee recognises the benefits of boardroom diversity of gender and ethnicity and will improve diversity on the Board through the appointments it intends to make during the year. Further information on our approach to diversity is set out later in this Report.

Priorities

In the 2020 Annual Report, we confirmed our priorities for 2021 which helped to form our focus during the year 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 skills review has been undertaken, including specific assessments for each of the roles which have been recruited for during the year. Further information on this assessment can be found later in this report.

Succession

The succession plan for the executive directors and senior management roles has been considered covering both contingency and long-term succession planning. Additionally, development plans were discussed for the internal candidates for Chief Executive succession.

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. In late 2020, the Committee considered the succession plans in place for key operational roles. Operational leadership and the People Director have continued to identify talent and create development plans across the business. During 2021, the Board invited operational leads to its strategy day to experience for itself the breadth and talent of our leadership team. This will be supplemented in 2022 when the Board has scheduled two site visits and presentations with senior site leadership.

Group-wide diversity

The Committee has conducted a detailed review of diversity indicators across the business. In order to increase diversity and assist in providing a more diverse pipeline for senior management roles, the Committee has approved the appointment of a third-party expert to conduct a full diversity review which will fully engage with internal stakeholders. Following a detailed Board debate on its approach to diversity, the outcome of this work will be a comprehensive plan to increase diversity across the business. Developments in this area will be reported in the 2022 Annual Report.

Priorities for 2022

Over the coming year, our focus will be to:

- Increase board level diversity;
- Strengthen the breadth and diversity of pipeline for Executive Team and senior management succession;
- Produce a diversity plan for the business as a whole; and
- Continue the emphasis on the Company's succession planning, with a focus on the development of key talent, including for board level roles both executive and non-executive.

A year of change

This has been a year of positive Board change with more changes due in the coming year. The Committee has performed its role making significant decisions with the long-term success of the business and the benefit of all stakeholders in mind. We will focus on Board composition and ensuring appropriate development plans are in place to increase the diversity and breadth of candidates available for senior positions. We will strive to ensure 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 2022

Main Role and Key Responsibilities

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.

Activities of the Nomination Committee during the year

The Nomination Committee agrees an annual workplan which is designed to cover its terms of reference across its meetings. The Committee 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:

Nomination Committee Activities

Skills assessment and succession

- Reviewed the skills and experience required by the Chief Executive in the context of wider business needs and culture, long-term strategic objectives and stakeholder feedback;
- Assessed internal candidates for Chief Executive succession and monitored the implementation of development plans;
- Considered the appointment of a recruitment agent and the candidate profile to fill the vacancy of Chief Executive;
- Reviewed the skills and experience of Non-Executive Directors to fully support the achievement of the Group's strategic objectives;
- Reviewed succession plans for Board and senior management;
- Conducted a thorough external review for the appointment of two new Non-Executive Directors and recommended their appointment to the Board; and
- Assessed the tenure of the Non-Executive Directors to inform the succession plan.

Governance

- Reviewed the structure, size and composition of the Board and its Committees;
- Reviewed and updated the terms of reference of the Committee and its annual plan;
- Reviewed the time commitment required of Non-Executive Directors and evaluated whether enough time 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;
- Reviewed the role descriptions of the Chairman, Chief Executive and Senior Independent Director;
- Commissioned a business-wide review of diversity for 2022 with a view to a comprehensive action plan to increase diversity across the business; and
- Considered and reapproved the policy on approving external appointments.

Reporting

- Considered and recommended to the Board the Nomination Committee Report for inclusion in the Annual Report and Accounts;

Evaluation

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

Membership and Attendance at Meetings Held in 2021

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 58 and 59. Appointments to the Nomination Committee are made by the Board.

The Nomination Committee met on nine occasions in order to fulfil its responsibilities delegated to it by the Board (four of which were scheduled meetings) and the table below set out its members and their attendance.

Members	Meetings attended	Eligible to attend
Philip Lawrence	9	9
Amanda Aldridge	9	9
Stephen Bird[1]	3	3
Keith Edelman	9	9
Simon King[1]	5	5
Former Members		
Alison Littley[1]	1	1
Steve Wilson[1]	6	6

1 Stephen Bird and Simon King joined the Board on 13 September 2021 and 14 May 2021 respectively. Alison Littley and Steve Wilson stepped down from the Board on 31 March 2021 and 6 October 2021 respectively.

The Committee has reviewed its membership and has recommended to the Board that the Committee membership consist entirely of the Non-Executive Directors, with the Chief Executive no longer being a member of the Committee. This composition continues to meet the Code requirement that the majority of the members are independent Non-Executive Directors and indeed removes all executive presence in line with best practice.

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

No Director is involved in any decisions regarding their own continuation in office, re-appointment or re-election, including the Chairman.

Board Changes and Appointment and Re-appointment of Directors

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

The standard procedure which the Committee has in place for appointment to the role of Chairman or Non-Executive Director positions, was followed during the recruitment process for the two new Non-Executive Directors undertaken throughout the year. 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 appointment of the Non-Executive Directors in 2021, Ridgeway Partners LLP who had no other connection to the Company or individual directors, were appointed to manage the search process:
- Each candidate was considered on merit against the comprehensive candidate brief developed by the Committee;
- Interviews and meetings were held with other directors;
- The Committee meets to debate and if thought fit agree the candidate(s) for recommendation to the Board; and
- The Board discuss and confirms appointment.

With regards to the recruitment process for the new Chief Executive, over and above the search process outlined above, the Nomination Committee considered the possible internal candidates for appointment and agreed that where appropriate, they should be invited take part in the full external search process. This would ensure that the best person for the job is appointed to this vital role. Warren Partners LLP, who had no other connection to the Company or individual directors was appointed to run the search process and were directed to present a diverse list of candidates.

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 annual independence and effectiveness assessments by the Committee and annual re-election by shareholders at the Annual General Meeting. The letters of appointment of all Non-Executive Directors (alongside the service contracts for the Executive Directors) are available for inspection at the Company's registered office during normal office hours. Copies are also made available at each of the Company's Annual General Meetings for 15 minutes prior to the meeting and throughout. 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 Group's business.

Committee Evaluation

The effectiveness of the Committee was evaluated as part of the Board performance evaluation process (see page 76). 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 2022 were agreed. The Committee additionally discussed any aspect of the 2021 Board evaluation as it related to Board size, composition, succession planning and diversity. Cognitive / personal strengths and board dynamics were all considered as part of the annual board evaluation exercise. The evaluation identified succession planning and diversity as opportunities for improvement.

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 formal skills assessment has been undertaken during the year for the Chief Executive and Non-Executive Director role holders. These are then considered by the Committee to establish if any additional skills are required for the successful implementation of Group Strategy as defined by the Board. This assessment was further updated as the Committee was considering the skills required by the additional Non-Executive Directors and at the initiation of the search for a new Chief Executive.

The Committee, based on work completed and evidence from the Board meetings, concluded that the skills and experience around the Board table were generally sufficient for the implementation of Group strategy. However, the recruitment of a Chief Executive remained a key focus.

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 through creating a truly diverse pipeline of candidates for filling senior management positions. 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 Board and Executive Team roles. In addition, a discussion was held at a meeting between the Chairman and the Non-Executive Directors regarding their own succession plan.

The Nomination Committee considered in detail, contingency succession planning for the Executive Directors and Executive Team, following the departure of Steve Wilson. As part of contingent succession planning, 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. Where there was no such internal candidate, plans were agreed to ensure adequate coverage of the role could be achieved in the short-term.

The Committee is pleased to note that the contingency succession plan was followed during the year with Chris Payne performing a dual role, standing as Interim Chief Executive and CFO until his appointment as Chief Executive on a permanent basis and the subsequent appointment of a CFO.

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. Where no suitable internal candidate was identified, a plan was agreed as to how the role would be filled.

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 to Board membership over the previous three years; the departure of the Chief Executive; the addition of two new Board members in 2021; and the benefit of continuity following the appointment of the Chief Financial Officer as Chief Executive. After seven years at the Company, supporting and then leading significant change, the Chairman indicated his intention to step down from the role. The Committee discussed the succession of the Chairman and other Non-Executive Director roles. Various discussions were held and it was agreed that the Chairman would step down from the Board at the forthcoming AGM and various Board roles would be re-allocated as announced on 8 March. Following these changes, it was agreed that a further Non-Executive Director would be appointed.

Succession planning throughout the organisation

The succession planning process in the broader organisation allows active steps to be taken towards monitoring and increasing all forms of diversity not just at board and senior management level. 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. The Committee considers succession planning processes for key operational roles and how talent was managed throughout the Group. Following consideration in October 2020 of a detailed succession plan for key operational roles, the Committee requested similar plans to be developed and implemented across the business to identify talent and create appropriate development plans.

It was also agreed that opportunities would be provided for senior management to present to the Board on items within their remit as part of their development. This was difficult to achieve during the year as the effects of the Covid pandemic continued. However, as meetings began to be held face to face once again, senior managers were asked to present to the capital markets day and to the Board at their strategy day and additionally as part of regular Board meetings as the subjects under discussion allowed. Additionally, key members of the finance team attended Audit Committee meetings when invited. During the course of 2022, the Board has committed to holding two visits (COVID-19 dependent) at which site management will be asked to give presentations on their business and also be invited to have an informal lunch with the Board. This will allow the Board to gain a greater understanding of the breadth of talent across the business.

Succession planning as a 2022 focus area

The Committee has focused on succession planning over the past few years and the 2021 Board Evaluation highlighted this as a continuing area for development. The Committee will therefore continue to focus on the Company's talent management strategy by: reviewing the talent management processes and initiatives across the UK business with the new Chief Executive; reviewing succession planning processes and the adequacy of the succession plans for Directors, senior management and key operational roles; and strengthening performance management processes throughout the business. The detailed, written succession plan will assist in building diversity in the executive pipeline and strength of management experience throughout the Group as a whole.

Board Size and Composition

The composition and performance of the Board and its Committees was considered by the Nomination Committee as part of its annual assessment and it was concluded that the Board and each Committee continue to function effectively, with committee support being identified as an area of strength in the Board evaluation. The vacancy for a permanent Chief Executive (and following Chris Payne's appointment on a permanent basis, a Chief Financial Officer) was an area affecting the usual balance of Executive to Non-Executive Directors on the Board. The Chief Executive and Chief Financial Officer roles have both been performed by Chris Payne since the departure of the previous Chief Executive while recruitment for permanent replacements for these roles was concluded. Chris Payne was appropriately supported by the Board and his senior management team to minimise any effect.

The addition of a further Non-Executive Director to the Board has increased Non-Executive presence and created additional expertise whilst strengthening oversight and constructive challenge of the Executive. The Committee has considered the size and composition of the Board. Following due deliberation it was concluded that: the composition of the Board is compliant with the provisions of the Code; is appropriate to meet the business and operational objectives; and is sufficient to bring a balanced and experienced view to the decision-making process. With Philip Lawrence stepping down, it is the Board's intention to appoint a new Independent Non-Executive Director later in the year.

Diversity and Inclusion

The Company is committed to developing an inclusive culture with 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 and more closely reflects the wider society in which the business operates. 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 2022. The Chief Executive is the champion of the Company's diversity and inclusion initiatives.

Board diversity 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, whilst addressing diversity considerations of the Board. However, whilst adopting this approach, the Board's diversity objective is to have a broad range of age, gender, ethnicity, approach, skills, experience and educational / professional backgrounds represented at Board level and in senior management positions. Recruitment agents engaged by the Company for Board and senior management positions are selected on the basis that they will put forward candidates in order to assist with the achievement of the Company's diversity objectives, including female candidates and candidates from ethnic minority backgrounds.

Gender Diversity

The Company notes the increased target of 40% female representation in board and senior leadership team positions recommended by the Female Women Leaders Review in their report in February 2022. It also notes the recommendation to have a female Director as either the Chairman or Senior Independent Director, and / or as Chief Executive or Finance Director. Whilst the Company is a constituent of the FTSE SmallCap sitting below the FTSE 350 index and therefore not subject to these targets, it confirms that as at 31 December 2021, 75% of the Executive Team (excluding Executive Directors) and 42% of the Executive Team and their direct reports were female. As at the 31 December 2021 17% of the Board was represented by female directors (1 out of 6 board members) and this remains the same as at the date of this report.

The Board is committed to increasing gender diversity at Board level and will act positively to seek to achieve this as part of the upcoming recruitment of Board roles.

Ethnic diversity

The Committee is 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. The Board does not currently have a director of colour or from an ethnic minority background and does not publish specific targets on ethnicity. However, as with gender diversity, it is fully supportive of increasing Board level ethnic diversity and will act positively to seek to achieve this as part of the upcoming recruitment of Board roles.

Diversity as a 2022 focus area

The Committee recognises that more can be achieved in relation to diversity across the Group, including at Board level. The Board evaluation exercise identified diversity as an area for development. The Committee discussed this finding and agreed that diversity should be an area of focus in 2022. It continues to believe that all appointments should be made on merit and against objective criteria. However, in this context, the Board has a number of appointments to make in 2022 and through those will improve its diversity position during the year.

The Committee has reviewed diversity indicators across the business and an external expert has been appointed to undertake a comprehensive diversity review of the UK workforce. The outcome of the review will be a comprehensive plan for improving diversity across the business and the Committee will work with the Chief Executive and People Director regarding its implementation.

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 2021 AGM and the Code, all Board members, with the exception of Philip Lawrence, will stand for election or re-election at the 2022 AGM.

Each director has been subject to a performance evaluation and the Committee has conducted its own annual review of the appropriateness of the Directors' skills and experience; their time commitment to the Company; and their contribution to the Board during the year. As part of this review, each Director has confirmed that they continue to allocate sufficient time to discharge their responsibilities effectively and the Committee evaluates their ability to do so taking into consideration other external commitments in addition to their individual performance throughout the year and their skills and experience (outlined on pages 58 and 59) set against agreed strategy. The Committee was particularly pleased to note that during 2021 each Director made themselves available to attend all pre-scheduled Board and Committee meetings to oversee the Company's continued response to the COVID-19 pandemic and to attend to the changes to the membership of the Board 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.

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 or other expert advisers, where appropriate.

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 2022

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 2021. 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 and external audit, risk management and internal control during 2021, and whether these remain appropriate for the strategic aims of the business. It also sets out the Committee's priorities for 2022.

In performing our duties during the year, we have complied with all applicable requirements of the Code and kept up to date with the FRC's best practice guidance as it relates to the Committee's responsibilities. We work closely with the Group accounting team and the External Auditor (the 'Auditor'), helping to ensure that our financial reporting remains clear; accounting issues and judgements appropriate; and our internal control system effective.

There have been various changes to the Committee's membership during the year. I would like to welcome Simon King and Stephen Bird who joined the Committee on 14 May 2021 and 13 September 2021 respectively. Both have extensive skills and experience that will complement those of existing members. Alison Littley stepped down from the Committee on 31 March 2021 and I would like to thank her for her contribution during her time on the Committee.

You will be aware that the Chief Financial Officer ('CFO') assumed the role of Chief Executive on an interim basis whilst the search for a new Chief Executive was ongoing. At the time of appointing the CFO to this additional position, consideration was given by the Non-Executive Directors to the resources available to support the CFO in his finance, risk and control responsibilities. In consultation with the CFO, the Committee has ensured that sufficient financial and senior operational resource is in place to adequately support him whilst performing this dual role. It was therefore agreed that the additional responsibilities would not adversely affect the control environment on a short-term basis. Following Chris Payne's appointment as Chief Executive he will continue to perform this dual role until a new CFO is appointed.

We are aware of the BEIS consultation on restoring trust in audit and corporate governance reporting and will monitor progress closely. We specifically note the proposal for an Audit and Assurance Policy and will consider how this is included in our processes once the finalised requirements are issued. The work we have already commenced on the oversight by the Committee of risks and controls at a granular level will provide greater assurance over internal controls going forward.

Our Environment, Social and Governance ('ESG') strategy was first issued in May 2021 and this has been a focus area for the business throughout the year. We understand the seriousness of the impact that risks relating to ESG matters can have on the business model and long-term prospects of the business. In order to ensure adequate oversight, ESG risks are now managed directly by the Executive Risk Committee and assurance over ESG risks and their associated controls will be presented to the Committee at each meeting during 2022 in order to strengthen oversight in this growing area of focus for the business. The Group has considered its processes in the light of the change in the listing rules requiring compliance with the recommendations of the Taskforce for Climate-Related Financial Disclosures ('TCFD') which is effective for this reporting period. As a Group we are at a relatively early stage of our ESG journey but we fully understand and support the need to integrate climate risk into our strategy and to communicate our activities and response in this important area to our stakeholders. We are continuing to develop our approach to climate-related risk alongside our environmental strategy which is outlined on page 44. As with other ESG risks, climate change risk (including TCFD requirements) and control will be overseen by the Audit Committee over the next year. Our TCFD disclosures can be found on page 51.

Priorities for 2021

Last year I outlined the priorities for the Committee in 2021. 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 2021	How they were addressed
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.	We continued our focus on the evolution of the risk and assurance framework. We have expanded the terms of reference for the Executive Risk Committee to include ESG related risks and principal risks and have continued oversight of the Executive Risk Committee in its performance of those additional responsibilities with reports to each Committee meeting. The Executive Risk Committee considers emerging risks at each meeting on an operational level and the Board performs horizon scanning of emerging strategic risks at least annually.
To continue to ensure that the finance function is evolving to meet the needs of the business as operational changes are implemented.	We have continued to monitor the strength of the finance team and proposals related to organisational changes which may affect the control environment in the business. We have challenged management to ensure performance of the finance team remained as expected and performed deep dives where appropriate to support the control framework.

The Committee intends, over the next year, to build on the progress made during 2021. Our main areas of focus during 2022 will be:

- To continue our focus on the business processes and assurance framework including mapping of risks and controls to key business processes and increased focus on the level of internal assurance provided and commissioned from third parties;
- To consider the impact of the BEIS consultation once the final report is issued; and
- To develop the Company's approach to assurance over ESG disclosures.

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 key judgements 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.

Amanda Aldridge
Chair of the Audit Committee
9 March 2022

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:

Audit Committee Activities

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 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 Committee Report to be published in the annual report and accounts; and
- Reviewed the Auditor's findings and recommendations, 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; and
- 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;
- Considered the timetable for delivery of the Annual Report and Accounts;
- Reviewed reports on audit findings;
- Assessed and confirmed the independence of the Auditor;
- Reviewed the policy for provision of non-audit services; and
- Assessed the effectiveness of the external audit.

Governance

- Progressed actions arising from the 2020 externally facilitated effectiveness review;
- Participated in the 2021 externally facilitated evaluation of its performance;
- Received updates on corporate governance requirements relevant to its responsibilities;
- Reviewed the Committee's Terms of Reference and annual workplan;
- Approved the Whistleblowing, Fraud and Anti-Money Laundering and the prevention of Bribery Policies; and
- Considered the Company's approach to the avoidance of modern slavery and human trafficking.

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, including the adequacy of sources of assurance;
- Reviewed the effectiveness of the risk management framework and considered the systems and processes for identifying, managing and mitigating risks;
- Approved terms of reference for the Executive Risk Committee, updating to include responsibility for monitoring the Principal Risks and ESG issues;
- Reviewed risk register and minutes from the Executive Risk Committee and challenged management on its activities; and
- Reviewed reporting disclosures in relation to internal controls, risk management, principal risks and uncertainties and the work of the Committee.

Main role and key responsibilities

The Committee is the body responsible for carrying out the audit functions required by DTR 7.1.3R. It is given its authority by the Board and acts in accordance with its written terms of reference which are available in full on the Company's website. 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 and assurance process.

An important part of our role is to monitor the integrity of the Group's financial reporting and management. In performing this role, the Committee scrutinises the full and half yearly financial statements and reviews in detail the work of 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.

Membership and attendance at meetings held in 2021

The Committee is chaired by Amanda Aldridge and all members are independent Non-Executive Directors as required by the Code. The Committee holds meetings which are timed to link to events in the Company's financial calendar and meets at a minimum three times a year, including before the final and interim results announcements and their subsequent publication.

Members	Meetings attended	Eligible to attend
Amanda Aldridge	4	4
Stephen Bird[1]	1	1
Simon King[1]	3	3
Keith Edelman	4	4
Former Members		
Alison Littley[1]	1	1

1 Stephen Bird and Simon King joined the Board on 13 September 2021 and 14 May 2021 respectively. Alison Littley stepped down from the Board on 31 March 2021.

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 58 and 59).

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

In addition to attending the Committee meetings, the Committee members met with operational and finance team members, and other members of senior management appropriate to its role, during the year. In some instances invited finance team members to the Committee meetings to discuss items within their remit.

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 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
Supplier arrangements The Group has a significant number of rebate agreements with suppliers. These agreements can contain multiple terms or tiered arrangements based on the volume of goods purchased and significant amounts had not been received at the year-end.	Management explained to the Committee the process of calculating the amounts expected to be received and confirming these balances with suppliers and discussed the assumptions made in the calculations. The Committee challenged the assumptions used by management and reviewed the level of cash receipts and credit notes received after the year-end. The work of the Auditor in relation to supplier rebates was discussed by the Committee. Based on this, the Committee was satisfied that the amounts recognised have been appropriately scrutinised and that the assumptions upon which the calculation was based are sufficiently robust.
Non-underlying items The Group accounting policy for non-underlying items states that performance measures will be presented which exclude items which by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. Management must exercise judgement in deciding whether items should be treated as non-underlying by reference to this policy	The Committee considered the presentation of non-underlying items in accordance with the Group accounting policy. The Committee received reports from management and the Auditor, outlining the judgements applied including consideration of materiality. The items treated as non-underlying are in respect of the impairment of goodwill and intangibles, amortisation of acquired intangible assets, impairment of property, plant and equipment and inventory (following a fire), property disposal profit and business restructuring costs. The Committee also considered whether the Annual Report and Accounts was fair balanced and understandable and challenged management's reconciliation of adjusted profit measures back to IFRS. The Committee concluded that the disclosure of non-underlying items was sufficient and appropriate for the user of the accounts to understand the nature of the items and reason for their treatment as non-underlying.
Carrying value of assets The Group had £7.6 million of goodwill allocated on its balance sheet at 31 December 2021, resulting from past acquisitions, along with intangible assets, property, plant and equipment and right-of-use assets. The assessment of the recoverable amount of these assets are estimated based on future cashflows and any impairment has the potential to be material.	Management performed the annual impairment review of goodwill at December 2021, along with impairment reviews for other groups of assets at both June 2021 and December 2021 where indicators of impairment were identified. Management concluded that the only impairment necessary at June 2021 was the full write down of the remaining £1.2 million of goodwill allocated to the CECO business and at December 2021 the full write down of the remaining £0.9 million of intangible assets at CECO. The key assumptions used in an impairment review are the level of revenue growth, gross margin and the discount rate. The Committee considered the impairment reviews carried out by management and discussed the basis of the key assumptions and the sensitivities performed. The Committee also considered the Auditor's findings and discussed this matter with the Auditors. Based on this the Committee was satisfied that the approach taken by management was robust and that the assumptions made were reasonable.

