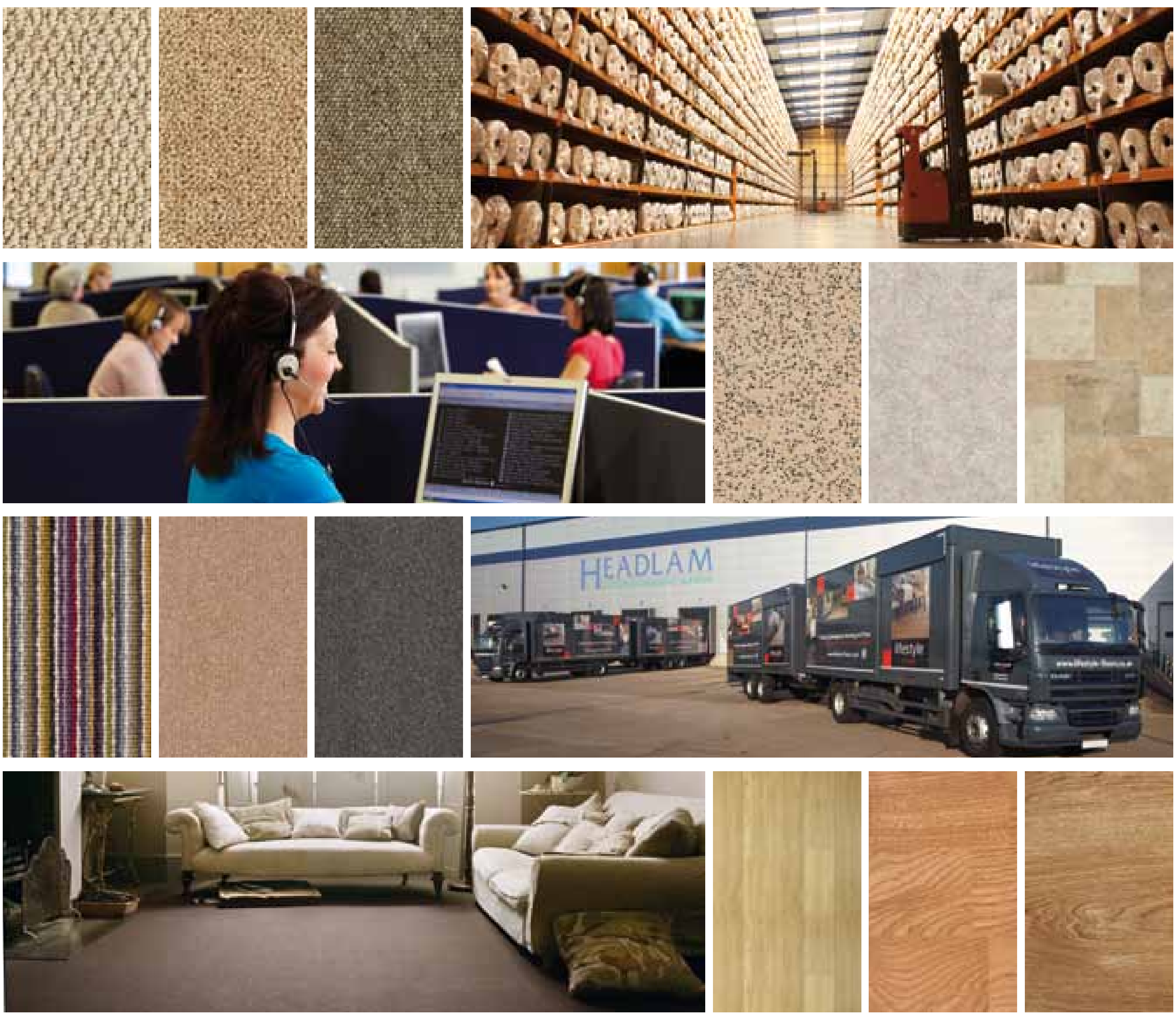
headlam
group plc

Annual Report & Accounts 2011

Europe's leading floorcovering distributor



headlam group plc

Headlam markets, supplies and distributes an extensive range of floorcovering products to independent flooring retailers and contractors throughout the UK, France, Switzerland and the Netherlands.