Significant issues and areas of estimate and judgement	How they were addressed
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.	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 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.
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 Committee how they arrived at the key assumptions and discussed the sensitivity analysis they had undertaken. The Committee considered the views and procedures of the Auditor, which entailed a benchmarking of management's assumptions with the Auditor's expectations. The Committee were satisfied that the assumptions had been appropriately selected.
Disposal of Belcolor Subsidiary On 28 April 2021, the Group entered into a sale agreement to dispose of its Swiss operations, Belcolor AG. On 29 April 2021, as a condition of the sale agreement, Belcolor AG undertook a sale and leaseback of its property. The subsidiary was sold with effect from 17 May 2021 and is reported the financial statements as a discontinued operation. The sale and leaseback was treated as a discrete pre-disposal transaction	The Audit Committee reviewed management's assessment that the subsidiary should be disclosed as a discontinued operation and were satisfied that it met the necessary requirements. The Audit Committee also considered the views of the Auditor in relation to the discontinued operation disclosure, the treatment of the sale and leaseback as a discrete pre-disposal transaction and management's calculation of the profit on sale of building and loss on sale of subsidiary.

Misstatements

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

Risk management and internal control

During the year, the Committee has reviewed the risk management framework and continued its oversight role of the Executive Risk 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 Committee is to monitor, on behalf of the Board, the Group's financial and non-financial risk and internal control management systems and assess their effectiveness. In doing so, the Committee received regular updates from the Executive Risk Committee on key risks and assessed the adequacy of controls and risk classification processes. The Executive Risk Committee provides day to day oversight of the risks facing the business and assesses risks and mitigating controls using a specified scoring system based on likelihood and impact. At each meeting, the Committee reviews and considers assurance provided by the Executive Risk Committee as part of its assessment of the effectiveness of the risk management framework. During 2021, the Executive Risk Committee's remit was expanded to cover principal and ESG related risk, the approach to which will therefore additionally be reviewed and overseen by the Committee in 2022.

An overview of the risk management framework and the principal risks and uncertainties it identifies, is set out on pages 34 to 38. Health and safety risks are managed by the Executive Risk Committee but performance is monitored directly by the Board at each of its scheduled meetings.

Information security and cyber risk

The Company has a clear approach to identifying and mitigating information security risk which is outlined further on page 36. The Committee, with its membership consisting of only Non-Executive Directors, oversees the Company's approach to information security and cyber risk management as part of its review of the risk management and internal control framework and its oversight of the work of the Executive Risk Committee. The Committee is briefed by senior management at each meeting (at least four times a year) on updated risks and controls related to information security and cyber risk, including regular reporting from the Executive Risk Committee. Information security and cyber risks are mitigated through processes and procedures employed by the Group, monthly training provided to all colleagues with email access and annual cyber awareness training; in addition to the independent assurance and annual penetration testing.

Risk management and internal control effectiveness review

In supporting the Board in its assessment of the effectiveness of risk management and internal control process, the Committee relies on a number of different sources including: reports provided by management and the Executive Risk Committee; and the assurance provided by third parties in specific risk areas. The Committee also receives reports from the Auditor on matters identified during the course of its statutory audit work. The Committee takes into account the resources within the finance team including the structure of the team, and the qualifications, experience and competence of the people within it, in forming its view.

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

(i) The overall risk management framework, minutes of the Executive Risk Committee and quarterly risk and control registers against risk appetite scores;
(ii) Management's response to control recommendations raised by the Auditor;
(iii) The ongoing 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 letters from the businesses; and
(vi) 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. Such a framework can only provide reasonable and not absolute assurance against material misstatement or loss. The control framework is evolving in line with the strategic objectives and continuing this evolution has been a key element of the Committee's focus in 2021.

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

Internal audit

The Committee undertook an assessment of the need for a Group internal audit function during the year. In the absence of a formal internal audit function, assurance 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 policies. The Committee has also considered management's plans for internal and external assurance activity for 2022.

The Committee challenged management on the sufficiency of this assurance framework with the operational change being undertaken throughout the business. Following consideration of the assurance available and planned, the Committee considers that the control systems and associated procedures were adequate for the business during the year under review. However, it was agreed with management that assurance activity should increase during 2022 and it is proposed to introduce a formal internal audit function during the year. Management will be looking to hire a Head of Internal Audit to set up this function. The Audit Committee will approve the remit of this role.

External Auditor

Non-audit services

The 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 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 ('Non-Audit Policy'). Under the Non-Audit Policy and in line with the EU Audit Directive, non-audit fees paid to the Auditor should not exceed 70% of the average audit fee for the preceding three periods. During the year under review, no non-audit services were provided by the Auditor and therefore no fees were paid to the Auditor for non-audit services.

Under the Non-Audit Policy, all non-audit services must be approved by the Committee. The Auditor is not permitted to provide any services other than those specifically detailed in the policy and 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 and the Non-Audit Policy can be viewed in the Environmental, Social and Governance section of the Company's website.

Independence and objectivity

Each year the 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. Gill Hinks took over as lead audit partner for Headlam Group plc following the conclusion of the 2019 audit. She will serve as lead audit partner for a maximum of five years, in accordance with current professional standards.

The Auditor has processes in place to ensure that independence is maintained and has written to the Committee confirming that, in their opinion, they remain independent within the meaning of the relevant regulations on this matter and their own professional standards and that no conflict of interest exists that would affect their professional judgement. The Committee additionally considered the conduct of the Auditor and the level of independence and challenge displayed during the course of the year-end audit. Taking into account the Auditor's confirmation, its own deliberations and feedback from management, the Committee agreed that the Auditor remained independent from management and able to display an independent view of the position of the business.

Effectiveness of External Audit

Following the 2020 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 in the form of a specifically designed questionnaire. In forming its conclusion on the effectiveness of the external audit the Committee considered:

- The feedback received on the effectiveness of the external audit;
- The External Auditor's fulfillment of the agreed audit plan;
- An assessment of the responsiveness of the Auditor during the audit process;
- Reports highlighting areas of key issues and accounting judgements; and
- The external auditor's objectivity and independence in carrying out the audit.

The results showed a favourable view of the audit process and of PwC as the Auditor, of particular note was the strength of audit governance, independence and objectivity demonstrated by the Auditor and the technical knowledge of the audit team.

The scope of the external audit for the year-ended 31 December 2021 was presented by the Auditor to the Committee in October 2021. 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 certain locations where there has been a change in financial controller during the year in the course of their audit. Additionally, the Committee agreed that certain audit activities could be undertaken prior to the financial year end in order to better assure the quality of the work conducted and improve the overall quality of the year end audit.

A full questionnaire-based evaluation of the performance of the Auditor during the 2021 Audit will take place following the audit's conclusion but the Committee discussed the Auditor's performance verbally at its March 2021 meeting. The Auditor specifically demonstrated professional scepticism and challenged management assumptions in a number of areas including trade receivables and the impact of climate-related risk on asset values.

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

Consideration of Auditor appointment

During the year, the 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 all appropriate independence criteria continue to be met.

The Committee therefore concluded that it was in the best interest of Company shareholders to reappoint PwC as the Company's external Auditor and that a re-tender was not necessary. 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's Interim Results for the period ended 30 June 2021 was subject to review by the FRC's Corporate Reporting Review team. The Company received correspondence requesting further clarification of the presentation of the cash flow statement relating to the disposal of Belcolor. The Company responded to the FRC's enquiries providing the additional information and has made certain disclosure enhancements as part of this 2021 Annual Report and Accounts (see page 188) in line with its commitment to transparent reporting. The FRC has now closed its enquiry.

The FRC's review provides no assurance that the interim financial report is correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

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

Fair, balanced and understandable

The Committee undertook a detailed review of the drafting and preparation process of the Annual Report and Accounts to support its deliberations on whether the 2021 Annual Report and Accounts were fair, balanced and understandable. The drafting and preparation process involved various teams and individuals within the Group including Executive Director, Finance Team, Director of IR and ESG, senior managers of the businesses and Company Secretary working together with support and advice from the Company's advisers. 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 2022, the Committee deliberated on whether the 2021 Annual Report and Accounts were fair, balanced and understandable. Following detailed consideration of all sections, the Committee concluded that the 2021 Annual Report and Accounts contained an accurate reflection of the Company's performance and business model, correctly reflected its strategy, purpose and culture and included consistent messaging throughout. It therefore, recommended to the Board that the 2021 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 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. Two severe, plausible scenarios were considered: (A) a sustained recessionary environment and (B) an economic crisis, similar to the overall impact of COVID-19 in 2020 and 2021, 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, not plausible and more severe scenario was also considered, where the Company experiences a reduction in revenue in 2022, with year-on year decline of 23% (reverse stress test). 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 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 Committee agreed that the long-term viability assessment should continue to be performed over a three-year timespan because it is consistent with prior years and the Company's three-year rolling strategy plan. This conclusion was communicated and recommended to the Board for approval.

The viability statement is shown on page 39.

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 Committee should they feel they are unable to raise their concern with management. During the year, the Committee and the Board reviewed the Whistleblowing Policy and requested that the Company engage an independent external organisation to provide a whistleblowing helpline and online system to support the business in ensuring that anonymous submissions could be made. In early 2022, an external partner was appointed and work is ongoing to develop the online facility and incorporate the new services into the whistleblowing policy and helpline procedures. Once fully implemented, stakeholders will be able to raise any issues via the externally run hotline in complete confidence and at all times of the day. Once a whistleblow has been logged, the Company has procedures in place to formally investigate them and report the matter to the Board who are kept informed of the result of any investigations.

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 2021, which it subsequently did. Further information on Anti-Corruption and Bribery is available on page 124.

Committee effectiveness review

The effectiveness of the Committee was evaluated this year as part of the externally facilitated Board performance self-evaluation process. Details of this can be found on page 76. The review found that the Committee is operating effectively, with its financial oversight, reporting and management of the external audit process specifically viewed positively. The Committee discussed the findings of the evaluation for areas of development, and agreed to focus on the risk management and control framework and independent assurance over its effective operation during 2022.

Summary

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

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 2022

DIRECTORS' REMUNERATION REPORT

Keith Edelman 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 2021. 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 2021. The Directors' Remuneration Report will be subject to an advisory shareholder vote at the AGM on 19 May 2022.

Remuneration Policy

Following shareholder approval of our current Policy at the 2020 AGM, with 93% of votes cast in favour, some minor changes were made to how we operate our arrangements in 2021, aimed at further aligning the Policy with principles of good governance (as previously outlined in our 2020 Remuneration Report). These included, strengthening malus and clawback provisions, strengthening the in-employment shareholding guidelines, introducing a post-cessation shareholding policy and reducing pension provision. Noting the above and following a review during the year, the Committee concluded that the Policy remains effective and that no further changes are required at this time.

We therefore continue to 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 malus and clawback 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.

Board changes

Steve Wilson stepped down from the Board and the Company on 6 October 2021. Details of his termination arrangements, which were in line with the shareholder approved Remuneration Policy, are set out in the Annual Report on Remuneration. Chris Payne, Chief Financial Officer, was appointed Interim Chief Executive from 7 October 2021 although no changes were made to his remuneration arrangements to reflect the additional interim role. However, following his appointment as Chief Executive, the Committee has considered his remuneration package with effect from appointment. The main elements are as follows: base salary of £425,000 increasing to £475,000 after 1 January 2023, subject to individual and Company performance; workforce aligned pension; annual bonus of 125% of salary, with on-target bonus reduced from 60% to 50% of maximum performance; and PSP of 100% salary.

Workforce remuneration

The Committee reviewed various elements of workforce remuneration during 2021. This review was wide-ranging and covered all aspects of wider workforce remuneration, including: pay practice against national living wage; demographics; pay and reward; pay principles; pension and share scheme provision; gender pay; pay ratios; and engagement mechanisms. Additionally, a number of projects were reviewed prior to implementation by the Executive Team, including amendments to defined contribution pension arrangements and annual bonus provision. When considering workforce remuneration and proposed changes, the Committee took care to ensure that arrangements supported the Company's strategy and served business interest through fairness and continued engagement.

Business performance and incentive out-turn for 2021

2021 was a good year for the Company and we made a great deal of progress on a number of objectives. Financial performance rebounded strongly from 2020, when the first half was materially impacted by the emergence of COVID-19; industry wide issues, including supply issues, were able to be largely mitigated; and significant progress was made in implementing the business change strategy. More information on our achievements in 2021 is set out in the Chairman's Statement on page 12. The Executive Team worked hard to achieve this outcome and this is reflected in their variable pay.

For 2021, 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 (70%) and a number of key strategic objectives (30%) as shown in the table on page 110. As a result of achieving in excess of the maximum performance target in respect of underlying profit before tax and meeting the key strategic objectives (see page 111), a total bonus payment of 100% of the maximum will be awarded to both Chris Payne and Steve Wilson (with Steve's bonus pro-rated to the point he stepped down from the Board). In agreeing to pay maximum annual bonus, the Committee has confirmed that no furlough support was received from the UK Government during 2021. Awards granted under the PSP in 2019 were assessed on the basis of performance over the three-year period to 31 December 2021. 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 nil (0%) vesting, as shown on page 112.

Discretion

The Remuneration Committee is conscious of its role in ensuring that remuneration is appropriate when considering the performance of the business, the individual directors and the wider stakeholder experience. 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 2022

Base salary / fees

The Interim Chief Executive received an increase in base salary of 2% for 2022, in line with the 2022 award for UK employees and, following appointment as the new Chief Executive, Chris Payne's base salary was increased to £425,000. The Chairman and the Non-Executive Directors also received fee increases for 2022 (as set out on page 119).

Pension

Until his appointment as Chief Executive, Chris Payne received an 11% of salary pension contribution in line with 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. Following his appointment he will receive a pension contribution of 8% of salary.

Annual bonus and PSP

The framework for operating our annual bonus and PSP in 2022 will be largely consistent with our approach in 2021.

Maximum bonus potential will remain at 125% of salary. However, on-target will be reduced from 60% to 50% of maximum potential. For FY2022, 70% of the annual bonus will be based on underlying PBT and 30% on key strategic targets. The Remuneration Committee have approved key strategic targets that support business growth and ESG objectives that are both measurable and stretching. 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 their level of achievement. In line with the Remuneration Policy, a third of any bonus award will continue to be deferred into shares under the Deferred Bonus Plan.

Reflecting the reduction to on-target bonus and the Committee's desire to rebalance packages more towards the longer term, PSP awards are expected to be granted over shares equal in value to 100% salary and vesting will be based 80% on underlying EPS growth and 20% on relative TSR.

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.

UK Corporate Governance Code

In implementing our Policy during the course of 2021, a summary of how the Committee has sought to comply with the six factors outlined in Provision 40 of the Code is as follows:

- **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). Director remuneration is clearly set out in the Company's Annual Remuneration Report together with associated targets for variable remuneration (unless they are deemed to be commercially sensitive).
- **Simplicity –** The Company operates a straightforward remuneration framework that is a UK market standard approach which should be familiar to most stakeholders. It is important to the Committee that its approach is simple and avoids complex arrangement to assist with its communication and operation. The same simple and transparent overarching structure has been operated for many years. Performance targets are readily understandable and clearly articulated as part of the year end results.
- **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 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 Company and individual performance. Minimum on-target and maximum outcomes for Directors are presented annually.
- **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 our 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. The targets that are selected help align the interests of the workforce with those of the Company's purpose and strategy. We are keen to foster a culture of share ownership throughout the Company and as such operate an HMRC approved sharesave scheme, which is a UK all-employee share scheme arrangement.

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 2020 AGM and wrote again in January 2022 offering a meeting to discuss our remuneration approach. A regular investor relations programme is in place during which major shareholders are able to raise any item for discussion with Company representatives. We additionally consult with representative bodies of shareholders both prior to the AGM and when requested.

The Company will continue to engage with major shareholders and representative bodies on Directors' remuneration when appropriate. 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 advisory Remuneration Report resolution at the 2021 AGM with over 95% of votes cast in favour. We hope we will again receive your support at the forthcoming AGM.

Conclusion

We remain committed to a responsible, fair and transparent approach to executive pay which takes into account the remuneration arrangements for the wider workforce and the cultural priorities of the Company.

I trust this Directors' Remuneration Report demonstrates these values and I am always available to meet shareholders if there are any questions or feedback on our approach to executive remuneration.

Keith Edelman
Chair of the Remuneration Committee
9 March 2022

Remuneration Overview – FY 2022

Executive Remuneration for the year ended 31 December 2022

Fixed remuneration **(c. 33% of total reward assuming maximum performance)** **Salary + Pension + Benefits**		
Annual Incentive		**Long-Term Incentive**
Annual Bonus (Maximum 125% of Salary)	1/3 Annual Bonus payments deferred into shares under the Deferred Bonus Plan	Performance Share Plan (Maximum 100% Salary)
Link to Strategy		
Performance measures support the Group's strategy to: • increase profitability for shareholders; and • deliver key strategic priorities.		Performance measures support the Group's strategy to deliver: • higher returns to shareholders; and • increased earnings.
FY 2022 performance metrics		
Underlying Profit Before Tax – 70% (to support profitability of the business)		Underlying Earnings Per Share (EPS) – 80% (to support the growth of earnings)
Key strategic objectives linked to strategy – 30% (to support business growth and ESG objectives)		Total Shareholder Return (TSR) – 20% (to align the interests of Directors with those of shareholders)

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.

The full shareholder approved Policy can be found in the 2019 Annual Report which can be viewed via the Company's website at www.headlam.com. In the interests of clarity, the report below includes some minor annotations to include the changes implemented in 2021 and to additionally show, where appropriate, how the Policy will be implemented in 2022.

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 (executive and wider workforce) are discussed. A non-executive director is always a member of the Employee Forum and as such receives feedback on remuneration matters directly from other Forum members and reflects their views back to the Committee. The 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. In January 2021 the Interim Chair of the Remuneration Committee contacted the largest 15 shareholders and proxy reporting agencies offering to discuss the Committee's approach to Remuneration. The Committee will additionally 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.

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.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits	To provide broadly market competitive benefits as part of the total remuneration package.	Executive Directors receive benefits in line with market practice, and these include life assurance, private medical insurance, company car or car allowance and, where relevant, relocation expenses. Executive Directors are also provided with the opportunity to join any HMRC approved all-employee share plan arrangements on the same basis as other employees. Executive Directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and other benefits might be provided from time to time based on individual circumstances and if the Committee decides payment of such benefits is appropriate. Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit).	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level that the Committee considers appropriate against the market and provides a sufficient level of benefits based on individual circumstances.	Not applicable.
Retirement benefits	To provide employees with long-term savings to allow for retirement planning.	The Group may offer participation in a defined contribution pension plan or may permit Executive Directors to take a cash supplement in lieu of pension up to the same value.	For newly appointed Executive Directors, maximum defined contribution or cash allowance in lieu of pension is limited to the contribution level available to the majority of the workforce (in percentage of salary terms) prevailing at the time of hire or promotion. Incumbent Executive Directors may receive a defined contribution or cash allowance of up to 11% of base salary (reduced from 15% of salary from the 2021 AGM).	Not applicable.

Policy table for Executive Directors continued

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	Rewards performance against targets which support the strategic direction of the Group. Bonus deferral provides a retention element through share ownership and direct alignment with shareholders' interests.	Awards are based on performance typically measured over one year. Pay-out levels are determined by the Committee after the year end based on performance against pre-set targets. Executive Directors will defer at least one-third of any bonus award into shares, typically for a two-year period. The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred would, in the opinion of the Committee, be so small as to make deferral administratively burdensome. Deferred shares will typically take the form of nil-cost share options but may be structured as an alternative form of share award. Deferred bonus awards may be granted on the basis that the participant shall be entitled to an additional benefit (in cash or shares) in respect of dividends paid over the deferral period, calculated on such basis as the Committee shall determine. The vesting of the deferred shares is not subject to the satisfaction of any additional performance conditions. The Committee has the right to apply malus and/or clawback (in respect of both the cash and deferred elements of bonuses) in the event of certain defined circumstances. The annual bonus plan includes provisions which enable the Committee (in respect of both the cash and the deferred elements of bonuses) to recover or withhold value in the event of certain defined circumstances.	Maximum annual bonus opportunity is 125% of base salary.	Targets are set annually with measures linked to the Group's strategy and aligned with key financial, strategic and/or individual targets. The majority, if not all, of the annual bonus will be assessed against key financial performance metrics of the business and any balance will be based on non-financial strategic/personal objectives. A graduated scale of targets is set for each measure, with up to 10% of each element payable for achieving the relevant threshold performance level and 100% of maximum potential for achieving stretch performance. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan ('PSP')	To incentivise Executive Directors, and to deliver genuine long-term performance-related pay, with a clear line of sight for Executives and direct alignment with shareholders' interests.	Awards will be in the form of nil-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the Committee, with performance normally measured over at least a three-year performance period. Awards will usually be subject to a two-year holding period following the end of the performance period, and shares will typically not be released to participants until the end of any such holding period. Awards under the PSP may be granted on the basis that the participant shall be entitled to an additional benefit (in cash or shares) in respect of dividends paid over the holding period. This amount shall be calculated on such basis as the Committee determines. The PSP includes provisions which enable the Committee to recover or withhold value in the event of certain defined circumstances.	The normal maximum PSP award is 100% of salary in respect of a financial year. The normal maximum award limit will only be exceeded in exceptional circumstances such as on the recruitment of an Executive Director and is subject to an overall limit of 200% of salary in respect of a financial year.	PSP awards 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 incentivise 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 2022 will be based on underlying basic Earnings Per Share ('EPS') and relative Total Shareholder Return ('TSR'). EPS is currently a critical KPI for the Group, supporting a focus on profitability and growth. TSR is aligned with the Group's focus on creating value for our shareholders. However, the policy provides for Committee discretion to alter the PSP measures and weightings to ensure they can continue to facilitate an appropriate measurement of performance over the life of the policy, taking account of any evolution in the Group's strategic ambitions.

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

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

Discretion retained by the Committee in operation of the incentive plans

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

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

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

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

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

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

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.

Recruitment remuneration continued

- The maximum level of variable remuneration which may be granted (excluding 'buyout 'awards as referred to below) is 325% of salary. The Committee may make additional payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited. Any such payments or awards are limited to the expected value of the forfeited awards. Where considered appropriate, such buyout awards will be liable to forfeiture or 'malus 'and/or 'clawback' on early departure.
- Any share awards referred to in this section, including any buyout awards, will be granted as far as possible under the Group's existing share plans. If necessary, and subject to the limits referred to above, awards in relation to a recruitment may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.
- Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.
- Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts and letters of appointment

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

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

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

Payments for loss of office

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

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

	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.

Existing contractual arrangements and historical awards

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

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

External appointments

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

Annual Report on Remuneration

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

Single total figure of remuneration for each Director

The tables below report the total remuneration receivable in respect of qualifying services by each of the Executive Directors for the years 2021 and 2020.

Executive Directors' remuneration as a single figure – 2021 (audited)

Executive Director	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
Chris Payne	364	18	40	455	0	877	422	455
Former Director								
Steve Wilson[4]	378	13	–	473	0	864	391	473
	742	31	40	928	0	1,741	813	928

1 Non-salary benefits include the provision of a company car or car allowance, private medical insurance and other benefits deemed to be an employment benefit such as some fuel costs.
2 Performance conditions for the PSP were tested after 31 December 2021 and 0% of the award will vest in March 2022.
3 The amount of employer contribution to a scheme or paid as cash in lieu of retirement benefits based on a fixed percentage of base salary.
4 Steve Wilson stepped down from the Board on 6 October 2021. Full details of the package agreed for Steve Wilson, including the pro-rating of the share awards, is outlined later in the Report. The amount for the annual bonus above includes time pro-rating.

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

Executive Director	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
Chris Payne	364	20	40	–	3	427	424	3
Steve Wilson	494	17	–	–	3	514	511	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 vested in March 2021. Figures for both Chris Payne and Steve Wilson 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 2021 and 2020.

Non-Executive Directors' remuneration as a single figure – 2021 (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	–
Stephen Bird[1]	14	–	–	–	–	14	14	–
Keith Edelman	61	–	–	–	–	61	61	–
Simon King[1]	28	–	–	–	–	28	28	–
Former Director								
Alison Littley[2]	13	–	–	–	–	13	13	–
	312	–	–	–	–	312	312	–

1. Stephen Bird joined the Board on 13 September 2021 and Simon King joined the Board on 14 May 2021.
2. Alison Littley stepped down from the Board on 31 March 2021.

Non-Executive Directors' remuneration as a single figure – 2020 (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	–
Former Director								
Alison Littley	53	–	–	–	–	53	53	–
	303	–	–	–	–	303	303	–

Annual performance bonus

For 2021, 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 (70% of bonus opportunity) and against the achievement of a number of key strategic objectives (30% of bonus opportunity) as shown in the tables below:

Performance metric	Proportion of bonus determined by metric (%)	Threshold performance	Target performance	Maximum performance	Actual performance	Bonus earned (% max)	Bonus Receivable (£) Chris Payne	Bonus Receivable (£) Steve Wilson
Underlying Profit Before Tax	70%	£26.1m	£29.0m	£34.8m	£35.8m	70%	319	331
Strategic and personal objectives	30%		See table below			30%	136	142
	100%					100%	455	473

1 Pro-rated to 6 October 2021.

Strategic objectives

The non-financial strategic objectives for the Executive Directors were designed to focus on the achievement of certain key elements of Company strategy. Subject to achieving a threshold underlying PBT of £23.8m the following strategic measures were applied for both Chris Payne and Steve Wilson:

Objectives	Reason for inclusion and link to Strategy	Assessment / outcome	Potential bonus weighting (% of bonus opportunity)	Bonus achieved (% of bonus opportunity)
South East Consolidation To deliver the South East consolidation of the business, including transition of various businesses to new locations.	The consolidation of the Company's operations in the South East would lead to meaningful simplification of the network and an associated reduction in headcount and operating costs while continuing to support service levels.	The Board conducted a complete post-implementation review of the project and considered delivery against the timescales set. The Remuneration Committee considered that the project was successfully delivered against the timescales with the consolidation and relocation of all operations being completed by July 2021.	10	10
Sales To implement the sales effectiveness strategy agreed by the Board.	The effectiveness and efficiency of the Group's sales force is key to supporting Group turnover and profit.	The Remuneration Committee considered the process undertaken to design and subsequently implement measures to increase the efficiency and effectiveness of the sales force. Noting the change in emphasis on sales and more targeted approach in addition to the reduction in headcount that has been enabled, the Committee agreed that this strategic objective has been fulfilled.	10	10
Management Bonus Framework To deliver and communicate a new scorecard-based management bonus framework for senior management in the business ready for implementation for 2022.	To implement an objective-led bonus scheme which would be common across the business in order to support Group performance and initiatives.	The Remuneration Committee assessed the scheme design, communication and impact on motivation and engagement of staff towards key business goals. In assessing all of this the Committee agreed that the target had been met in full.	10	10

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

Share-based payments vesting in the financial year

Awards granted under the PSP in 2019 were assessed on the basis of performance over the three-year period to 31 December 2021. The awards were subject to two performance conditions, based on underlying 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	-9% p.a.	Below median
Vesting (% of each element)	0%	0%
Proportion of total award vesting	0%	0%

Director	Shares granted	Shares vesting	Value of shares vesting
Chris Payne	63,707	0	£0
Former Director			
Steve Wilson[1]	86,459	0	£0

1 Stepped down from the Board on (6 October 2021), shares vesting are shown after the operation of performance conditions and time pro-rating.

PSP awards granted during the financial period (audited)

PSP awards were granted to Executive Directors in 2021 as follows:

Director	Number of nil-cost options over which award granted	Value of Award £000	% of salary	% of award vesting at threshold	Date of grant	Performance period
Chris Payne	64,137	291	80	25	9 April 2021	3 years
Former Director						
Steve Wilson	87,043	395	80	25	9 April 2021	3 years
	151,180	686				

The share price used to determine the number of shares under the PSP was 454.2 pence, being the average mid-market closing share price for the five business days prior to the date of award.

The Awards are subject to an underlying Earnings Per Share ('EPS') performance condition (80% of the award) and a relative Total Shareholder Return ('TSR') performance condition (20% of the award). The performance targets are shown in the table below:

Performance Target	% vesting	Underlying EPS (p) (80% of award)	Comparative TSR (20% of award)
Below Threshold	0	Less than 32.1	Below median
Threshold	25	32.1	Median
Maximum	100	34.7	Upper quartile

The TSR comparator group is based on the constituents of the FTSE SmallCap Index (excluding investment trusts).

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.

Dilution

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

As at the date of this report, the Company's usage of shares against the limits detailed above in respect of the all-employee schemes was 3.65% of the issued share capital (excluding treasury shares) and in respect of grants under discretionary plans was 0% of the issued share capital (excluding treasury shares). It is the Remuneration Committee's intention that options exercised under the Sharesave scheme will continue to be satisfied by shares held in treasury.

Further information on share-based payments is set out in note 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)

Steve Wilson stepped down from the Board on 6 October 2021. Steve was paid salary contractually due and received contractual benefits up to and including 6 October 2021. He was also entitled to accrued holiday pay, less deductions and to reimbursement of outstanding expenses, subject to the Company's normal expenses policy. Steve will be paid £508,600 in lieu of basic salary and benefits for his twelve-month notice period in twelve equal monthly instalments which will be subject to mitigation (and subject to deductions in respect of income tax and employee National Insurance contributions and any sums owed to the Company or its group or which the Company is required by law to make).

The Company will continue to provide Steve with private medical expenses insurance at the same level of cover enjoyed at the time of his departure for 12 months or until obtained from another employer. For the period from 7 October 2021 to 31 December 2021, Steve received payments in relation to salary and benefits of £85,387. The Company also made a contribution of £3,000 plus VAT in respect of Steve's legal fees incurred in relation to his leaving arrangements.

Steve remained eligible to receive an annual bonus for the 2021 financial year which was payable at the normal payment date and subject to performance testing. Steve will receive a time pro-rated award of £472,807 one-third of which will be deferred in shares for a period of two years in line with the normal share deferral policy. He will not be eligible for an annual bonus in respect of the 2022 financial year or subsequent years.

Steve has been permitted to retain his vested 2016 Co-Investment Plan awards and his 2018 Deferred Bonus Plan awards which can both be exercised until 5 April 2022. Additionally, Steve has retained his:

- 2017 Performance Share Plan award which has vested but remains in its holding period until March 2022. Once it is released it will be exerciseable until September 2022;
- 2019, 2020 and 2021 Performance Share Plan awards which will vest on the normal vesting dates, subject to performance conditions and time pro-rating. Dividend equivalents will accrue to the extent shares vest and shares will remain subject to the full two-year holding period on vesting; and
- 2020 Deferred Bonus Plan awards which will vest at the normal vesting date and will continue to attract dividend equivalents.

The table below shows the application of time pro-rating and holding periods on Steve Wilson's share awards:

Award	Number of shares subject to Award	Maximum number of shares which could vest after the application of time pro-rating	Vesting date	Holding period
2019 PSP	86,459	79,674[1]	Mar 2022	Mar 2022 – Mar 2024
2020 PSP	140,694	50,238	Sept 2023	Sep 2023 – Sep 2025
2021 PSP	87,043	22,178	Apr 2024	Apr 2024 – Apr 2026

1 As outlined on page 112 following the application of performance conditions these shares will not vest.

Tony Judge (former Chief Operating Officer who stepped down from the Board on 14 September 2018) exercised a nil cost option over 2,656 shares under the Performance Share Plan on 28 April 2021. The share price on date of exercise was £4.63 leading to a pre-tax benefit of £12,297.28.

There have been no further payments to past directors to be reported for the year under review except as outlined elsewhere in this report.

Executive Directors' share awards outstanding

Chris Payne

Scheme	Number of shares / options as at 31 December 2020	Shares / options granted	Shares / options lapsed	Shares / options exercised	Number of shares/ options at 31 December 2021	Date of grant	Share price at grant (pence)	Exercise price (pence)	Market price on exercise date (pence)	Vesting date	Expiry date
PSP	–	64,137	–	–	64,137	9 April 2021	454	Nil	–	April 2024	April 2031
PSP	103,669	–	–	–	103,669	11 Sept 2020	281	Nil	–	Sept 2023[1]	Sept 2030
DBP	24,076	–	–	–	24,076	11 Sept 2020	281	Nil	–	Sept 2022	Sept 2030
PSP	63,707	–	–	–	63,707	10 April 2019	448	Nil	–	Mar 2022[1]	April 2029
PSP	63,506	–	63,506	–	0	9 April 2018	441	Nil	–	Mar 2021[1]	April 2028
PSP[2]	2,770	–	–	–	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

1 Award vests on date shown but is subject to a further two-year holding period during which the option may not be exercised. Following the application of performance conditions, the PSP granted in April 2019 will not vest.
2 Award vested but subject to holding period.

Steve Wilson

Scheme	Number of shares / options as at 31 December 2020	Shares / options granted	Shares / options lapsed	Shares / options exercised	Number of shares/ options at 31 December 2021[1]	Date of grant	Share price at grant (pence)	Exercise price (pence)	Market price on exercise date (pence)	Vesting date	Expiry date
PSP	–	87,043	–	–	87,043	9 April 2021	454	Nil	–	April 2024[2]	April 2031
PSP	140,694	–	–	–	140,694	11 Sept 2020	281	Nil	–	Sept 2023[2]	Sept 2030
DBP	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[2]	April 2029
PSP	86,187	–	86,187	–	0	9 April 2018	441	Nil	–	Mar 2021[2]	April 2028
DBP[3]	32,885	–	–	–	32,885	9 April 2018	441	Nil	–	Mar 2020	April 2028
PSP[4]	4,049	–	–	–	4,049	5 July 2017	536	Nil	–	Mar 2020[2]	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

1 Awards and expiry dates are shown to the date of leaving the Board (6 October 2021).
2 Award vests on date shown but is subject to a further two-year holding period during which the option may not be exercised. Following the application of performance conditions, the PSP granted in April 2019 will not vest.
3 Vested awards.
4 Award vested but subject to holding period.

Shareholding guidelines

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

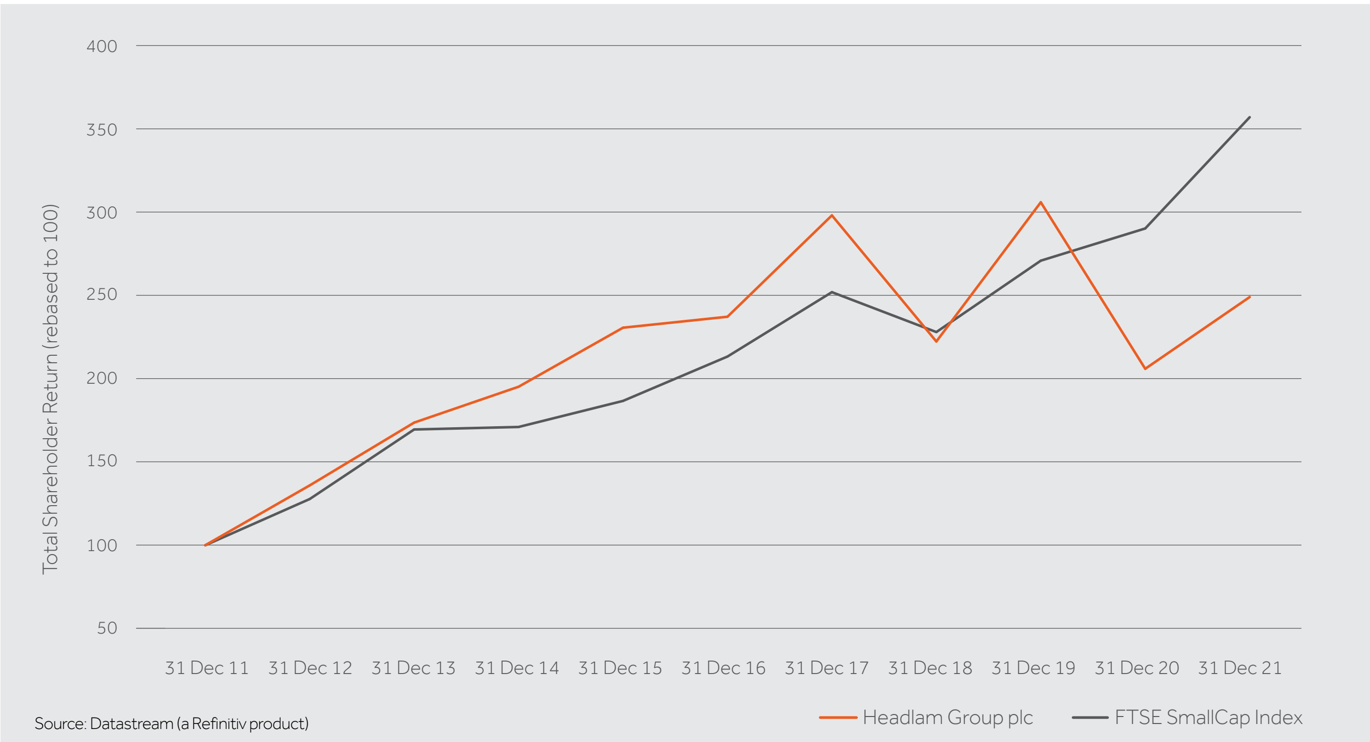
The interests of Directors and their connected persons in the Company's ordinary shares as at 31 December 2021 were as set out below. There have been no changes to those interests between 31 December 2021 and the date of signing of these financial statements and reports.

		Interests in Share Schemes					
Directors	Owned Shares at 31 December 2021	PSP	Deferred Bonus	CIP	SAYE	Shares under Shareholding Guidelines[1]	Shareholding Guidelines achieved (%)
Chris Payne	Nil	234,283	24,076	Nil	7,929	14,228	8
Amanda Aldridge	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Stephen Bird	5,000	N/A	N/A	N/A	N/A	N/A	N/A
Keith Edelman	7,059	N/A	N/A	N/A	N/A	N/A	N/A
Simon King	15,272	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
Former Directors							
Steve Wilson[2]	665,146	318,245	65,560	21,860	7,929	713,625	309
Alison Littley[2]	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.
2. Interests shown to the date of stepping down from the Board.

TSR graph

The graph below shows the value at 31 December 2021 of £100 invested in the Company on 1 January 2012 compared to the value of £100 invested in the FTSE SmallCap Index, making the assumption that dividends are reinvested to purchase additional equity.



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

Chief Executive remuneration table

The table below sets out the remuneration of the Chief Executive for the latest ten financial year periods.

Period		Chief Executive single figure of total remuneration (£000)	Annual bonus (% of maximum opportunity)	Long-term incentive vesting rates against maximum opportunity (%)
2021	Chris Payne	205[1]	100	0.0
	Steve Wilson	864[2]	100	0.0
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[3]	76.8	98.6
	Tony Brewer	737[4]	n/a	88.9
2015	Tony Brewer	1,175	87.1	n/a
2014	Tony Brewer	1,134	81.4	n/a
2013	Tony Brewer	927	42.7	n/a
2012	Tony Brewer	1,347	65.5	n/a

1. The remuneration shown is on a pro-rated basis for the period Chris Payne was Interim Chief Executive from 7 October 2021 to 31 December 2021 only.
2. Steve Wilson stepped down as Chief Executive and a Director on 6 October 2021. The 2021 figures reflect his remuneration earned from the start of 2021 until the date of his resignation as a Director. This remuneration is for a part year and does not include a termination payment.
3. The remuneration shown is for the full year and incorporates his remuneration as Group Finance Director from 1 January 2016 until 14 September 2016 when he became Chief Executive.
4. Tony Brewer stepped down as Chief Executive and a Director on 14 September 2016. The 2016 figures reflect his remuneration earned from the start of 2016 until the date of his resignation as a Director. This remuneration is for a part year and does not include a termination payment.

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 2021. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	2021			2020		
Director	**Salary and fees (% change)**	**All taxable benefits (% change)**	**Annual bonuses[2] (% change)**	**Salary / fees (% change)**	**All taxable benefits (% change)**	**Annual bonus (% change)**
Executive Director						
Chris Payne	0	-10	100	2	0	-100
Non-Executive Directors						
Philip Lawrence	0	N/A	N/A	0	N/A	N/A
Amanda Aldridge	0	N/A	N/A	0	N/A	N/A
Stephen Bird[3]	N/A	N/A	N/A	N/A	N/A	N/A
Keith Edelman	0	N/A	N/A	0	N/A	N/A
Simon King[3]	N/A	N/A	N/A	N/A	N/A	N/A
Former Directors						
Steve Wilson[4]	-23	-24	100	2	2	-100
Alison Littley[4]	-75	N/A	N/A	8	N/A	N/A
All employees[1]	0	5	100	2	-14	-100

1 Reflects the average percentage change in salary, benefits and bonus for employees of the parent company (excluding the Board).
2 This reflects annual bonus paid for performance during 2021, with payments made in March 2022, as per the single figure table.
3 Stephen Bird and Simon King joined the board on 13 September 2021 and 14 May 2021 respectively.
4 Alison Littley and Steve Wilson left the Board on 31 March 2021 and 6 October 2021 respectively and their pro-rated salary is reflected in the percentage change shown.

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.

	2021 £000	2020 £000	% change
Dividends[1]	6,588	6,341	3.9
Pay	101,426	84,754	19.7

1 Includes dividends paid during the financial year.

CEO pay ratio

The data shows how the Chief Executive's single figure remuneration for 2021 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for the year ended 31 December 2021 for full-time equivalent UK employees, on a Group basis, ranked at the 25th, 50th and 75th percentile. The remuneration for comparison reflects the total remuneration included in the single total figure of remuneration table paid to Steve Wilson and Chris Payne in relation to the period that each were undertaking the role of Chief Executive. Pension payments have been omitted from the CEO pay ratio calculation for the period that Steve Wilson was Chief Executive to maintain consistency as he did not receive a pension payment. Pension payments have however been included for the period in which Chris Payne was Chief Executive to align with the Interim Chief Executive's pay package.

	Method	25th percentile ratio	Median (50th percentile) ratio	75th percentile ratio
2021	Option A	51.1:1	38.9:1	26.5:1
2020	Option A	25.8:1	20.7:1	14.4:1
2019	Option A	39.3:1	31.8:1	22.7:1

Option A was selected given that this method of calculation was considered to be the most efficient and robust approach in respect of gathering the required data and was consistent with reporting for previous years.

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

Year	Percentile	Salary (£)	Total pay and benefits (£)
2021	25th percentile	20,821	20,921
	Median	27,454	27,512
	75th percentile	34,420	40,420

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 2024
Amanda Aldridge	1 February 2018	31 January 2024
Stephen Bird	13 September 2021	12 September 2024
Keith Edelman	1 October 2018	30 September 2024
Simon King	14 May 2021	13 May 2024

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 2022

Details of how the Company will operate the Remuneration Policy in 2022 are provided below.

Base salaries for 2022

Following his appointment as Chief Executive, Chris Payne's salary increased to £425,000. Subject to individual and Company performance, the salary will increase to £475,000 from 1 January 2023.

Pension

Chris Payne's pension reduced from 11% to 8% salary from his appointment as Chief Executive.

Annual bonus

The maximum annual bonus opportunity for 2022 will remain at 125% of base salary. However, on-target remuneration will be reduced from 60% to 50% of maximum potential. The payment of the annual bonus will be based 70% on underlying profit before tax ('PBT') performance and 30% linked to the achievement of a number of key strategic objectives. The strategic targets relate to various measurable objectives that underpin Company growth and ESG. Full disclosure of the targets will be provided in the 2022 Annual Report and Accounts. In line with our Remuneration Policy, one-third of any amount earned will be deferred into shares for two years.

PSP

In considering the performance targets for the 2022 PSP Awards the Committee has considered the need to set stretching and challenging targets which are aligned to the short- and long-term performance of the Group. The Committee will once again set targets based on underlying EPS Growth and relative TSR. Reflecting the reduction to on-target bonus and the Committee's desire to rebalance packages more towards the longer-term, awards in respect of 2022 will be granted in the form of nil cost options over ordinary shares in the Company at the level of 100% of salary:

The performance targets are set out in the table below:

Vesting (% of maximum)	Underlying EPS growth (80% of award)	TSR relative to the constituents of the FTSE SmallCap Index excluding investment trusts (20% of award)
0%	Less than 6% p.a.	Below median
25%	6% p.a.	Median
100%	10% p.a.	Upper quartile

Straight-line vesting between points.

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

Malus and clawback

In respect of the 2022 annual bonus (and for each year thereafter) in addition to share awards granted on or after December 2020 the following provisions apply:

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

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

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

Non-Executive Directors' fees for 2022

The Non-Executive Directors received no fee increase for 2021 and have received no increase in their base fee since 1 January 2018. A benchmarking review was undertaken during the year to understand fee levels in companies of similar size and complexity and the results compared with the company's pay principles. An increase to the base fee was approved in light of the increased complexity and time commitments required by the role and the external environment. The following fees are to be applied for the financial year ended 31 December 2022.

Role	Fees effective 1 Jan 2022 £000	Fees effective 1 Jan 2021 £000
Chairman fee	150.0	143.5
Non-Executive Director base fee	50.0	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 26 October 2021. The terms of reference are reviewed periodically and are available on the Company's website within the Governance section at www.headlam.com. The Remuneration Committee comprises the Chairman and each of the other Non-Executive Directors. Attendance at scheduled meetings of the Committee during the year was as follows:

Members	Meetings attended	Eligible to attend
Keith Edelman	4	4
Stephen Bird[1]	3	3
Simon King[1]	3	3
Philip Lawrence	4	4
Amanda Aldridge	4	4
Former Member		
Alison Littley[2]	1	1

1 Stephen Bird joined the Committee on 13 September 2021 and Simon King joined the Committee on 14 May 2021.
2 Alison Littley stepped down on 31 March 2021 and attended all meetings she was entitled to attend.

Members additionally correspond on urgent matters between formal Committee meetings. Other Directors may attend Remuneration Committee meetings by invitation, including the Chief Executive and CFO where appropriate. The Committee also receives assistance from the People Director, the Company Secretary and from independent external advisers, FIT Remuneration. 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.

Main Role and Key Responsibilities

The Remuneration Committee's main responsibilities include:

- Designing the framework and policy for Executive Directors' remuneration and determining remuneration packages for the Executive Directors, Chairman and Senior Management, including the Company Secretary, to promote the achievement of the Group's strategy and long-term sustainable success. When setting executive remuneration, take into account the link between Executive Director and senior manager remuneration and that provided to the wider workforce;
- Establishing remuneration schemes that promote long-term shareholding by Executive Directors and that support alignment with Shareholders' interests, both in post and post-cessation;
- Approving the design and operation of the Company's short-term and long-term incentive arrangements. This includes agreeing the targets that are applied to awards made to Executive Directors and the Senior Management Team;
- Oversight of the administration of share plans as required;
- Review workforce remuneration and related policies; and
- Determine the policy for and scope of pension arrangements for Executive Directors and Senior Management.

The key matters discussed at the meetings of the Remuneration Committee in 2021 were as follows:

Remuneration Committee Activities

Remuneration
- Reviewed wider workforce remuneration arrangements, including proposals relating to workforce pension provision and annual bonus scheme and considered in conjunction with pay strategy for Executive Directors and Senior Management;
- Considered pay awards for Executive Directors and Senior Management;
- Considered Annual Bonus payments;
- Reviewed and confirmed that no vesting would occur for the 2018 PSP;
- Approved the Annual Bonus payments for 2021;
- Reviewed estimated outturn for 2021 variable remuneration (including share plans);
- Approved the PSP Award and targets;
- Considered and confirmed the continuing appropriateness of the Remuneration Policy;
- Considered updated benchmarking data for Executive Directors, Senior Management and the Chairman;
- Considered and opined on the settlement arrangements for Steve Wilson; and
- Considered possible package for the new Chief Executive.

Reporting
- Approved the Remuneration Report (including CEO pay ratio and Gender pay gap disclosure).

Governance
- Approach to investor and proxy voting recommendation agency consultation discussed and agreed to take place in January 2022;
- Consulted with proxy voting recommendation agencies prior to the AGM;
- Engaged with the Employee Forum in December 2021 on matters relating to remuneration;
- Received an AGM debrief market / governance update and considered recommendations made by the voting recommendation agencies in their AGM reports;
- Reviewed its own terms of reference; and
- Approved its annual workplan.

Effectiveness
- Made progress against matters arising from the FY2020 performance evaluation;
- Reviewed the Committee's effectiveness; and
- Reviewed the performance of its independent advisor FIT Remuneration and determined that they should remain in office.

Remuneration Committee effectiveness
The effectiveness of the Remuneration Committee was evaluated as part of the Board performance evaluation process. The review found that the Committee is operating effectively and that its role and remit remained appropriate. 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 2021 were £18,112 (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 reviewed the performance of the FIT and was satisfied that all advice received was of good quality, objective and independent.

Statement of shareholders' votes
The following table sets out the results of the binding vote on the Directors' Remuneration Policy at the 2020 AGM and the advisory vote on the Directors' Remuneration Report at the 2021 AGM.

	% of votes cast For	% of votes cast Against	Number of shares Withheld
2020 Remuneration Policy	92.57	7.43	6,513,388
2021 Directors' Remuneration Report	95.65	4.35	5,198

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

Keith Edelman
Chair of the Remuneration Committee
9 March 2022

OTHER STATUTORY DISCLOSURES

The Directors present their report, together with the audited financial statements, for the year ended 31 December 2021. This report contains additional information which the Directors are required by law and regulation to include within the Annual Report and Accounts. In conjunction with the information from the Chairman's Statement on page 12 to the Statement of Directors' Responsibilities on page 126, 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 193. Further details of the Group's activities and future plans are set out in the Strategic Report on pages 8 to 57.

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 57. The Strategic Report includes certain disclosures required to be contained in the Directors' Report as follows: the viability statement (page 39), approach to diversity (page 84), workforce engagement (pages 40 and 49), an indication of likely future developments (page 15, Chief Executive's Review), and the approach to risk management (pages 34 to 38).

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 64 and is incorporated into this report by reference.

Acquisitions

There have been no acquisitions during the period under review.

Post balance sheet events

On 17 January 2022, the Group completed a refinancing of its existing banking facilities which will expire in October 2026. At 31 December 2021, the Group had two revolving credit facility agreements with Barclays Bank PLC and HSBC Bank Plc, with a sterling committed facility of £68.5 million and a euro committed facility of €9.6 million. These were replaced with a single revolving credit facility agreement with Barclays Bank PLC, The Governor and Company of the Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million. Other banking facilities remained the same see note 19.

Financial results and ordinary dividends

The results for the year and financial position at 31 December 2021 are shown in the Consolidated Income Statement on page 134 and Statements of Financial Position on page 136.

A nominal dividend of 2p per ordinary share was paid on 28 May 2021 to shareholders on the register at the close of business on 7 May 2021. Additionally, an interim dividend of 5.8p per ordinary share (2020: nil) was paid on 29 November 2021 to shareholders on the register at the close of business on 29 October 2021. The Directors propose a final dividend of 8.6p per ordinary share (2020: Nil) in respect of the financial year ended 31 December 2021. The payment of the final dividend will be subject to shareholder approval at the AGM. If approved the total dividend for FY21 will be 16.4p per ordinary share.

The Directors have also declared the payment of a special dividend of 17.7 pence per ordinary share under the Capital Return Plan (for further information see page 18).

Both the final dividend (if approved by shareholders) and the special dividend will be paid on 27 May 2022 to shareholders on the register of members at the close of business on 6 May 2022, the associated ex-dividend date being 5 May 2022.

Share capital

As at 31 December 2021, the issued share capital of the Company comprised a single class of ordinary shares of 5p each ('Ordinary Shares').

The Company's Ordinary Shares are listed on the Main Market of the London Stock Exchange. No new Ordinary Shares were issued during the year. The Company's total issued share capital therefore remains 85,639,209 Ordinary Shares as at 31 December 2021. 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 21 May 2021, and no shares were purchased into treasury since 1 January 2022 and to the date of the signing of this Report.

A total of 200,787 Ordinary Shares were transferred from treasury stock during 2021 in connection with the Company's employee share schemes, and the balance of shares in treasury stock following these transfers was 331,668 Ordinary Shares as at 31 December 2021 (0.39% 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 UK Market Abuse Regulation, whereby certain employees require the approval of the Company to deal in the Company's shares

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

Subject to certain limits, at the AGM on 21 May 2021, 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 21 May 2021, 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. However, the Company announced a share buyback programme ('SBB') on 9 March 2022 which is outlined fully within the Chief Executive's Report. It is very likely that any initial purchases under this SBB will be undertaken using the authority granted at the 2021 AGM.

In line with usual practice, the Directors will also seek to renew the authority to purchase shares under the at the forthcoming AGM which will enable the SBB to continue following the 2022 AGM. The Company intends to exercise this authority: (i) to purchase and hold shares in treasury to fulfil the Company's future obligations under its employee share schemes; and / or (ii) after following its Capital Allocation Priorities as detailed on page 13 and considering market conditions and the share price prevailing at the time, where the Board believes that the purchase and subsequent cancellation of shares would be in the best interest of shareholders generally. A full explanation and details are set out in the Notice of AGM sent in a separate circular to shareholders and which is also available on the Company's website, www.headlam.com.

Directors

Biographies of Directors currently serving on the Board are set out on pages 58 and 59.

Changes to the Board during the period are set out on page 62. 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				
Chris Payne	13 September 2017	n/a	8 March 2022	19 May 2022
Non-Executive Directors				
Philip Lawrence (Chairman)	1 June 2015	18 June 2015	1 May 2021	19 May 2022
Amanda Aldridge	1 February 2018	12 January 2018	1 February 2021	19 May 2022
Stephen Bird	13 September 2021	10 August 2021	13 September 2021	19 May 2022
Simon King	14 May 2021	20 May 2021	14 May 2021	19 May 2022
Keith Edelman	1 October 2018	15 August 2018	1 October 2021	19 May 2022

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

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

Related party transactions

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

Directors' Powers

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by the Company by special resolution, the business of the Company will be managed by the Board which may exercise all the powers of the Company, whether relating to the management of the business of the Company or otherwise. The matters reserved for the Board are detailed in a specific schedule, which is reviewed annually and is available on the Company's website, www.headlam.com.

Change of control

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

Rights under employees' share schemes

As at 31 December 2021, Kleinwort Hambros, as trustee of the Headlam Group Employee Trust Company Limited ('Trust') held 679,667 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 24 to the Financial Statements. Details of long-term incentive schemes for the Directors are shown in the Remuneration Report on pages 96 to 120.

Securities carrying special rights

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

Substantial interests in voting rights

Notifications of the following voting interests in the Company's ordinary share capital had been received by the Company (in accordance with Chapter 5 of the DTR), with the information received from the discloser stated to be correct at the time of disclosure.

As at and up to 31 December 2021, 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. As at 9 March 2022, no change in these holdings had been notified and no further notifications had been received.

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.

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 incorporated entities overseas and they are listed on page 193.

Anti-Corruption and Bribery

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

Modern Slavery Act

The Board fully supports the aims of the Modern Slavery Act and the Company has a zero tolerance approach to slavery and human trafficking. During the year the Company has issued a new supplier Code of Conduct and has appointed an external specialist, who during 2022 will commence a full audit of our supplier base which will help to mitigate any potential ethical and modern slavery risks in the supply chain.

Our suppliers are expected to engage and adhere to the Headlam Group Code of Conduct and Headlam will work with all suppliers to ensure compliance. However, if any supplier is found to be involved in any form of Modern Slavery or unethical behaviour, the Company will look to suspend or cease trading with that supplier.

During an assessment of a supplier or declared manufacturing sites, if any very high-risk sites are identified during the due diligence process, our third party specialist partner will send a social compliance auditor to carry out onsite audits using accepted ethical standards,

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

Human Rights

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

The Supplier Code of Conduct as outlined above, sets out the standards we expect our suppliers to meet with respect to: employment practice, working hours, accommodation (if provided) and freedom of employment; working conditions; wages and benefits; discrimination; environmental practice; sub-contractors and the use of agencies. As outlined above, these standards will be audited against the Supplier Code of Conduct by an external specialist appointed for this purpose.

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 and career development wherever appropriate.

Equal Opportunities

We are committed to the elimination of unlawful and unfair discrimination and the fair and equal treatment of all.

The heart of the Company's approach to its people, is the provision of an environment where everyone can fulfil their potential and where colleagues from all backgrounds can feel confident in their ability to achieve their best. The Company has in place various policies to ensure this is reflected in the culture of the business (including an Equal Opportunities policy and an Inclusion and Respect at Work policy). Contravention of these policies is treated as a disciplinary matter and may result in dismissal.

Employee Involvement and Communication

We are committed to keeping our colleagues informed and communicating with them on matters of importance relating to our company performance and their employment. We also recognise that communication should be two-way and we actively encourage feedback and involvement from our colleagues, either through formal channels such as our Employee Forum (page 68), our full employee or pulse surveys, or more informal methods such as the dedicated internal communications email address or MyHub portal.

During the year, members of our Employee Forum have been consulted on, and had the opportunity to discuss and contribute ideas to various projects including the Company's: environmental strategy; approach to buying and sales; and executive remuneration. 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.

In addition to our Employee Forum, we hold champions meetings in our businesses and specific departmental group meetings where we get together those with specific job roles to share best practice and learn from each other.

In March 2021 we launched our new engagement portal ('MyHub') which allows Company announcements to be distributed to all registered employees (including those without access to a Company provided PC or email). MyHub also acts as a repository for policies and procedures, as well as offering discounts on products and services. Further information on employee involvement and communication is contained within the Stakeholder Engagement and Section 172 Statement on page 40.

Chris Payne, Chief Executive, has initiated fortnightly blogs and video blogs in 2021 which have been well received by colleagues. These communications cover items of interest including: our key focus areas and financial results; plans for the year ahead; progress against our ESG strategy; changes to colleague benefits; and regular performance updates.

A summary of how Directors have engaged with employees and had regard to employee interests and the effect of that regard on the principal decisions taken by the Company during the financial year is provided on page 41.

Sharesave

During the year, the Company invited all eligible employees to participate in its HMRC approved Sharesave Scheme. This Scheme allows eligible employees to save up to £500 per month in one or a combination of Sharesave Schemes in order to further align their interests with the performance of the Group. At 31 December 2021, approximately 28% UK employees participate in one or more of the active Sharesave Schemes.

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 ESG Report on pages 44 to 55 and in the Streamlined Energy and Carbon Reporting ('SECR') Disclosure on page 56. The Company's disclosure against the TCFD requirements is set out on pages 51 to 54.

Engagement with suppliers, customers and other stakeholders

The directors understand the need to develop good business relationships with its suppliers, customers and other stakeholders and the success with which this is achieved is paramount to business success. Further information on the Company's approach to engagement with its stakeholders and how this feeds through into the decision-making process can be found on pages 40 to 42.

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 126 and a statement by the Auditor on their responsibilities is given on page 132.

Political donations and expenditure

The Company's policy is not to make any donations for political purposes in the UK or to donate to political parties or incur political expenditure outside of the UK. Accordingly, neither the Company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2020: £nil).

Charitable donations

The Company actively encourages each of its businesses to build strong relationships with the communities in which they operate and where they predominantly 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, allowing local communities to benefit directly. An outline of the Company's approach to charitable donations is given as part of the ESG Report on page 50.

Charitable giving is undertaken through both monetary and product donations to good local causes. Monetary donations made during the year in support of charitable causes nationally, and those of interest to employees amounted to £6,854 (2020:£17,306).

Amendments to the Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The Company's Articles of Association were last amended at the general meeting held on 21 May 2021 with the updated articles being filed with the Registrar of Companies.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Group together with details of our treasury policy and management are set out in note 26 to the financial statements on pages 181 to 188.

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 39. The financial position of the Group is described in the Financial Review on page 19 and the Group's viability statement on page 39. In addition, note 26 to the financial statements on pages 181 to 188, includes the Group's objectives, policies and processes for managing its exposures to interest rate risk, foreign currency risk, counterparty risk, credit risk and liquidity risk.

The Board has assessed the risks to the sustainability of the business model and delivery of strategy, and whether these have been considered and addressed. This assessment was undertaken over a three year period to 31 December 2024, consistent with the Company's three year rolling strategy. Based on the assessment which is outlined in the viability statement on page 39, 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 134 to 193 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 2022 AGM.

AGM

This year's AGM will be held at the Company's distribution hub in Coleshill on Thursday, 19 May 2022 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 2022
Company registration number: 00460129

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Directors' confirmations

The directors consider that the Annual Report and Accounts 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 UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the profit of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

For and on behalf of the Board.

Chris Payne
Director
9 March 2022

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 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- Have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021 (the "Annual Report"), which comprise: the Group and Company Statements of Financial Position as at 31 December 2021; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Group and Company Cash Flow Statements, and the Group and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

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

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

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The Group financial statements are a consolidation of a number of reporting components, comprising the group's operating businesses, centralised functions and non-trading entities.
- We performed full scope audits on the financial information of four UK reporting components: HFD Limited, MCD Group Limited, Domus Group of Companies and Headlam Group plc (the company) due to their size and risk characteristics. These UK reporting components comprise 86% 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 and cash balances within the components of Headlam BV, LMS and Dersimo. We also tested a sample of LMS revenue transactions to supporting proof of delivery and cash receipt.
- 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)
- Disposal of Belcolor (group)
- Impairment assessment (group and parent)

Materiality

- Overall group materiality: £1,800,000 (2020: £1,600,000) based on 5% of underlying profit before tax (2020: 5% of 3 year average underlying profit before tax).
- Overall company materiality: £1,700,000 (2020: £1,520,000) based on 1% of total assets, capped at allocated component materiality of £1,700,000 (2020: £1,520,000).
- Performance materiality: £1,350,000 (2020: £1,200,000) (group) and £1,275,000 (2020: £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.

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.

Disposal of Belcolor (Group), Impairment assessment of assets (Group) and of investments (Company) are new key audit matters this year. Impairment of Domus intangibles (Group) and Impact of COVID-19 (Group and Company), which were key audit matters last year, are no longer included because of the continuing improvements in Domus' trading performance in the current year and the Group experiencing a strong recovery back to pre-pandemic trading levels with reduced impact from Covid-19.Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Supplier arrangements (group) Refer to the Audit Committee Report on page 90 and the use of estimates and judgements in the Accounting Policies on page 141. 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 directly from the counterparty. For those balances where no counterparty confirmation was received, we recalculated the amount due, based on the supporting purchase agreements, and tested the calculation inputs back to underlying financial records. No material inconsistencies or exceptions were noted. For those balances subject to testing, we agreed post year end settlements back to evidence of cash receipt or credit notes received, to provide evidence over the recoverability of the balances. In addition, in order to assess management's ability to accurately calculate rebates receivable balances, we compared cash receipts received during the year against balances accrued at the previous year end. No material inconsistencies or exceptions were noted.
Disposal of Belcolor (group) Refer to the Audit Committee Report on page 91 and the use of estimates and judgements in the Accounting Policies on page 141. On 28 April 2021, the Group entered into a sale agreement to dispose of Belcolor AG, representing the entirety of Headlam's Swiss operations. As a condition of the sale agreement, Belcolor undertook a sale and leaseback of its property and paid a dividend of £11.1m to Headlam Group Plc. The subsidiary was sold with effect from 17 May 2021 and has been reported in the financial statements as a discontinued operation.	We have reviewed and tested management's accounting for the disposal of Belcolor and have agreed the transactions back to supporting evidence. This included verifying that it was appropriate to account for the sale and leaseback of the Belcolor property as a separate transaction prior to the sale of the subsidiary and testing management's calculation of the profit on sale of building and loss on sale of subsidiary. We have reviewed the presentation of the disposal, its cashflows, and its disclosures as a discontinued operation and confirmed they are consistent with the requirements of IFRS 5 and IAS 7.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment (group and parent) Refer to the Audit Committee Report on page 90 and the use of estimates and judgements in the Accounting Policies on page 141. The directors are required to perform an annual assessment of the carrying value of goodwill. They are also required to exercise judgement as to whether impairment triggers which require a full impairment assessment to be performed, have been identified in relation to the Group's tangible and intangible assets and the Company's investments. For certain underperforming cash generating units, impairment triggers were identified. Where a full impairment assessment was required to support the carrying value of the assets and investments held, discounted cash flow models have been prepared which include a number of judgemental assumptions including the potential impact associated with climate change. The assumptions which are deemed to be the most significant in these forecasts are in respect of revenue, gross margin and discount rate.	We evaluated management's assessment of potential impairment triggers across all of the Group's cash generating units (CGUs) (Group) and investments (Company) to identify any potential indicators of impairment in light of current and future market conditions. Where impairment triggers were identified, we obtained management's impairment models and tested their integrity and accuracy. We agreed the revenue and cash flows used as the basis of the model back to Board approved 5 year forecasts and reviewed them in light of recent trading results and historic performance. In addition we performed benchmarking against independent market indices, noting the correlation with macro-economic factors. We evaluated the extent to which the impact of climate change had been incorporated into the models. We engaged valuation experts to benchmark the discount rate calculated by management and concluded that it lay within our expected ranges. We reviewed management's sensitivity analysis on key assumptions, including the impact of a potential end-of-life disposal tax. We confirmed that the goodwill and other associated assets relating to CECO (Flooring) Limited had been appropriately impaired and that a further three CGUs were materially sensitive to combined movements in the key assumptions of 1% each. We reviewed the associated disclosures within the financial statements to ensure that they were appropriately disclosed. As a result of these procedures, we consider the directors' assessment of the carrying value of tangible and intangible assets to be supportable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group operates as a supplier and distributor of floorcovering products and has two operating segments; the UK and Continental Europe. The Group financial statements are a consolidation of a number of reporting companies, comprising the group's operating businesses, centralised functions and non-trading group companies.

In establishing the overall approach to the group audit, we identified four UK reporting components which, in our view, required an audit of their complete financial information both due to their size and risk characteristics: HFD Limited, MCD Group Limited, Domus Group of Companies and Headlam Group plc (the Company). These reporting components were audited by the group engagement team.

In addition, we targeted significant balances in components outside of full scope. These were identified as other interest-bearing loans and borrowings and cash within the components of Headlam BV, LMS and Dersimo. We also tested a sample of LMS revenue transactions to supporting proof of delivery and cash receipt.

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

Our audit of the Company Financial Statements was undertaken by the Group audit team and included substantive procedures over all material balances and transactions.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£1,800,000 (2020: £1,600,000).	£1,700,000 (2020: £1,520,000).
How we determined it	5% of underlying profit before tax	1% of total assets, capped at allocated component materiality of £1,700,000 (2020: £1,520,000)
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. In FY20 a three year average of underlying profit before tax was used due to the impact of COVID-19 on results for the year. Given a return to pre-pandemic levels of trading in FY21, materiality has been calculated based on current year underlying profit before tax.	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 £444,000 and £1,700,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £1,350,000 (2020: £1,200,000) for the group financial statements and £1,275,000 (2020: £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 at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £90,000 (group audit) (2020: £80,000) and £85,000 (company audit) (2020: £80,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's detailed cash flow forecasts and liquidity headroom under both base case and downside scenarios.
- Testing the cashflows were consistent with board approved forecasts and considering whether they were reasonable in light of previous performance, future expectations and management's track record of accurate forecasting.
- Assessing there were no doubts over the ability of the group to meet its debt covenants under both base case and downside scenarios.
- Assessing the impact of the new banking facilities which were agreed on 17 January 2022.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 2021 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 is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulation, health and safety legislation and taxation legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Review of correspondence and discussions with legal advisors.
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements.
- Testing of journals posted to revenue, rebates and cash that have unusual account combinations

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 20 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2016 to 31 December 2021.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Gillian Hinks
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
9 March 2022

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2021

Continuing operations	Note	Underlying 2021 £M	Non-underlying (Note 3) 2021 £M	Total 2021 £M	Re-presented* Underlying 2020 £M	Re-presented* Non-underlying (Note 3) 2020 £M	Re-presented* Total 2020 £M
Revenue	2	**667.2**	**–**	**667.2**	578.1	–	578.1
Cost of sales		**(446.7)**	**–**	**(446.7)**	(400.0)	–	(400.0)
Gross profit		**220.5**	**–**	**220.5**	178.1	–	178.1
Distribution costs		**(125.9)**	**–**	**(125.9)**	(113.9)	–	(113.9)
Administrative expenses		**(57.3)**	**(8.2)**	**(65.5)**	(46.8)	(29.6)	(76.4)
Operating profit/(loss)	2	**37.3**	**(8.2)**	**29.1**	17.4	(29.6)	(12.2)
Finance income	6	**0.4**	**–**	**0.4**	0.8	–	0.8
Finance expenses	6	**(1.9)**	**–**	**(1.9)**	(2.8)	(0.1)	(2.9)
Net finance costs		**(1.5)**	**–**	**(1.5)**	(2.0)	(0.1)	(2.1)
Profit/(loss) before tax	3	**35.8**	**(8.2)**	**27.6**	15.4	(29.7)	(14.3)
Taxation	7	**(9.2)**	**1.5**	**(7.7)**	(3.8)	0.7	(3.1)
Profit/(loss) from continuing operations		**26.6**	**(6.7)**	**19.9**	11.6	(29.0)	(17.4)
Profit/(loss) from discontinued operation	27	**0.1**	**4.4**	**4.5**	0.4	(3.3)	(2.9)
Profit/(loss) for the year attributable to the equity shareholders		**26.7**	**(2.3)**	**24.4**	12.0	(32.3)	(20.3)
Earnings/(loss) per share for profit from continuing operations							
Basic	9	**31.5p**		**23.5p**	13.7p		(20.7)p
Diluted**	9	**31.1p**		**23.2p**	13.7p		(20.7)p
Earnings/(loss) per share for profit from discontinued operations							
Basic	9	**0.2p**		**5.3p**	0.5p		(3.4)p
Diluted**	9	**0.2p**		**5.2p**	0.5p		(3.4)p
Ordinary dividend per share							
Interim dividend for the financial year	25			**5.80p**			–
Final dividend declared	25			**8.60p**			–
Declared special dividend	25			**17.70p**			–
Declared dividend	25			**–**			2.00p

* The results for the year ended 31 December 2020 have been re-presented to reflect the presentation of the Belcolor business as discontinued.

** 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 2021

	Note	2021 £M	2020 £M
Profit/(loss) for the year attributable to the equity shareholders		**24.4**	(20.3)
Other comprehensive income/(expense)			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	23	**(2.6)**	(0.3)
Related tax		**0.8**	0.1
		(1.8)	(0.2)
Items that are or may be reclassified to profit or loss			
Exchange differences arising on translation of overseas operations		**(1.2)**	0.9
Reclassification of foreign currency translation reserve on disposal of subsidiary	27	**(4.8)**	–
		(6.0)	0.9
Other comprehensive (expense)/income for the year		**(7.8)**	0.7
Total comprehensive income/(expense) attributable to the equity shareholders for the year		**16.6**	(19.6)

Total comprehensive income /(expense) attributable to the equity shareholders for the year arising from:		
Continuing operations	**16.9**	(17.5)
Discontinued operations	**(0.3)**	(2.1)
	16.6	(19.6)

STATEMENTS OF FINANCIAL POSITION
At 31 December 2021

	Note	Group 2021 £M	Group 2020 £M	Company 2021 £M	Company 2020 £M
Assets					
Non-current assets					
Property, plant and equipment	10	**113.3**	122.9	**1.0**	1.0
Investment properties	10	**–**	–	**91.4**	97.3
Right of use assets	11	**35.0**	42.1	**0.7**	0.7
Intangible assets	12	**18.1**	21.1	**1.9**	1.1
Investments in subsidiary undertakings	13	**–**	–	**100.4**	105.8
		166.4	186.1	**195.4**	205.9
Current assets					
Inventories	15	**130.9**	118.5	**–**	–
Trade and other receivables	16	**114.0**	101.6	**6.2**	22.5
Cash and cash equivalents	17	**61.2**	60.8	**63.4**	16.6
		306.1	280.9	**69.6**	39.1
Non-current assets trade and other receivables					
Trade and other receivables	16	**–**	**–**	**14.4**	**–**
Non-current assets classified as held for sale	18	**–**	0.4	**–**	0.4
		–	0.4	**14.4**	0.4
		306.1	281.3	**84.0**	39.5
Total assets		**472.5**	467.4	**279.4**	245.4
Liabilities					
Current liabilities					
Other interest-bearing loans and borrowings	19	**(0.6)**	(2.0)	**–**	–
Lease liabilities	20	**(10.5)**	(12.5)	**(0.1)**	(0.1)
Trade and other payables	21	**(178.0)**	(178.4)	**(36.7)**	(35.9)
Employee benefits	23	**(1.0)**	–	**(1.0)**	–
Income tax payable	8	**(1.0)**	(0.2)	**(0.7)**	(0.8)
		(191.1)	(193.1)	**(38.5)**	(36.8)
Non-current liabilities					
Other interest-bearing loans and borrowings	19	**(6.9)**	(7.2)	**–**	–
Lease liabilities	20	**(25.5)**	(30.8)	**(0.7)**	(0.7)
Provisions	22	**(2.7)**	(2.1)	**–**	–
Deferred tax liabilities	14	**(10.3)**	(8.7)	**(7.8)**	(6.6)
Employee benefits	23	**(3.9)**	(5.5)	**(3.3)**	(2.3)
		(49.3)	(54.3)	**(11.8)**	(9.6)
Total liabilities		**(240.4)**	(247.4)	**(50.3)**	(46.4)
Net assets		**232.1**	220.0	**229.1**	199.0
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	**(1.6)**	3.4	**17.3**	16.3
Retained earnings		**175.9**	158.8	**154.0**	124.9
Total equity		**232.1**	220.0	**229.1**	199.0

The notes on pages 140 to 193 are an integral part of these consolidated financial statements.

The Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement, however the profit for the year attributable to the equity shareholders is £36.7 million *(loss in 2020: £3.5 million)*.

These financial statements were approved by the Board of Directors on 9 March 2022 and were signed on its behalf by

Chris Payne
Director

Company Number: 00460129

STATEMENT OF CHANGES IN EQUITY – GROUP
For the year ended 31 December 2021

	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 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
Balance at 1 January 2021	**4.3**	**53.5**	**0.1**	**1.5**	**7.7**	**(5.9)**	**158.8**	**220.0**
(Loss)/profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**24.4**	**24.4**
Other comprehensive income/(expense)	**–**	**–**	**–**	**–**	**(6.0)**	**–**	**(1.8)**	**(7.8)**
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**–**	**(6.0)**	**–**	**22.6**	**16.6**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1.2**	**1.2**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**1.0**	**(0.3)**	**0.7**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(6.6)**	**(6.6)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**–**	**1.0**	**(5.5)**	**(4.5)**
Balance at 31 December 2021	**4.3**	**53.5**	**0.1**	**1.5**	**1.7**	**(4.9)**	**175.9**	**232.1**

STATEMENT OF CHANGES IN EQUITY – COMPANY
For the year ended 31 December 2021

	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2021	4.3	53.5	0.1	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**
Balance at 1 January 2021	**4.3**	**53.5**	**0.1**	**22.1**	**(5.9)**	**124.9**	**199.0**
Profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**36.7**	**36.7**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(2.0)**	**(2.0)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**34.7**	**34.7**
Transactions with equity shareholders, recorded directly in equity							
Share-based payments	**–**	**–**	**–**	**–**	**–**	**1.2**	**1.2**
Share options exercised by employees	**–**	**–**	**–**	**–**	**1.0**	**(0.3)**	**0.7**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**(6.6)**	**(6.6)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**1.0**	**(5.6)**	**(4.6)**
Balance at 31 December 2021	**4.3**	**53.5**	**0.1**	**22.1**	**(4.9)**	**154.0**	**229.1**

CASH FLOW STATEMENTS
For the year ended 31 December 2021

	Note	Group 2021 £M	Group 2020 £M	Company 2021 £M	Company 2020 £M
Cash flows from operating activities					
Profit/(loss) before tax for the year:					
Continuing operations		**27.6**	(14.3)	**38.9**	(2.0)
Discontinued operations		**5.8**	(2.8)	**–**	–
		33.4	(17.1)	**38.9**	(2.0)
Adjustments for:					
Depreciation of property, plant and equipment, amortisation and impairment of intangible assets	3	**9.2**	35.8	**2.0**	1.8
Depreciation of right-of-use assets	11	**13.5**	16.2	**–**	–
Impairment of investment	13	**–**	–	**–**	16.6
Finance income	6	**(0.4)**	(0.8)	**(0.3)**	(0.6)
Finance expense	6	**1.9**	2.9	**0.5**	1.0
(Profit)/loss on sale of property, plant and equipment	3	**(11.1)**	0.1	**(5.1)**	–
Impairment of property, plant and equipment and inventory, following fire		**7.3**	–	**2.3**	–
Loss on sale of subsidiary		**0.1**	–	**5.4**	–
Share-based payments	24	**1.2**	(0.1)	**0.4**	(0.5)
Operating cash flows before changes in working capital and other payables		**55.1**	37.0	**44.1**	16.3
Change in inventories		**(26.6)**	15.3	**–**	–
Change in trade and other receivables		**(16.6)**	23.2	**1.9**	(1.4)
Change in trade and other payables		**5.4**	(4.8)	**0.1**	(3.5)
Cash generated from the operations*		**17.3**	70.7	**46.1**	11.4
Interest paid		**(0.5)**	(2.7)	**(0.4)**	(0.5)
Interest received		**0.5**	0.8	**0.3**	0.3
Tax paid		**(3.5)**	(6.3)	**(0.3)**	(0.8)
Net cash flow from operating activities		**13.8**	62.5	**45.7**	10.4
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**19.7**	0.1	**6.9**	–
Acquisition of subsidiaries, net of cash acquired	28	**–**	(1.0)	**–**	–
Repayment of acquired borrowings on acquisition		**–**	(0.2)	**–**	–
Disposal of discontinued operation, net of cash disposed of**	27	**(3.5)**	–	**0.8**	–
Acquisition of property, plant and equipment		**(6.1)**	(15.0)	**–**	(5.2)
Acquisition of intangible assets		**(0.8)**	–	**(0.7)**	–
Net cash flow from investing activities		**9.3**	(16.1)	**7.0**	(5.2)
Cash flows from financing activities					
Proceeds from the issue of treasury shares		**0.7**	0.2	**0.7**	0.2
Proceeds from borrowings		**–**	50.9	**–**	50.0
Repayment of borrowings		**(1.2)**	(48.5)	**–**	(50.0)
Principal elements of lease payments		**(15.0)**	(15.7)	**–**	–
Dividends paid	25	**(6.6)**	(6.3)	**(6.6)**	(6.3)
Net cash flow from financing activities		**(22.1)**	(19.4)	**(5.9)**	(6.1)
Net increase/(decrease) in cash and cash equivalents		**1.0**	27.0	**46.8**	(0.9)
Cash and cash equivalents at 1 January		**60.8**	33.4	**16.6**	17.5
Effect of exchange rate fluctuations on cash held		**(0.6)**	0.4	**–**	–
Cash and cash equivalents at 31 December	17	**61.2**	60.8	**63.4**	16.6

* 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.

** For cash flows of discontinued operations see note 27.

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

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Headlam Group plc transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Both the Company's and the Group's financial statements have been prepared and approved by the Directors in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. 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 2022.

Basis of preparation

The principal accounting policies applied in the preparation of the financial statements of the Company and the financial statements of the Group are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed below.

(a) Measurement convention

These financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest hundred thousand.

The Company and Group financial statements are prepared on the historical cost basis with the exception of derivative financial instruments and pension scheme assets and liabilities, both of which are stated at fair value.

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements the Directors are required to consider whether the Group can continue in operational existence for a period no shorter than 12 months from the date of approval of the financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 12 and Chief Executive's Review on pages 15 to 18.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 19 to 29. In addition, note 26 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 in the year with Barclays Bank PLC and HSBC Bank Plc and these include both Sterling and Euro term facilities. The Group's Sterling committed facilities were £68.5 million and its Euro committed facilities were €9.6 million. On 17 January 2022, the Group refinanced its banking facilities. The new committed facilities agreed with a club of banks total £81.5 million with initial maturity in October 2026, but with a one-year extension option, at the discretion of the banks.

The Group also has short term uncommitted facilities of £25 million and €3.8 million which are renewable on an annual basis. These are renewable on an annual basis and an additional €1.0 million facility was agreed in January 2022 in Continental Europe. The £25.0 million uncommitted facilities will reduce to a £15.0 million facility in May 2022.

As at 31 December 2021, the Company had cash and loans excluding lease liabilities of £53.7 million and had total banking facilities available of £104.8 million, of which £97.3 million was undrawn.

As detailed in the Viability Statement on page 39. The Directors have reviewed the Company's resilience to the principal risks and uncertainties by considering stress testing forecasts through adverse scenarios, which involve a reduction in market demand, including (A) a sustained recessionary environment, characterised by a long period of underperformance throughout the assessment period and (B) an economic crisis with a sharp decline in demand in the first year before a recovery. The testing indicated that the Company would be able to operate within its banking facilities and meet its financial covenants in both scenarios.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period no shorter than 12 months from the date of approval of the financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(b) Use of accounting estimates and judgements

Estimates

The preparation of financial statements in conformity with 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. 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 2021, rebates receivable are estimated to be fully recoverable.

- *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 the factor relating to forward-looking adjustments decreased by 50% the loss allowance would decrease by £1.5 million. See note 26.

- *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 and other intangibles in respect of CECO (Flooring) Ltd of £2.1 million. Further details on this impairment, the assumptions used in determining the value in use calculations, and their associated sensitivity analysis can be found in note 12.

Judgements

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements are as follows:

- *Non-underlying items*
  In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. These non-underlying items are defined as those items that are associated with the acquisition of businesses or other items which by virtue of their nature, size and expected frequency, require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year, see note 3.

  The following are the principal items classed as non-underlying:
  - Impairment of intangibles, fixed assets and right of use assets as they are significant, non-recurring items;
  - Amortisation of acquired intangibles as they relate to the acquisition of businesses;
  - Property disposal profits as they are not generated from the normal course of business;
  - Acquisitions related fees and deferred and contingent consideration items as they relate to the acquisition of businesses;
  - Impairment of property, plant and equipment (following a fire) as it is a significant, non-recurring item;
  - Business restructuring cost which is a significant cash item that falls across 2020 and 2021, and for which no further costs are expected.

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 2021.

(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.

Foreign currency exposure

The revenues, expenses and cash flows of foreign subsidiaries are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign subsidiaries are taken directly to the translation reserve and reflected as a movement in the statement of comprehensive income.

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:

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.

1 Presentation of the Financial Statements and Accounting Policies continued

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, supply agreements and software development and is charged to administrative expenses in the income statement. The estimated useful lives are assessed to be:

Brand names	–	10 – 15 years
Order book	–	1 – 36 months
Non-compete agreements	–	1 – 3 years
Customer relationships	–	5 – 10 years
Supply agreements	–	1 – 5 years
Software development	–	5 – 10 years

Financial assets

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.

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.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are made for property dilapidations for the estimated costs of the repairs over the period of the tenancy where a legal obligation exists.

Contingent Liability

Contingent liabilities are not recognised but are disclosed when the Group has a possible obligation as a result of past events and whose existence will be confirmed only by uncertain future events not wholly within the Group's control, or when the Group has a present obligation as a result of past events but either it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Contingent Asset

Contingent assets are possible assets whose existence will be confirmed by the occurrence or non-occurence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognised, but they are disclosed when it is more likely than not that an inflow of benefits will occur.

Employee benefits

The Company and the Group operate both defined benefit and defined contribution plans, the assets of which are held in independent trustee-administered funds. The pension cost is assessed in accordance with the advice of a qualified actuary.

1 Presentation of the Financial Statements and Accounting Policies continued

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement immediately.

To the extent that any benefits vest immediately, the expense is recognised directly in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in finance expenses in the income statement.

All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of comprehensive income.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan. The Company does not have an unconditional right to a refund under IFRIC 14. Consequently, the surplus balance sheet position at 31 December 2021 has been reduced to a deficit in recognition of the asset ceiling and the minimum funding requirement (i.e. the present value of future contributions the Company is contractually obliged to pay via the schedule of contributions).

The Group operates a UK defined benefit pension plan. In May 2021, the Group's defined benefit plan in Switzerland was disposed of with the disposal of Belcolor, its Swiss operation. In the UK, there is no contractual agreement or stated Group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the Company, which is the sponsoring employer.

The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary.

Share-based payment transactions

The Company and Group operate various equity-settled share option schemes under the approved and unapproved executive schemes and savings-related schemes.

For executive share option schemes, the option price may not be less than the mid-market value of the Group's shares at the time when the options were granted or the nominal value.

Further details of the share plans are given in the Remuneration Report on pages 96 to 120.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity over the period that the employees unconditionally become entitled to the award. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to market conditions such as share prices not achieving the threshold for vesting.

When options are granted to employees of subsidiaries of the Company, the fair value of options granted is recognised as an employee expense in the financial statements of the subsidiary undertaking together with the capital contribution received. In the financial statements of the Company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding increase in equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Own shares held by Employee Benefit Trust

Transactions of the Group sponsored Employee Benefit Trust are included in the Group financial statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

Revenue

Revenue from the sale of floorcoverings is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of floorcoverings is recognised when control of the goods is transferred to the customer (which is typically the point at which goods are received by the customer), at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods. 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 were received by the Group in the UK in the form of furlough payments made by the Government under the Coronavirus Job Retention Scheme ('JRS') for the year ended 31 December 2020. There were no government grants received by the Group in the year ended 31 December 2021. 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 were from the French government and were interest free. One of the loans was repaid in full and the other for €1 million was converted into an interest-bearing long-term loan with monthly repayments ending in September 2023.

No other government grants were applied for or received during the year ended 31 December 2021 (31 December 2020: £nil).

Lease payments

In accordance with IFRS 16, 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.

1 Presentation of the Financial Statements and Accounting Policies continued

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 are associated with the acquisition of businesses or other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year, see note 3.

The following are the principal items classed as non-underlying:

- Impairment of intangibles, fixed assets and right of use assets as they are significant, non-recurring items;
- Amortisation of acquired intangibles as they relate to the acquisition of businesses;
- Property disposal profits as they are not generated from the normal course of business;
- Acquisitions related fees and deferred and contingent consideration items as they relate to the acquisition of businesses;
- Impairment of property, plant and equipment (following a fire) as it is a significant, non-recurring item;
- Business restructuring cost which is a significant cash item that falls across 2020 and 2021, and for which no further costs are expected.

See page 26 of the Financial Review for details on alternative performance measures.

Discontinued operation

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. The results of discontinued operations are presented separately in the statement of profit or loss and the comparative period is re-presented to show the results of the discontinued operation separately. The segmental results are shown excluding the discontinued operation and the comparative period is re-presented to also exclude the discontinued operation.

Sale and leaseback of property, plant and equipment

In determining whether a transaction is a sale-and-leaseback, the company first considers whether the initial transfer of the underlying asset from the seller to the buyer is a sale in accordance with IFRS 15.

When a transaction meets the definition of a sale-and-leaseback, the company derecognises the underlying asset and applies the lessee accounting model as per IFRS 16. The company records a right-of-use asset at the retained portion of the previous carrying amount, such that the amount of any gain or loss on sale recognised is only that related to the rights transferred to the lessor.

2 Segment reporting

As at 31 December 2021, the Group had 63 operating segments in the UK and three operating segments in Continental Europe, following the disposal of the Swiss operating segment in May 2021. 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.

Continuing operations

	UK		Continental Europe		Total	
	2021 £M	2020 £M	2021 £M	2020 £M	2021 £M	2020 £M
Revenue						
External revenues	**585.8**	504.7	**81.4**	73.4	**667.2**	578.1
Reportable segment underlying operating profit	**37.0**	15.5	**3.1**	1.6	**40.1**	17.1
Reportable segment assets	**280.6**	296.5	**30.3**	47.8	**310.9**	344.3
Reportable segment liabilities	**(196.4)**	(200.9)	**(27.1)**	(31.3)	**(223.5)**	(232.2)

During the year there were no inter-segment revenues for the reportable segments (*2020: £nil*).

Reconciliations of reportable segment profit/(loss), assets and liabilities and other material items:

	2021 £M	2020 £M
Profit/(loss) for the year		
Total underlying operating profit for reportable segments	**40.1**	17.1
Non-underlying items	**(8.2)**	(29.6)
Unallocated (expense)/income	**(2.8)**	0.3
Operating profit/(loss)	**29.1**	(12.2)
Finance income	**0.4**	0.8
Finance expense	**(1.9)**	(2.9)
Profit/(loss) before taxation	**27.6**	(14.3)
Taxation	**(7.7)**	(3.1)
Profit/(loss) from continuing operations	**19.9**	(17.4)
Profit/(loss) from discontinued operations	**4.5**	(2.9)
Profit/(loss) for the year	**24.4**	(20.3)

2 **Segment reporting** continued

Continuing operations continued

	2021 £M	2020 £M
Assets		
Total assets for reportable segments	**310.9**	344.3
Unallocated assets:		
Properties, plant and equipment	**97.5**	105.4
Right of use assets	**0.7**	0.7
Non-current assets classified as held for sale	**–**	0.4
Cash and cash equivalents	**63.4**	16.6
Total assets	**472.5**	467.4
Liabilities		
Total liabilities for reportable segments	**(223.5)**	(232.2)
Unallocated liabilities:		
Lease liabilities	**(0.7)**	(0.8)
Employee benefits	**(4.9)**	(5.5)
Income tax payable	**(1.0)**	(0.2)
Deferred tax liabilities	**(10.3)**	(8.7)
Total liabilities	**(240.4)**	(247.4)

Continuing Operations	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 2021					
Capital expenditure	**5.7**	**0.4**	**6.1**	**–**	**6.1**
Impairment of goodwill	**1.2**	**–**	**1.2**	**–**	**1.2**
Impairment of intangible assets	**0.9**	**–**	**0.9**	**–**	**0.9**
Impairment of property, plant and equipment and inventory (following fire)	**7.3**	**–**	**7.3**	**–**	**7.3**
Depreciation	**2.3**	**0.4**	**2.7**	**2.5**	**5.2**
Depreciation of right of use assets	**11.6**	**1.9**	**13.5**	**–**	**13.5**
Non-underlying items (excluding finance expenses and impairments)	**(1.1)**	**(0.1)**	**(1.2)**	**–**	**(1.2)**
Other material items 2020					
Capital expenditure	9.1	0.7	9.8	5.6	15.4
Impairment of goodwill	23.4	1.3	24.7	–	24.7
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

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.

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	
	2021 £M	2020 £M	2021 £M	2020 £M	2021 £M	2020 £M
Revenue						
Residential	**407.2**	354.3	**49.7**	44.9	**456.9**	399.2
Commercial	**178.6**	150.4	**31.7**	28.5	**210.3**	178.9
	585.8	504.7	**81.4**	73.4	**667.2**	578.1

3 Profit before tax

The following are included in profit before tax:

	2021 £M	2020 £M
Depreciation on property, plant and equipment	**5.2**	6.2
Depreciation of right of use assets	**13.5**	16.2
Amortisation and impairment of intangible assets	**4.0**	29.6
(Profit)/loss on sale of property, plant and equipment	**(11.1)**	0.1

Non-underlying items for continuing and discontinued operations after tax of £2.3 million (*2020: £32.3 million*) relate to the following:

	2021 £M	2020 £M
Continuing operations:		
Impairment of intangibles, fixed assets and right of use assets	**2.1**	24.7
Amortisation of acquired intangibles	**1.6**	1.6
Property disposal	**(5.1)**	–
Acquisitions related fees	**–**	0.7
Movements in deferred and contingent consideration	**–**	(0.1)
Finance costs on deferred and contingent consideration	**–**	0.1
Impairment of property, plant and equipment and inventory (following a fire)	**7.3**	–
Business restructuring cost	**2.3**	2.4
GMP Equalisation	**–**	0.3
	8.2	29.7
Taxation on non-underlying items	**(1.5)**	(0.7)
	6.7	29.0
Discontinued operation:		
Impairment of goodwill	**–**	3.3
Disposal of subsidiary (including Swiss property disposal)	**(4.4)**	–
	(4.4)	3.3
	2.3	32.3

3 Profit before tax continued

The business restructuring related to aligning overall headcount with trading patterns and evolving customer servicing, along with executive settlement agreements and were all cash in nature. Cumulative non-underlying business restructuring costs since their initiation as part of the business change strategy amount to £4.7 million and cover the period July 2020 to December 2021. No further business restructuring costs are currently anticipated for 2022.

See page 26 of the Financial Review for details on alternative performance measures.

Auditor's remuneration:

	2021 £M	2020 £M
Audit of these financial statements	**0.2**	0.2
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	0.5

4 Staff numbers and costs

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

	Number of employees			
	Group		Company	
	2021	2020	2021	2020
By sector:				
Floorcoverings	**2,077**	2,446	**–**	–
Central operations	**22**	20	**22**	20
	2,099	2,466	**22**	20
By function:				
Sales and distribution	**1,912**	2,239	**–**	–
Administration	**187**	227	**22**	20
	2,099	2,466	**22**	20

The aggregate payroll costs were as follows:

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
Wages and salaries*	**85.0**	71.3	**3.0**	2.2
Equity settled share-based payment expense/(income) (note 24)	**1.2**	(0.1)	**0.4**	(0.5)
Social security costs*	**10.8**	8.7	**0.4**	(0.1)
Other pension costs (note 23)*	**4.5**	4.8	**0.2**	0.1
	101.5	84.7	**4.0**	1.7

* 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.

	2021 £M	2020 £M
Short-term employee benefits	**2.1**	1.2
Equity settled share-based payment expense	**0.3**	0.2
	2.4	1.4

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year. Further details on Directors' remuneration, share options and long-term incentive schemes are disclosed in the Remuneration Report on pages 96 to 120.

Payment for loss of office to past directors

Steve Wilson stepped down from the Board on 6 October 2021. Steve was paid salary contractually due and received contractual benefits up to and including 6 October 2021. Included in the table above is a further £0.1 million in relation to payments made for loss of office for the period 7 October 2021 to 31 December 2021. In addition to these payments, 10 months, amounting to £0.4 million will be paid in 2022, these costs have been accrued at 31 December 2021 but not included in the table above. Further details can be found in the Director's Remuneration Report on page 113.

6 Finance income and expense

	2021 £M	2020 £M
Interest income:		
Bank interest	**0.3**	0.6
Other	**0.1**	0.2
Finance income	**0.4**	0.8
Interest expense:		
Bank loans, overdrafts and other financial expenses	**(0.4)**	(0.7)
Interest on lease liability	**(1.3)**	(1.6)
Net interest on defined benefit plan obligations (note 23)	**(0.1)**	(0.1)
Finance costs on deferred and contingent consideration	**–**	(0.1)
Other	**(0.1)**	(0.4)
Finance expenses	**(1.9)**	(2.9)

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

7 Taxation

Recognised in the income statement

	2021 £M	2020 £M
Current tax expense:		
Current year	**6.4**	2.7
Adjustments for prior years	**(0.3)**	(0.9)
	6.1	1.8
Deferred tax expense:		
Origination and reversal of temporary differences	**–**	0.1
Effect of change in UK tax rates	**2.7**	0.9
Adjustments for prior years	**0.2**	0.4
	2.9	1.4
Total tax	**9.0**	3.2
Total tax continuing operations in income statement	**7.7**	3.1
Total tax discontinued operations in income statement	**1.3**	0.1

	2021 £M	2020 £M
Tax relating to items (credited)/charged to equity		
Current tax on:		
Income and expenses recognised directly in equity	**–**	–
Translation reserve	**–**	–
	–	–
Deferred tax on:		
Share options	**(0.2)**	0.2
Deferred tax on other comprehensive expense:		
Defined benefit plans	**(0.8)**	(0.1)
	(1.0)	0.1
Total tax reported directly in reserves	**(1.0)**	0.1

Factors that may affect future current and total tax charges

The UK headline corporation tax rate for the year was 19.0% (2020: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. UK deferred tax assets and liabilities have therefore been calculated at a rate of 25% (2020: 19%).

In addition, an increase in the Dutch corporation tax rate to 25.8% (2020: 25.0%) was enacted in December 2021 which has also been taken into account in the calculation of the related deferred tax balance.

Reconciliation of effective tax rate

	2021		2020	
	%	£M	%	£M
Profit/(loss) before tax on continuing operations		**27.6**		(14.3)
Profit/(loss) before tax on discontinued operations		**5.8**		(2.8)
Total profit/(loss) before tax		**33.4**		(17.1)
Tax using the UK corporation tax rate	**19.0**	**6.3**	19.0	(3.2)
Effect of change in UK tax rate	**8.1**	**2.7**	(5.3)	0.9
Local tax incentives	**(0.5)**	**(0.2)**	–	–
Non-deductible expenses/non-taxable income	**1.0**	**0.4**	(2.9)	0.5
Non-deductible non-underlying items	–	–	(31.0)	5.3
Effect of tax rates in foreign jurisdictions	–	–	0.1	(0.1)
Impact of losses not recognised	**(0.3)**	**(0.1)**	(1.7)	0.3
Adjustments in respect of prior years	**(0.1)**	**(0.1)**	2.9	(0.5)
Total tax in income statement	**27.2**	**9.0**	(18.7)	3.2
Add back tax on non-underlying items – continuing		**1.5**		0.7
Add back tax on non-underlying items – discontinued		**(1.3)**		–
Total tax charge excluding non-underlying items		**9.2**		3.9
Profit before non-underlying items		**35.9**		15.9
Adjusted effective tax rate excluding non-underlying items		**25.8%**		24.5%

8 Current tax liabilities

The Group's current tax liability of £1.0 million *(2020: £0.2 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 £0.7 million *(2020: £0.8 million)* represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

At 31 December 2021, the Group held a current provision of £0.5 million *(2020: £0.7 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

	2021 £M	2020 £M
Continuing operations earnings		
Earnings/(loss) for basic and diluted earnings per share	**19.9**	(17.4)
Earnings for underlying basic and underlying diluted earnings per share	**26.6**	11.6
Discontinued operations earnings		
Earnings/(loss) for basic and diluted earnings per share	**4.5**	(2.9)
Earnings for underlying basic and underlying diluted earnings per share	**0.1**	0.4

	2021	2020
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,484,084**	84,228,880
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	**84,484,084**	84,228,880
Dilutive effect of share options	**1,070,830**	543,732
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**85,554,914**	84,772,612
Continuing operations earnings per share		
Basic	**23.5p**	(20.7)p
Diluted*	**23.2p**	(20.7)p
Underlying basic	**31.5p**	13.7p
Underlying diluted	**31.1p**	13.7p
Discontinued operations earnings per share		
Basic	**5.3p**	(3.4)p
Diluted*	**5.2p**	(3.4)p
Underlying basic	**0.2p**	0.5p
Underlying diluted	**0.2p**	0.5p

* 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.

At 31 December 2021, the Company held 1,013,991 shares (*2020: 1,211,073*) 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 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
Balance at 1 January 2021	**139.8**	**44.9**	**1.0**	**185.7**
Additions	**1.8**	**4.1**	**–**	**5.9**
Disposals	**(10.8)**	**(1.8)**	**–**	**(12.6)**
Disposals relating to discontinued operation	**–**	**(2.9)**	**–**	**(2.9)**
Impairment of property (following a fire)	**(3.1)**	**–**	**–**	**(3.1)**
Reclassification	**0.2**	**(0.2)**	**–**	**–**
Effect of movements in foreign exchange	**(0.7)**	**(0.4)**	**–**	**(1.1)**
Balance at 31 December 2021	**127.2**	**43.7**	**1.0**	**171.9**
Accumulated depreciation and impairment				
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
Balance at 1 January 2021	**34.2**	**28.6**	**–**	**62.8**
Depreciation charge for the year	**2.4**	**2.8**	**–**	**5.2**
Disposals	**(5.1)**	**(1.3)**	**–**	**(6.4)**
Disposals relating to discontinued operation	**–**	**(1.5)**	**–**	**(1.5)**
Impairment of property (following a fire)	**(0.8)**	**–**	**–**	**(0.8)**
Effect of movements in foreign exchange	**(0.3)**	**(0.4)**	**–**	**(0.7)**
Balance at 31 December 2021	**30.4**	**28.2**	**–**	**58.6**
Net book value				
At 1 January 2020	88.5	10.1	16.0	114.6
At 31 December 2020 and 1 January 2021	105.6	16.3	1.0	122.9
At 31 December 2021	**96.8**	**15.5**	**1.0**	**113.3**

10 Property, plant and equipment continued

Company investment properties and plant and equipment

	Note	Investment properties £M	Plant and equipment Under construction £M
Cost			
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
Balance at 1 January 2021		**122.3**	**1.0**
Disposals		**(5.5)**	**–**
Balance at 31 December 2021		**116.8**	**1.0**
Accumulated depreciation			
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	–
Balance at 1 January 2021		**25.0**	**–**
Disposals		**(1.6)**	**–**
Depreciation charge for the year		**2.0**	**–**
Balance at 31 December 2021		**25.4**	**–**
Net book value			
At 1 January 2020		80.0	16.0
At 31 December 2020 and 1 January 2021		97.3	1.0
At 31 December 2021		**91.4**	**1.0**

The Company holds investment properties which are predominately freehold distribution centres, occupied by its UK subsidiary companies for trading purposes. 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 and it is considered that the valuation is materially consistent in the current year. This valuation of the investment properties, not including those under construction at the same date 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
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
Net book value at 1 January 2021	**11.3**	**30.8**	**42.1**	**0.7**
Additions	**2.3**	**4.6**	**6.9**	**–**
Contract modifications	**1.1**	**(0.2)**	**0.9**	**–**
Depreciation	**(3.9)**	**(9.6)**	**(13.5)**	**–**
Disposals relating to discontinued operation	**(1.2)**	**–**	**(1.2)**	**–**
Effect of movements in foreign exchange	**(0.2)**	**–**	**(0.2)**	**–**
Net book value at 31 December 2021	**9.4**	**25.6**	**35.0**	**0.7**

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'.

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 2020	41.7	6.5	7.0	7.3	0.1	0.2	–	62.8
Additions	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
Balance at 1 January 2021	**42.1**	**6.5**	**7.4**	**7.6**	**0.1**	**0.2**	**1.1**	**65.0**
Disposal	**(4.2)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4.2)**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**1.0**	**1.0**
Balance at 31 December 2021	**37.9**	**6.5**	**7.4**	**7.6**	**0.1**	**0.2**	**2.1**	**61.8**
Impairment and amortisation								
Balance at 1 January 2020	5.3	6.5	1.5	1.0	–	–	–	14.3
Impairment charge for the year	28.0	–	–	–	–	–	–	28.0
Amortisation charge for the year	–	–	0.9	0.7	–	–	–	1.6
Balance at 31 December 2020	33.3	6.5	2.4	1.7	–	–	–	43.9
Balance at 1 January 2021	**33.3**	**6.5**	**2.4**	**1.7**	**–**	**–**	**–**	**43.9**
Impairment charge for the year	**1.2**	**–**	**0.4**	**0.5**	**–**	**–**	**–**	**2.1**
Amortisation charge for the year	**–**	**–**	**0.8**	**0.6**	**0.1**	**0.1**	**0.3**	**1.9**
Disposal	**(4.2)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4.2)**
Balance at 31 December 2021	**30.3**	**6.5**	**3.6**	**2.8**	**0.1**	**0.1**	**0.3**	**43.7**
Net book value								
At 31 December 2020 and 1 January 2021	8.8	–	5.0	5.9	0.1	0.2	1.1	21.1
At 31 December 2021	**7.6**	**–**	**3.8**	**4.8**	**–**	**0.1**	**1.8**	**18.1**

Software development includes an amount of £1.9 million (2020: £1.1 million) not currently being amortised as they are still in the course of development.

Amortisation charged during the year of £1.9 million (2020:£1.6 million) is presented within Administration expenses in the Consolidated Income Statement.

Cumulative impairment losses recognised in relation to goodwill is £30.3 million (2020: £33.3 million).

Company	Software development £M
Cost	
Balance at 1 January 2020	–
Additions	1.1
Balance at 31 December 2020	1.1
Balance at 1 January 2021	1.1
Additions	0.8
Balance at 31 December 2021	**1.9**
Net book value at 31 December 2021	**1.9**

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	2021 £M	2020 £M
Joseph, Hamilton & Seaton	**UK**	**4.4**	4.4
Crucial Trading	**UK**	**1.4**	1.4
McMillan Flooring	**UK**	**0.1**	0.1
CECO (Flooring) Limited	**UK**	**–**	1.2
Ashmount Flooring Supplies Limited	**UK**	**0.4**	0.4
Telenzo	**UK**	**0.3**	0.3
Other	**UK**	**1.0**	1.0
		7.6	8.8

Impairment

Each year, or whenever events or a change in the economic environment or performance indicates a risk of impairment, the Group reviews the value of goodwill and other assets allocated to its cash-generating units.

An impairment test is a comparison of the carrying value of the assets of 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 2021, all goodwill was tested for impairment, which resulted in an impairment charge on goodwill attributable to CECO (Flooring) Limited of £1.2 million. The recoverable amount of CECO (Flooring) Limited was its value in use, which amounted to £nil.

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2020, and applying the following key assumptions.

Key assumptions

Cash flows were projected based on actual operating results, the approved 2022 business plan and management's assessment of planned performance in the period to 2026. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.0% beyond 2026.

The main assumptions within the operating cash flows used for 2022 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. As the CGUs in the UK, have similar characteristics and risk profiles, a single discount rate has been applied. The pre-tax weighted average cost of capital of 11.2% (*2020: 11.7%*).

Climate-related risks have been considered in relation to the impairment testing, including possible end-of-life disposal tax (extended producer responsibility), the transition to electric vehicles and significant changes in consumer preferences towards more sustainable products, with the latter able to be mitigated by the Group reflecting this in its product offering. A high degree of uncertainty surrounds the likelihood, timing and quantum of any possible end-of-life disposal tax. This risk is not included in the base case models due to the high levels of uncertainty whilst other risks have been assumed not to have a material impact. Sensitivity analysis has been performed assuming an end-of-life disposal tax equating to 0.6% of revenue, taking effect after year 5 in the model. The Directors have assessed that end-of-life disposal tax based on this assumption, would not cause further material impairment.

12 Intangible assets continued

Sensitivity analysis

The Group has applied sensitivities to assess whether any reasonable possible changes in these key assumptions could cause a further impairment to goodwill and subsequently intangible assets, property, plant and equipment and right-of-use assets that would be material to these Consolidated Financial Statements.

The Directors performed sensitivity analysis on the estimated recoverable amounts focusing on a reasonably possible change in key assumptions:
(i) sales growth decrease of 1% in first five years;
(ii) gross margin decrease of 1%; and
(iii) pre-tax discount rate, used to convert the cash flow forecasts to present values, increase of 1%.

One CGU is materially sensitive to the gross margin sensitivity and would require a £1.4 million impairment should gross margin decrease by 1%. Three CGUs are materially sensitive to a combination of all three sensitivities above and would require an impairment of £6.9 million should all three sensitivities occur as above, simultaneously.

13 Investments in subsidiary undertakings

Summary information on investments in subsidiary undertakings is as follows:

	£M
Cost	
Balance at 1 January 2020	122.0
Share options granted to employees of subsidiary undertakings	0.4
Balance at 31 December 2020	122.4
Balance at 1 January 2021	**122.4**
Share options granted to employees of subsidiary undertakings	**0.8**
Disposal of subsidiary	**(6.2)**
Balance at 31 December 2021	**117.0**
Impairment	
Balance at 1 January 2020	–
Impairment charge for the year	(16.6)
Balance at 31 December 2020	(16.6)
Balance at 1 January 2021 and 31 December 2021	**(16.6)**
Carrying value	
At 1 January 2020	122.0
At 31 December 2020	105.8
At 31 December 2021	**100.4**

A full list of the Group's subsidiaries is listed on page 193. During the year ended 31 December 2021, the company sold its investment in Belcolor AG, its Swiss subsidiary, further details can be found on page 188. 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	
	2021 £M	2020 £M	2021 £M	2020 £M	2021 £M	2020 £M
Property, plant and equipment	**–**	–	**(9.7)**	(7.2)	**(9.7)**	(7.2)
Intangible assets	**–**	–	**(2.5)**	(2.5)	**(2.5)**	(2.5)
Leases	**–**	–	**(0.3)**	(0.1)	**(0.3)**	(0.1)
Employee benefits	**1.7**	1.2	**–**	–	**1.7**	1.2
Other items	**0.5**	–	**–**	(0.1)	**0.5**	(0.1)
Tax assets/(liabilities)	**2.2**	1.2	**(12.5)**	(9.9)	**(10.3)**	(8.7)
Set-off of tax	**(2.2)**	(1.2)	**2.2**	1.2	**–**	–
	–	–	**(10.3)**	(8.7)	**(10.3)**	(8.7)

Movement in deferred tax during the year

	1 January 2021 £M	Removed on disposal £M	Recognised in income £M	Recognised in equity £M	31 December 2021 £M
Property, plant and equipment	**(7.2)**	**–**	**(2.5)**	**–**	**(9.7)**
Intangible assets	**(2.5)**	**–**	**–**	**–**	**(2.5)**
Leases	**(0.1)**	**–**	**(0.2)**	**–**	**(0.3)**
Employee benefits	**1.2**	**(0.5)**	**–**	**1.0**	**1.7**
Other items	**(0.1)**	**0.8**	**(0.2)**	**–**	**0.5**
	(8.7)	**0.3**	**(2.9)**	**1.0**	**(10.3)**

Deferred tax of £nil (2020: £nil) is expected to be recovered or settled within 12 months from the reporting date.

Movement in deferred tax during the prior 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)

14 Deferred tax assets and liabilities continued

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021 £M	2020 £M	2021 £M	2020 £M	2021 £M	2020 £M
Property, plant and equipment	**–**	–	**(9.2)**	(7.2)	**(9.2)**	(7.2)
Employee benefits	**1.4**	0.6	**–**	–	**1.4**	0.6
Tax assets/(liabilities)	**1.4**	0.6	**(9.2)**	(7.2)	**(7.8)**	(6.6)
Set-off of tax	**(1.4)**	(0.6)	**1.4**	0.6	**–**	–
	–	–	**(7.8)**	(6.6)	**(7.8)**	(6.6)

Movement in deferred tax during the year

	1 January 2021 £M	Recognised in income £M	Recognised in equity £M	31 December 2021 £M
Property, plant and equipment	**(7.2)**	**(2.0)**	**–**	**(9.2)**
Employee benefits	**0.6**	**–**	**0.8**	**1.4**
	(6.6)	**(2.0)**	**0.8**	**(7.8)**

Movement in deferred tax during the prior 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)

Unrecognised deferred tax assets and liabilities – Group and Company

At 31 December 2021, the Group and Company has unused capital losses of £9.4 million (*2020: £10.8 million)* available for offset against future chargeable gains. In addition, the Group has an unrecognised deferred tax asset in respect of tax losses in France of £1.7 million (2020 £1.8 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

Goods for resale	Group 2021 £M	Group 2020 £M	Company 2021 £M	Company 2020 £M
Balance as at 31 December	**130.9**	118.5	**–**	–

Cost of sales consists of the following:

	Group 2021 £M	Group Re-presented 2020 £M	Company 2021 £M	Company 2020 £M
Material cost	**443.1**	398.3	**–**	–
Processing cost	**3.6**	1.7	**–**	–
	446.7	400.0	**–**	–

The cost of inventories within cost of sales stated above includes movements in the provision for obsolete inventory of £0.8 million release (*2020: £2.0 million release*). Write-downs of inventory to net realisable value amounted to £6.9 million *(2020: £7.0 million).* These were recognised as an expense during the year ended 31 December 2021 and included in cost of sales in the consolidated income statement.

16 Trade and other receivables

Current	Group 2021 £M	Group 2020 £M	Company 2021 £M	Company 2020 £M
Trade receivables	**72.9**	78.8	**–**	–
Prepayments and accrued income	**5.6**	4.3	**0.1**	0.2
Other receivables	**35.5**	18.5	**0.3**	0.3
Amounts due from subsidiary undertakings	**–**	–	**5.8**	22.0
	114.0	101.6	**6.2**	22.5

Non Current	Group 2021 £M	Group 2020 £M	Company 2021 £M	Company 2020 £M
Amounts due from subsidiary undertakings	**–**	**–**	**14.4**	–
	–	**–**	**14.4**	–

Other receivables include balances that fall due after more than 1 year of £nil (*2020: £nil*).

Amounts due from subsidiary undertakings are unsecured, interest bearing and are repayable on demand.

£0.4 million (*2020: £6.5 million increase*) was recognised as a reduction in the impairment loss allowance in the Consolidated Income Statement in respect of trade receivables.

16 Trade and other receivables continued

The receivables written off during the year as uncollectible are attributable to the reportable segments as follows:

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
UK	**0.4**	0.9	**–**	–
Continental Europe	**0.2**	0.2	**–**	–
	0.6	1.1	**–**	–

Further details on the impairment of trade receivables is provided in note 26.

17 Cash and cash equivalents

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
Cash	**61.2**	60.8	**63.4**	16.6
Cash and cash equivalents per Statement of Financial Position	**61.2**	60.8	**63.4**	16.6

Cash and cash equivalents of £61.2 million *(2020: £60.8 million)* is shown net of overdrawn bank accounts of £117.7 million *(2020: £43.8 million)* that have a right of set-off under the UK overdraft facilities. Gross cash without the set-off agreement is £178.9 million *(2020: £104.6 million).*

18 Non-current assets classified as held for sale

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
Assets classified as held for sale:				
Property, plant and equipment	**–**	0.4	**–**	0.4

On the 25 January 2021, the company sold a freehold property in Hadleigh, UK that had been actively marketed for sale and was available for immediate disposal on 31 December 2020. The property had been 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 2021, there were no properties classified as held for sale.

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 17 January 2022, the Group completed a refinancing of its existing banking facilities which will expire in October 2026 but with a one-year extension option, at the discretion of the banks.

At 31 December 2021, the Group had two agreements with Barclays Bank PLC and HSBC Bank Plc, with a sterling committed facility of £68.5 million and a euro committed facility of €9.6 million. The Group also had short term uncommitted facilities of £25.0 million in the UK and €3.8 million facility in Continental Europe. The disposal of Belcolor on 17 May 2021, led to a reduction in the euro uncommitted facilities in Continental Europe of €5.0 million. These are renewable on an annual basis and an additional €1.0 million facility was agreed in January 2022 in Continental Europe. The £25.0 million uncommitted facilities will reduce to a £15.0 million facility in May 2022. The total banking facilities available to the Group at 31 December 2021 were £104.8 million *(2020: £110.3 million).*

Following the refinancing the Group now has a committed sterling revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million. The change in the Group's facilities is detailed below:

	Facilities		
	17 January 2022 £M	31 December 2021 £M	31 December 2020 £M
Sterling RCF	**81.5**	**68.5**	68.5
Euro RCF	**–**	**8.1**	8.4
Sterling uncommitted facilities UK	**25.0**	**25.0**	25.0
Euro uncommitted facilities Continental Europe	**4.0**	**3.2**	8.4
	110.5	**104.8**	110.3

For more information about the Group's and Company's exposure to interest rate and foreign currency risk, see note 26.

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
Current liabilities				
Bank overdraft	**–**	–	**–**	–
French Government loan	**–**	1.8	**–**	–
Interest-bearing loan	**0.6**	0.2	**–**	–
	0.6	2.0	**–**	–
Non-current liabilities				
Interest-bearing loans	**6.9**	7.2	**–**	–
	6.9	7.2	**–**	–

During the year the Group's French subsidiary, LMS SA, converted one of its loans from the French Government, issued to deal with the COVID crisis, into a long-term loan with one of its banks. Interest is now payable on this loan and the repayment date of September 2021 has been extended to September 2023 with monthly repayments being made. LMS SA has £0.4 million reported in current liabilities and £0.3 million reported in non-current liabilities.

Further interest-bearing loans reported relate to the euro committed facilities that have been drawn by the Group's European subsidiaries. LMS SA has drawn £5.1 million and Headlam Holdings BV has drawn £1.7 million (2020: LMS SA £5.4 million and Headlam Holdings BV £2.0 million). The Group refinanced on 17 January 2022 and the £6.8 million was repaid prior to completion of the refinancing.

The Group has undrawn borrowing facilities at 31 December 2021, which amounted to £97.3 million *(2020: £102.8 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 2021 and there were no breaches.

19 Other interest-bearing loans and borrowings continued

The undrawn borrowing facilities are as follows:

	Interest rate %	2021 £000	Interest rate %	2020 £000
UK	**1.44**	**93.5**	1.19	93.5
Netherlands	**1.76**	**2.9**	1.79	2.7
France	**1.31**	**0.9**	1.32	2.5
Switzerland	**–**	**–**	1.50	4.1
		97.3		102.8

The undrawn borrowing facilities consisted of £69.8 million committed and £27.5 million uncommitted facilities *(2020: £69.5 million committed and £33.3 million uncommitted).*

All the borrowing facilities above bear interest at floating rates.

Changes in net funds

	At 1 January 2021 £M	Non-cash items £m	Cash flows £M	Disposal of subsidiary £M	Foreign exchange movements £M	At 31 December 2021 £M
Cash at bank and in hand	**60.8**	**–**	**4.5**	**(3.5)**	**(0.6)**	**61.2**
Debt due within one year	**(2.0)**	**–**	**1.2**	**–**	**0.2**	**(0.6)**
Debt due after one year	**(7.2)**	**–**	**–**	**–**	**0.3**	**(6.9)**
Net funds excluding lease liabilities	**51.6**	**–**	**5.7**	**(3.5)**	**(0.1)**	**53.7**
Lease liabilities	**(43.3)**	**(13.0)**	**15.0**	**5.5**	**(0.2)**	**(36.0)**
Net funds/(debt)	**8.3**	**(13.0)**	**20.7**	**2.0**	**(0.3)**	**17.7**

20 Lease liabilities

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
Lease liabilities				
Current	**10.5**	12.5	**0.1**	0.1
Non-current	**25.5**	30.8	**0.7**	0.7
	36.0	43.3	**0.8**	0.8

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, see note 6.

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 of £ 0.1 million (2020: £0.1 million) and leases of low-value assets of £0.1 million (2020: £0.1 million) 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.

The total cash outflow for leases during the year ended 31 December 2021 was £16.5 million (2020: £17.5 million) for the Group and £0.1 million (2020: £nil) for the Company.

During the year the Group benefited from a gain on a sale and leaseback of its property in Switzerland of £5.8 million, see note 27.

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	**2021 £M**	**2020 £M**	**2021 £M**	**2020 £M**
Trade payables	**126.8**	129.7	**0.1**	0.6
Taxation and social security	**14.5**	23.5	**1.8**	2.6
Non-trade payables and accrued expenses	**36.6**	25.1	**4.8**	2.7
Amounts due to subsidiary undertakings	**–**	–	**30.0**	30.0
Derivative liabilities used for economic hedging:				
Other derivatives at fair value	**0.1**	0.1	**–**	–
	178.0	178.4	**36.7**	35.9

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.

22 Provisions

	Property	
	2021 £M	2020 £M
Balance at 1 January	**2.1**	2.3
(Credited)/charged to the income statement:		
Additional provisions	**0.8**	0.1
Release of provisions	**(0.2)**	(0.2)
Utilisation of provisions	**–**	(0.1)
Balance at 31 December	**2.7**	2.1

The property provisions relate to property dilapidations. Dilapidation provisions are expected to be utilised between 1 and 112 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 was closed to new members and from 31 March 2020 it is now closed to future accrual of benefits.

The plan is a registered scheme under UK legislation and is contracted out of the State Second Pension. The plan is legally separated from the company and assets are held independently of the company's finances. The plan is subject to the scheme funding requirements outlined in UK legislation.

The company has a right to a refund of any surplus in the plan if the plan winds up, after payment of expenses, members benefits and any enhancements to the members' benefits as the Trustee sees fit. In addition, if the assets of the plan exceed the estimate by the actuary of the cost of buying out the benefits of all beneficiaries with an insurance company, including the associated expenses, and the plan is not being wound up, then the company may request a payment of the excess funds. There have been no payments made to the company out of the plan's assets over the year.

The plan was established from 11 February 1983 under trust and is governed by the plan's Trust Deed and Rules dated 26 March 2015. The Trustee of the plan comprises one 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.

There have been no other curtailments or settlements made to the plan over 2021. On 31 March 2020, the plan closed to future accrual which would typically be treated as a curtailment event. Historically the future salary increase assumption used to calculate the Scheme's IAS 19 liabilities has been set equal to the assumption for expected future RPI inflation (the rate of increase applied to pensions in deferment) and therefore there was no impact on the reported liabilities in respect of this event.

The plan's 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 17 years.

Swiss defined benefit plan

On 17 May 2021, Headlam Group plc disposed of Belcolor AG, its subsidiary operating in Switzerland. The Swiss defined benefit plan detailed below was included in the disposal and therefore, from that date, the results of the plan are no longer consolidated in this Annual Report and Accounts.

The plan provided 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 were no amendments, curtailments or settlements during 2021 or 2020 made to the plan.

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 this plan held by Belcolor AG was as at 31 December 2020, whilst it was still under the control of Headlam Group plc, 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.

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 was 19.39 years.

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	
	2021 £M	2020 £M	2021 £M	2020 £M
Present value of funded defined benefit obligations	**(107.0)**	(134.9)	**(107.0)**	(119.7)
Fair value of plan assets	**119.1**	129.7	**119.1**	117.4
Surplus/(deficit) in funded scheme	**12.1**	(5.2)	**12.1**	(2.3)
Adjustment in respect of asset ceiling and minimum funding requirement	**(16.4)**	–	**(16.4)**	–
	(4.3)		**(4.3)**	
Other long-term employee benefits	**(0.6)**	(0.3)	**–**	–
Total employee benefits	**(4.9)**	(5.5)	**(4.3)**	(2.3)
Analysed as:				
Current liabilities	**(1.0)**	–	**(1.0)**	–
Non-current liabilities	**(3.9)**	(5.5)	**(3.3)**	(2.3)
Total employee benefits	**(4.9)**	(5.5)	**(4.3)**	(2.3)

Movements in present value of defined benefit obligation

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
At 1 January	**134.9**	129.5	**119.7**	116.7
Current service cost	**–**	1.3	**–**	0.3
Past service cost	**–**	0.3	**–**	0.3
Interest cost	**1.7**	2.3	**1.7**	2.2
Net remeasurement losses/(gains) – financial	**(3.8)**	10.7	**(3.8)**	10.3
Net remeasurement losses/(gains) – demographic	**(0.2)**	0.6	**(0.2)**	0.6
Net remeasurement (gains)/losses – experience	**(0.5)**	(1.8)	**(0.5)**	(1.5)
Benefits paid	**(9.9)**	(9.1)	**(9.9)**	(9.3)
Contributions by members	**–**	0.3	**–**	0.1
Disposal of Swiss plan	**(14.5)**	–	**–**	–
Effect of movements in foreign exchange	**(0.7)**	0.8	**–**	–
At 31 December	**107.0**	134.9	**107.0**	119.7

Movements in fair value of plan assets

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
At 1 January	**129.7**	125.6	**117.4**	114.5
Interest income on plan assets	**1.6**	2.2	**1.6**	2.2
Return on assets, excluding interest income	**9.3**	9.2	**9.3**	9.6
Contributions by employer:				
Future service contributions	**0.7**	0.8	**0.7**	0.3
Contributions by members	**–**	0.3	**–**	0.1
Benefits paid	**(9.9)**	(9.1)	**(9.9)**	(9.3)
Disposal of Swiss plan	**(11.8)**	–	**–**	–
Effect of movements in foreign exchange	**(0.5)**	0.7	**–**	–
At 31 December	**119.1**	129.7	**119.1**	117.4

The fair value of the plan assets were as follows:

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
Equities*	**46.7**	50.1	**46.7**	45.9
Government debt*	**39.7**	36.5	**39.7**	36.5
Corporate bonds*	**15.7**	17.5	**15.7**	13.4
Annuities	**1.4**	3.2	**1.4**	1.5
Hedge funds	**(2.5)**	4.9	**(2.5)**	4.9
Cash and other	**18.1**	17.5	**18.1**	15.2
	119.1	129.7	**119.1**	117.4

* These assets are held within pooled investment vehicles that are unquoted. The fair value of the underlying assets within these funds have a quoted market price in an active market.

Expense recognised in the income statement relating to defined benefit obligation

	Group	
	2021 £M	2020 £M
Service cost	**–**	1.6
Net interest on the net defined benefit liability (note 6)	**0.1**	0.1
Total	**0.1**	1.7

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/(asset) in the Statement of Comprehensive Income:

	Group	
	2021 £M	2020 £M
Return on assets, excluding interest income	**(9.3)**	(9.2)
Net remeasurement – financial	**(3.8)**	10.7
Net remeasurement – demographic	**(0.2)**	0.6
Net remeasurement – experience	**(0.5)**	(1.8)
Adjustment in respect of asset ceiling and minimum funding requirement	**16.4**	–
	2.6	0.3

23 Employee benefits continued

Expense recognised in the income statement relating to defined benefit obligation continued

Principal actuarial assumptions are as follows:

	UK		Swiss
	2021 %	2020 %	2020 %
Discount rate (net of management fees)	**1.9**	1.4	0.2
Revaluation of deferred benefits in excess of GMPs	**3.4**	3.0	2.0
Inflation-linked pension increases	**3.4**	3.0	–
Price inflation (RPI)	**3.4**	3.0	2.0
Commutation of pension at retirement	**85% of members assumed to take maximum tax-free cash using the Scheme's current commutation terms**	85% of members assumed to take maximum tax-free cash using the Scheme's current commutation terms	
Mortality table assumptions:			
UK pre-retirement	**AC00 (Ultimate) table**	AC00 (Ultimate) table	–
UK post-retirement – future pensioners	**97%(M)/103%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2020 projections model with the initial addition to mortality improvements parameter of 0.5% and a long-term rate of improvement of 1.5% per annum and a 2020 weighting parameter of 0%.**	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.	
UK post-retirement – current pensioners	**97%(M)/103%(F) of the S3PA tables with future improvements from 2013 in-line with the CMI _2020 projections model with the initial addition to mortality improvements parameter of 0.5% and a long-term rate of improvement of 1.5% per annum and a 2020 weighting parameter of 0%.**	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.	
Swiss scheme	–	–	BVG 2015

The mortality assumption implies the expected future lifetime from age 65 is as follows:

	Group 2021 Years	Group 2020 Years	Company 2021 Years	Company 2020 Years
Non-pensioner male	**24.3**	24.3	**24.3**	24.3
Pensioner male	**22.7**	22.7	**22.7**	22.7
Non-pensioner female	**26.3**	26.2	**26.3**	26.2
Pensioner female	**24.6**	24.5	**24.6**	24.5

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 2021 Increase	Impact on scheme liabilities 2021 Decrease	Impact on scheme liabilities 2020 Increase	Impact on scheme liabilities 2020 Decrease
Discount rate	0.25% movement	**(4.3)**	**4.6**	(5.3)	5.6
Rate of inflation (RPI)*	0.25% movement	**3.5**	**(3.3)**	4.6	(4.7)
Assumed life expectancy	One-year movement	**4.9**	**(4.8)**	5.8	(5.8)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2021 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 2020 have been calculated by applying the same percentage increase or decrease as at 31 December 2021.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

Swiss defined benefit plan

There are no figures reported for the Swiss defined benefit plan as it was disposed of with the Swiss business Belcolor on 17 May 2021 and sensitivities are therefore not appropriate.

23 Employee benefits continued

History of plans

The history of the plans for the current and prior periods is as follows:

Statement of Financial Position

Group	2021 £M	2020 £M	2019 £M	2018 £M	2017 £M
Present value of defined benefit obligation	**(107.0)**	(134.9)	(129.5)	(125.1)	(139.0)
Fair value of plan assets	**119.1**	129.7	125.5	119.6	126.7
Surplus/(deficit) in funded scheme	**12.1**	(5.2)	(4.0)	(5.5)	(12.3)
Adjustment in respect of asset ceiling and minimum funding requirement	**(16.4)**	–	–	–	–
Deficit	**(4.3)**	(5.2)	(4.0)	(5.5)	(12.3)

Company	2021 £M	2020 £M	2019 £M	2018 £M	2017 £M
Present value of defined benefit obligation	**(107.0)**	(119.7)	(116.7)	(111.6)	(126.3)
Fair value of plan assets	**119.1**	117.4	114.5	109.0	116.6
Surplus/(deficit) in funded scheme	**12.1**	(2.3)	(2.2)	(2.6)	(9.7)
Adjustment in respect of asset ceiling and minimum funding requirement	**(16.4)**	–	–	–	–
Deficit	**(4.3)**	(2.3)	(2.2)	(2.6)	(9.7)

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 2021 is £0.6 million (*2020: £0.3 million*). This is reported as other long-term employee benefits within the employee benefits disclosure.

Total Group pension costs

Included within the total staff costs as disclosed in note 4 are costs relating to the Group's defined contribution plans. The pension cost for the year represents contributions payable by the Group to the plans and amounted to £4.4 million (*2020: £3.2 million*). Contributions amounting to £0.3 million (*2020: £0.3 million*) in respect of the December 2021 payroll were paid in January 2022.

The total Group cost of operating the plans during the year was £4.5 million (*2020: £4.8 million*) and, at 31 December 2020, there was an amount of £0.3 million (*2020: £0.3 million*) owed to the plans, being employer and employee contributions due for December 2021, which was paid in January 2022.

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 96 to 120.

Additionally, the Group operates a savings-related share option scheme ('Sharesave scheme') which is open to employees subject to eligibility criteria determined by the Directors prior to each option grant. The most recent grant was on 6 October 2021 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 2021	Number of instruments 2020	Vesting conditions	Contractual life of options
Five-year Sharesave scheme granted to other employees 5 May 2015	**–**	91,662	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
Five-year Sharesave scheme granted to other employees 4 May 2016	**149**	20,455	Continuous service	01/07/21 – 01/01/22
Headlam Group Performance Share Plan 2008 granted to key management 5 July 2017*	**12,705**	12,705	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	Continuous service	01/07/20 – 01/01/21
Five-year Sharesave scheme granted to other employees 3 May 2017	**8,953**	10,034	Continuous service	01/07/22 – 01/01/23
Headlam Group Performance Share Plan 2008 granted to key management 9 April 2018*	**–**	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	**4,064**	173,551	Continuous service	01/07/21 – 01/01/22
Five-year Sharesave scheme granted to other employees 1 May 2018	**18,546**	27,101	Continuous service	01/07/23 – 01/01/24
Headlam Group Performance Share Plan 2008 granted to key management 10 April 2019*	**297,475**	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	**185,356**	230,148	Continuous service	01/07/22 – 01/01/23
Headlam Group Performance Share Plan 2008 granted to key management 11 September 2020*	**494,422**	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	**1,069,722**	1,311,935	Continuous service	01/11/23 – 30/04/24
Headlam Group Performance Share Plan 2008 granted to key management 9 April 2021*	**200,474**	–	Awards will vest between 25% and 100% for performance between 'threshold' performance and 'maximum' performance	10/04/24 – 09/04/27
Three-year Sharesave scheme granted to other employees 6 October 2021	**212,319**	–	Continuous service	01/11/24 – 30/04/25
Total share options	**2,526,045**	3,132,480		

* Further details are provided on pages 96 to 120 of the Remuneration Report.

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) 2021	Number of options 2021	Weighted average exercise price (pence) 2020	Number of options 2020
Outstanding at the beginning of the year	**165.9**	**3,132,480**	221.4	2,008,313
Exercised during the year	**350.3**	**(197,082)**	349.3	(19,899)
Granted during the year	**180.5**	**483,529**	160.1	1,875,033
Lapsed during the year	**127.3**	**(505,049)**	67.3	(280,528)
Forfeited during the year	**113.5**	**(235,729)**	–	–
Cancelled during the year	**263.2**	**(152,104)**	365.0	(450,439)
Outstanding at the end of the year	**161.1**	**2,526,045**	165.9	3,132,480
Exercisable at the end of the year	**38.6**	**38,778**	316.2	174,082

The weighted average share price for options exercised during the year was 471.9p (2020: 357.3p).

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 1.68 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 2021 are shown below:

2021		Three-year Performance Share Plan 2008	Three-year Sharesave scheme
Number of options granted		**265,360**	**218,169**
Fair value at measurement date:			
No performance conditions		**–**	**127.70**
Performance conditions	EPS 80% & TSR 20%	**415.39**	**–**
Share price at 31 December		**428.00**	**428.00**
Exercise price		**–**	**400.00**
Expected volatility		**43.0%**	**40.0%**
Option life		**three years**	**three years**
Dividend yield		**3.9%**	**3.9%**
Risk-free rate of interest		**0.1%**	**0.5%**

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.

The total expenses/(income)recognised for the year arising from share-based payments are as follows:

	Group		Company		Subsidiaries	
	2021 £M	2020 £M	2021 £M	2020 £M	2021 £M	2020 £M
Total expense/(income) recognised	**1.2**	(0.1)	**0.4**	(0.5)	**0.8**	0.4

25 Capital and reserves

Share capital

	Ordinary shares	
	2021	2020
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	**85,639,209**	85,452,093
Issued during the year	**–**	187,116
In issue at 31 December	**85,639,209**	85,639,209

	2021 £M	2020 £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 2021, the Company held 1,013,991 shares (*2020: 1,211,073*) 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 1.2% (*2020: 1.5%*) of the issued share capital as at 31 December 2021 with a nominal value of £0.1 million (*2020: £0.1 million*).

In the period from 1 January 2022 to 9 March 2022 no shares were purchased by the Company.

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

	2021 £M	2020 £M
Interim dividend for 2019 of 7.55p paid 2 January 2020	**–**	6.3
Dividend of a nominal amount of 2.00p paid 28 May 2021	**1.7**	–
Interim dividend for 2021 of 5.80p paid 29 November 2021	**4.9**	–
	6.6	6.3

The Board of Directors have declared a final dividend of 8.60p per share which if approved by shareholders at the forthcoming AGM, will be payable on 27 May 2022. As part of the return of surplus capital to shareholders, the Company has also declared a special dividend of 17.70p per share (not subject to shareholder approval) which will be paid alongside the final ordinary dividend on the same date.

The total value of dividends proposed or declared but not recognised at 31 December 2021 is £22.3 million (2020: £1.7 *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. At 31 December 2021, this reserve was £1.5 million and there were no changes to this Special reserve during the year. During 2020, shares were issued as part of the deferred consideration of the acquisition of Domus Group of Companies Limited and £1.0 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	
	2021 £M	2020 £M	2021 £M	2020 £M
Trade and other receivables (note 16)	**108.4**	97.3	**20.5**	22.3
Cash and cash equivalents (note 17)	**61.2**	60.8	**63.4**	16.6
	169.6	158.1	**83.9**	38.9

The fair values of the above financial assets at both 31 December 2021 and 2020, are deemed to approximate to carrying value due to the short-term maturity of the instruments.

26 Financial instruments continued

Impairment of financial assets continued

The ageing of trade receivables at the Statement of Financial Position date was:

Group	2021 Gross £M	2021 Impairment £M	2020 Gross £M	2020 Impairment £M
Not past due	**44.0**	**(0.2)**	44.8	(0.1)
Past due 0 – 30 days	**24.0**	**(0.3)**	27.2	(0.3)
Past due 31–120 days	**11.6**	**(6.2)**	14.9	(7.7)
	79.6	**(6.7)**	86.9	(8.1)

All other receivables and derivative financial assets are not past due (*2020: not past due*).

The Company had trade receivables of £nil (*2020: £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 2021 or 1 January 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors, including gross domestic product growth, affecting the ability of the customers to settle the receivables.

The Company has maintained a prudent level of loss allowance below, despite strong cash collections throughout 2021 in anticipation of the impact of inflationary and energy cost pressures on the economic environment, and the withdrawal of certain government support schemes which might cause collection experience to lessen.

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 2021 is determined as follows;

Ageing based on invoice date	Current < 30 days	30–60 days	60–90 days	Over 90 days	Total
31 December 2021					
Expected loss rate	**0.3%**	**1.0%**	**40.9%**	**100.0%**	
Gross carrying amount – trade receivables (millions)	**44.0**	**24.0**	**8.9**	**2.7**	**79.6**
Loss allowance (millions)	**0.1**	**0.2**	**3.7**	**2.7**	**6.7**

	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

The maximum exposure to credit risk for trade receivables at the Statement of Financial Position date by geographic region was:

	Group 2021 £M	Group 2020 £M	Company 2021 £M	Company 2020 £M
UK	**63.4**	67.8	**–**	–
Continental Europe	**9.5**	11.0	**–**	–
	72.9	78.8	**–**	–

During the year the Group's impairment loss as a percentage of revenue amounted to 0.02% (*2020: 1.1%*).

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	Group Trade receivables		Company Trade receivables	
	2021 £M	2020 £M	2021 £M	2020 £M
Opening loss allowance at 1 January	**8.1**	2.6	**–**	–
(Decrease)/increase in loan loss allowance recognised in profit or loss during the year	**(0.4)**	6.5	**–**	–
Receivables written off during the year as uncollectible	**(0.6)**	(1.1)	**–**	–
Discontinued operation	**(0.3)**	–	**–**	–
Effect of movement in foreign exchange	**(0.1)**	0.1	**–**	–
Closing loss allowance at 31 December	**6.7**	8.1	**–**	–

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 £0.8 million (*2020: £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 2021, cash and cash equivalents covered the amounts of borrowings maturing in the next 12 months with a net positive liquidity of £53.7 million (*2020: £51.6 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 2021 Group	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Unsecured bank loans	**7.5**	**(7.6)**	**(1.0)**	**(6.6)**	**–**	**–**
Trade and other payables	**163.4**	**(163.4)**	**(163.4)**	**–**	**–**	**–**
Lease liabilities	**36.0**	**(37.5)**	**(11.0)**	**(8.6)**	**(14.2)**	**(3.7)**
Derivative financial liabilities						
Other derivatives	**0.1**	**(0.1)**	**(0.1)**	**–**	**–**	**–**
	207.0	**(208.6)**	**(175.5)**	**(15.2)**	**(14.2)**	**(3.7)**

31 December 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)

26 Financial instruments continued

31 December 2021 Company	Carrying amount £M	Contractual cash flows £M	1 year or less £M	1–2 years £M	2–5 years £M	5 years or more £M
Non-derivative financial liabilities						
Trade and other payables	**34.9**	**(34.9)**	**(34.9)**	**–**	**–**	**–**
Lease liabilities	**0.8**	**(0.8)**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.5)**
Derivative financial liabilities						
Other derivatives	**–**	**–**	**–**	**–**	**–**	**–**
	35.7	**(35.7)**	**(35.0)**	**(0.1)**	**(0.1)**	**(0.5)**

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)

The value of the Group's and Company's financial liabilities as detailed above at 31 December 2021 and 2020 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 2021 and 2020.

31 December 2021	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total Carrying Value £M
Cash and cash equivalents	**–**	**61.2**	**61.2**
Borrowings due within one year	**–**	**(7.2)**	**(7.2)**
Borrowings due after one year	**–**	**(0.3)**	**(0.3)**
Trade payables	**–**	**(126.8)**	**(126.8)**
Non-trade payables	**–**	**(36.6)**	**(36.6)**
Leasing liabilities	**–**	**(36.0)**	**(36.0)**
Trade receivables	**–**	**72.9**	**72.9**
Other receivables	**–**	**35.5**	**35.5**
Provisions	**–**	**(2.7)**	**(2.7)**
Derivative liability	**(0.1)**	**–**	**(0.1)**
	(0.1)	**(40.0)**	**(40.1)**

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)

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	
	2021 £M	2020 £M	2021 £M	2020 £M
Variable rate instruments				
Financial assets	**61.2**	60.8	**63.4**	16.6
Financial liabilities	**(7.5)**	(7.4)	**–**	–
	53.7	53.4	**63.4**	16.6

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 2020.

	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 2021								
Variable rate instruments	**0.6**	**(0.6)**	**–**	**–**	**0.6**	**(0.6)**	**–**	**–**
31 December 2020								
Variable rate instruments	0.5	(0.5)	–	–	0.2	(0.2)	–	–

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 2021 amounted to £0.1 million (*2020: liability of £0.1 million*).

Derivatives

The group has the following derivative financial instruments in the following line items in the balance sheet:

	Group		Company	
	2021 £M	2020 £M	2021 £M	2020 £M
Current liabilities				
Foreign currency forwards – cash flow hedges	**0.1**	0.1	**–**	–
Total current derivative financial instrument liabilities	**0.1**	0.1	**–**	–

Derivatives are only used for economic hedging purposes and not as speculative investments.

The movements in respect of derivative financial instruments were as follows:

	Foreign currency forwards £M
Opening balance 1 January 2021	**(0.1)**
Less: charge to profit or loss	**–**
Closing balance 31 December 2021	**(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 2021, 8.4% (*2020: 9.6% continuing operations*) of the Group's underlying operating profit was derived from overseas subsidiaries and at 31 December 2021, 6.1% (*2020: 22.3%*) 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:

2021	Group Euro amount £M	Group Other amount £M	Group Total £M	Company Euro amount £M	Company Other amount £M	Company Total £M
Trade and other receivables	**0.1**	**0.1**	**0.2**	**–**	**–**	**–**
Cash and cash equivalents	**0.3**	**0.1**	**0.4**	**0.1**	**–**	**0.1**
Trade and other payables	**(2.3)**	**(1.0)**	**(3.3)**	**–**	**–**	**–**
	(1.9)	**(0.8)**	**(2.7)**	**0.1**	**–**	**0.1**

2020	Group Euro amount £M	Group Other amount £M	Group Total £M	Company Euro amount £M	Company Other amount £M	Company Total £M
Trade and other receivables	0.4	–	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

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 2020.

	Group 2021 £M	Group 2020 £M	Company 2021 £M	Company 2020 £M
Euro	**(0.2)**	(0.2)	**–**	–
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.

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.

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.

On 17 January 2022, the Group completed a refinancing of its existing banking facilities which will expire in October 2026, these are disclosed in note 19. At 31 December 2021, the Group had two agreements with Barclays Bank PLC and HSBC Bank Plc, with a sterling committed facility of £68.5 million and a euro committed facility of €9.6 million. The Group also had short term uncommitted facilities of £25.0 million in the UK and €3.9 million in Continental Europe. These are renewable on an annual basis. The disposal of Belcolor AG led to a reduction in the euro uncommitted facilities in Continental Europe of €5 million. The total banking facilities available to the Group at 31 December 2021 were £104.8 million (*2020: £110.3 million*).

The uncommitted facility, coupled with cash generated from operations, is used to fund the Group's ongoing working capital requirements. The committed facility is in place to support the Group's strategic investment plans.

No changes were made to the objectives, policies or processes during the years ended 31 December 2021 and 31 December 2020.

27 Discontinued operations

On 28 April 2021, the Group entered into a sale agreement to dispose of Belcolor AG ('Belcolor'). Belcolor is a floorcoverings distribution business based in St. Gallen, Switzerland, and represents the entirety of Headlam's Swiss operations. Headlam's Continental European operations (including Belcolor) accounted for 17.2% of total revenue in 2020, with Switzerland being the smallest reflecting the small landmass and population of the country. For the year ended 31 December 2020, Belcolor reported revenue of £31.1 million and underlying profit before tax of £1.1 million (£0.5 million after pension costs incurred under IAS19), with fairly uninterrupted operations during 2020 in contrast to the Company's UK and French operations which were subject to stringent COVID-19 related lockdown measures.

While Belcolor was highly established and industry-leading in its country, there were limited avenues for meaningful organic or acquisitive growth. Additionally, the Swiss market varies significantly from the Company's other geographic markets in terms of supplier base and product mix, and therefore there was limited ability to leverage group synergies. The disposal allows the Company to more effectively focus its activities and investments on its operations which offer greater opportunity.

On 29 April 2021, as a condition of the sale agreement, Belcolor undertook a sale and leaseback of its property for gross proceeds of £12.4 million and paid a dividend of £11.1 million to its parent company, Headlam Group plc. Gross assets disposed of were £18.8 million. Cash consideration before costs of £0.9 million was received on sale of the subsidiary.

The subsidiary was sold on 28 April 2021 with effect from 17 May 2021 and was reported in these financial statements for the year ending 31 December 2021 as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance of discontinued operation

	Period ended 17 May 2021			Year ended 31 December 2020		
	Underlying £M	Non-underlying £M	Total £M	Underlying £M	Non-underlying £M	Total £M
Revenue	**9.1**	**–**	**9.1**	31.1	–	31.1
Expenses	**(9.0)**	**–**	**(9.0)**	(30.6)	(3.3)	(33.9)
Other gains (profit on sale of building)	**–**	**5.8**	**5.8**	–	–	–
Profit/(loss) before tax	**0.1**	**5.8**	**5.9**	0.5	(3.3)	(2.8)
Attributable tax expense	**–**	**(1.3)**	**(1.3)**	(0.1)	–	(0.1)
Profit/(loss) after tax of discontinued operation	**0.1**	**4.5**	**4.6**	0.4	(3.3)	(2.9)
Loss on sale of subsidiary after tax	**–**	**(0.1)**	**(0.1)**	–	–	–
Profit/(loss) from discontinued operation	**0.1**	**4.4**	**4.5**	0.4	(3.3)	(2.9)
Reclassification of foreign currency translation reserve on disposal of subsidiary			**4.8**			–
Other comprehensive income from discontinued operation			**4.8**			–

	Period ended 17 May 2021 £M	Year ended 31 December 2020 £M
Consideration received:		
Cash	**0.9**	–
Costs of disposal	**(0.1)**	–
Net disposal consideration	**0.8**	–
Carrying amount of net assets sold	**(5.7)**	–
Loss on sale before tax and reclassification of foreign currency translation reserve	**(4.9)**	–
Reclassification of foreign currency translation reserve on disposal of subsidiary	**4.8**	–
Tax expense on loss	**–**	–
Loss on sale after tax	**(0.1)**	–
Cash flows from discontinued operation		
Net cash (outflow)/inflow from ordinary activities	**(1.8)**	1.2
Net cash inflow/(outflow) from investing activities	**12.4**	(0.5)
Net cash outflow from financing activities	**–**	(0.2)
Net increase in cash generated by the subsidiary	**10.6**	0.5

27 Discontinued operations continued

Effect of disposal on the financial position of the Group

	£M
Property, plant and equipment	**(1.4)**
Right-of-use-assets	**(1.2)**
Inventories	**(8.7)**
Trade and other receivables	**(3.2)**
Cash and cash equivalents	**(4.3)**
Employee benefits	**2.8**
Current tax liability	**1.5**
Trade and other payables	**3.0**
Deferred tax liabilities	**0.3**
Lease liabilities	**5.5**
Net assets and liabilities	**(5.7)**
Net disposal consideration	**0.8**
Cash and cash equivalents disposed of	**(4.3)**
Net cash outflow	**(3.5)**

The net cash consideration of £0.8 million represents the residual consideration following the £11.1 million dividend previously paid up to the parent company. Cash balances of £4.3 million were held by Belcolor on disposal.

28 Acquisitions

There were no acquisitions during the year ended 31 December 2021.

Prior year acquisitions

In the prior year a subsidiary company of Headlam Group plc entered into an agreement to acquire Supertex Furnishing Limited ('Supertex'). Supertex operates from the Group's existing premises in Stockport, Lancashire creating operating efficiencies, with a trade counter remaining in Leyland to service the local area.

The fair values of the assets and liabilities acquired have been reconsidered as part of the hindsight period, but no adjustment was considered necessary.

29 Capital commitments

Group

As at 31 December 2021, the Group entered into commitments to purchase property, plant and equipment for £0.4 million and intangibles of £1.9 million (*2020: £1.0 million* and £2.7 million respectively) of which £1.2 million will be settled in the following financial year *(2020: £1.8 million)*.

Company

At 31 December 2021, the Company had commitments to purchase intangibles of £1.9 million (*2020: £2.7 million*).

30 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 58 and 59.

As at 31 December 2021, Directors of the Company and their immediate relatives controlled 0.1% of the total voting rights of the Company (*2020: 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 £0.3 million (*2020: £0.2 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 2021 £M	Highest during the year £M	Balance at 31 December 2020 £M
Amounts due from subsidiaries	**21.6**	**20.2**	23.3	22.0
Amounts due to subsidiaries	**(30.5)**	**(30.0)**	(30.0)	(30.0)

Transactions with Group companies typically comprise management, rent and interest charges during the period.

The disclosure of the year-end balance and the highest balance during the year is considered to provide a meaningful representation of transactions between the Company and its subsidiaries in the year. The highest balance is generally at the start or close of the financial year since this is the time when the Company levies its recharge of its operating expenses.

Related party transactions reported in the income statement

	For year ended 31 December 2021 £M	For year ended 31 December 2020 £M
Rental income	**10.1**	8.9
Dividends received	**40.0**	10.7
Recharge of operating expenses	**2.4**	2.4
Interest income	**0.2**	0.3

31 Contingent asset

At December 2021, the Group identified a contingent asset relating to an insurance claim for losses, as a result of the Kidderminster fire, arising from damage to the Group's property, stock and contents, and trading losses. The claim was in progress at 31 December 2021 and its outcome, whilst probable given the insurance contracts in place, was not certain and therefore not recognised in the financial statements as an asset. It was not practicable to estimate its financial effect.

32 Contingent liability

There are no contingent liabilities for the year ending 31 December 2021. 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. In July 2021, the ACM notified the Group that they had terminated their investigation and no further action has been taken.

33 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:

On 17 January 2022, the Group completed a refinancing of its existing banking facilities which will expire in October 2026. At 31 December 2021, the Group had two revolving credit facility agreements with Barclays Bank PLC and HSBC Bank Plc, with a sterling committed facility of £68.5 million and a euro committed facility of €9.6 million. These were replaced with a single revolving credit facility agreement with Barclays Bank PLC, The Bank of Ireland and Credit Industriel Et Commercial (London Branch) for £81.5 million.

34 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*
Headlam BV	Trading	Netherlands**
Dersimo BV	Trading	Netherlands****
LMS SA	Trading	France***
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*
Tileco Limited (in liquidation)	Dormant	Great Britain*
Surface Tiles Limited (in liquidation)	Dormant	Great Britain*
Gorsey Twenty Limited (in liquidation)	Dormant	Great Britain*
Gorsey Twenty One Limited	Dormant	Great Britain*
Gorsey Twenty Two Limited (in liquidation)	Dormant	Great Britain*
Gorsey Twenty Three Limited (in liquidation)	Dormant	Great Britain*
Gorsey Twenty Four Limited (in liquidation)	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: 9-11 Rue de la litte, 92390, Villeneuve-la-Garenne, France.
**** Registered address for this Dutch subsidiary: Noordzee 12, 3144 DB, Maassluis, the Netherlands.
***** Registered address for these UK subsidiaries: Unit 5 Carryduff Business Park, Comber Road Carryduff, Belfast, County Down, BT8 8AN.

FINANCIAL RECORD

	2021 £M	2020 £M	2019 £M	2018 £M	Restated* 2017 £M
Trading results (Continuing operations)					
Revenue	**667.2**	609.2	719.2	708.4	692.5
Gross profit	**220.5**	188.9	229.4	229.1	218.1
Overheads	**(183.2)**	(171.0)	(187.2)	(184.8)	(174.3)
Underlying profit before net financing costs	**37.3**	17.9	42.2	44.3	43.8
Net financing costs	**(1.5)**	(2.0)	(2.7)	(0.9)	(0.7)
Underlying profit on ordinary activities before tax	**35.8**	15.9	39.5	43.4	43.1
Taxation	**(9.2)**	(3.9)	(6.9)	(7.8)	(8.0)
Underlying profit on ordinary activities after taxation – Continued operations	**26.6**	12.0	32.6	35.6	35.1
Underlying profit on ordinary activities after taxation – Discontinued operations	**0.1**	–	–	–	–
Profit/(loss) before tax	**27.6**	(17.1)	35.2	40.4	40.7
Shareholder value					
Earnings/(loss) per share for profit from continuing operations	**23.5p**	(24.2)p	34.0p	40.0p	39.1p
Underlying earnings/(loss) per share for profit from continuing operations	**31.5p**	14.3p	38.8p	42.5p	41.7p
Earnings/(loss) per share for profit from discontinued operations	**5.3p**	–	–	–	–
Paid interim and final dividend per share	**5.8p**	7.55p	25.0p	24.8p	22.55p
Paid special dividend per share	**–**	–	–	–	8.00p
Proposed special dividend per share	**17.7p**	–	–	–	–
Proposed dividend per share***	**8.6p**	–	7.55p	25.0p	24.8p
Declared dividend per share	**–**	2.00p	–	–	–
Net assets					
Non-current assets					
Property, plant and equipment	**113.3**	122.9	114.5	102.1	101.6
Right of use assets**	**35.0**	42.1	43.9	–	–
Intangible assets	**18.1**	21.1	48.5	50.9	44.7
Deferred tax assets	**–**	–	0.7	0.5	0.6
	166.4	186.1	207.6	153.5	146.9
Current assets					
Inventories	**130.9**	118.5	132.5	132.7	131.6
Trade and other receivables	**114.0**	101.6	123.7	119.0	128.0
Cash and cash equivalents	**61.2**	60.8	33.4	44.0	42.0
	306.1	280.9	289.6	295.7	301.6
Non-current assets classified as held for sale	**–**	0.4	–	–	–
	306.1	281.3	289.6	295.7	301.6
Total assets	**472.5**	467.4	497.2	449.2	448.5

	2021 £M	2020 £M	2019 £M	2018 £M	Restated* 2017 £M
Current liabilities					
Bank overdraft	**–**	–	–	(0.2)	–
Other interest-bearing loans and borrowings	**(0.6)**	(2.0)	(0.2)	(0.2)	(0.2)
Lease liabilities**	**(10.5)**	(12.5)	(13.9)	–	–
Trade and other payables	**(178.0)**	(178.4)	(181.9)	(181.3)	(190.3)
Employee benefits	**(1.0)**	–	–	–	(2.2)
Income tax payable	**(1.0)**	(0.2)	(5.0)	(6.8)	(6.4)
	(191.1)	(193.1)	(201.0)	(188.5)	(199.1)
Non-current liabilities					
Other interest-bearing loans and borrowings	**(6.9)**	(7.2)	(6.2)	(6.8)	(6.5)
Lease liabilities**	**(25.5)**	(30.8)	(30.7)	–	–
Trade and other payables	**–**	–	–	(2.6)	(4.9)
Provisions	**(2.7)**	(2.1)	(2.3)	(2.2)	(2.0)
Deferred tax liabilities	**(10.3)**	(8.7)	(7.6)	(8.1)	(6.9)
Employee benefits	**(3.9)**	(5.5)	(4.3)	(5.9)	(10.5)
	(49.3)	(54.3)	(51.1)	(25.6)	(30.8)
Total liabilities	**(240.4)**	(247.4)	(252.1)	(214.1)	(229.9)
Net assets	**232.1**	220.0	245.1	235.1	218.6

* The Condensed Consolidated Interim Income Statement for the year ended 31 December 2017 has 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 2021, 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.

The results for 2020 – 2017 within the Financial record have not been re-presented to reflect the discontinued activity that occurred in 2021, they remain the historical results reported for the Group.

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