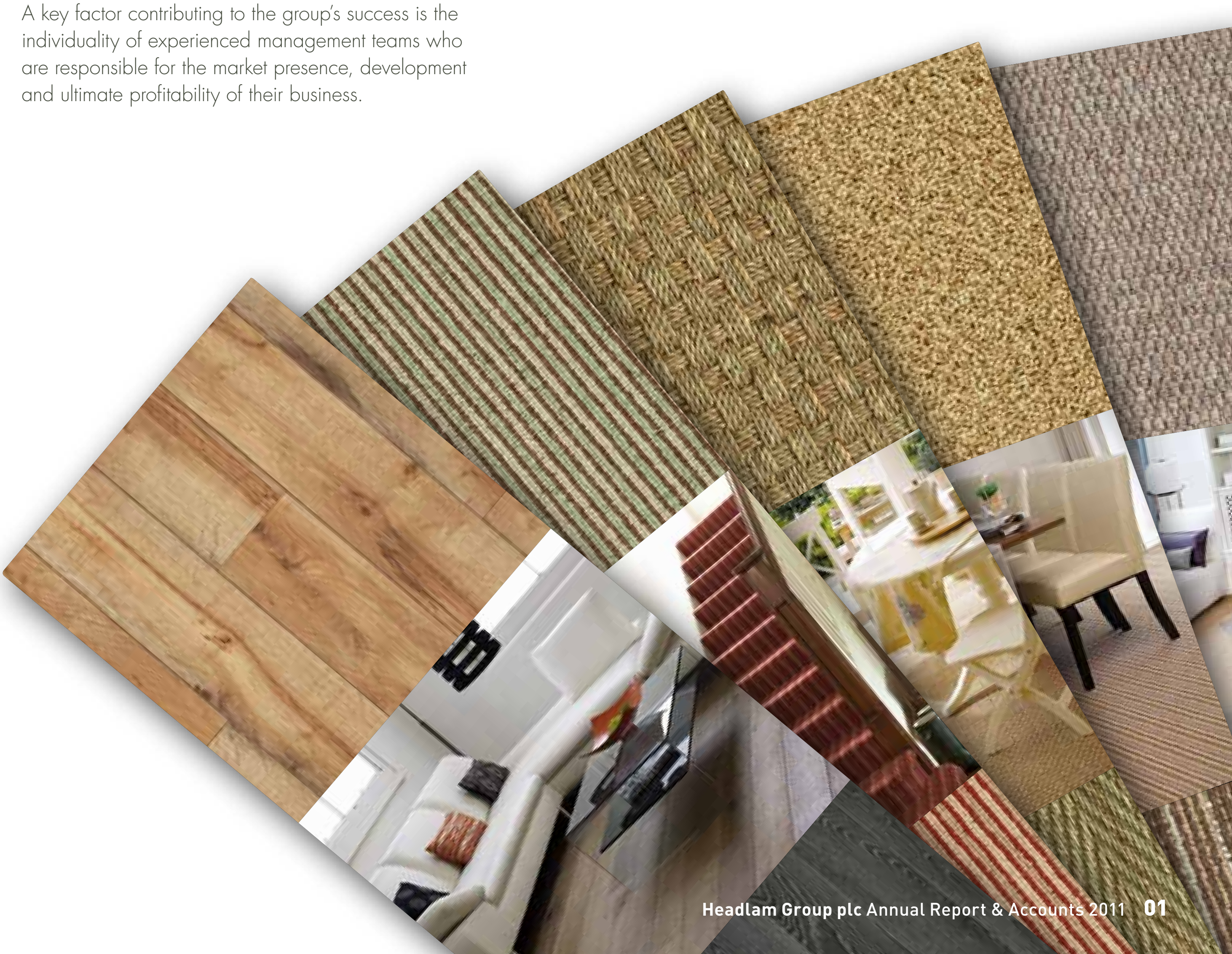
The group's operational strategy is focused on providing our customers with an up to date comprehensive range of competitively priced floorcovering products with the support of a next day delivery.

As part of this strategy, Headlam offers its suppliers the opportunity to achieve wide market penetration backed by cost effective distribution.

In implementing this strategy, Headlam has developed a diverse and autonomous structure with 50 businesses in the UK and a further five in Continental Europe.

A key factor contributing to the group's success is the individuality of experienced management teams who are responsible for the market presence, development and ultimate profitability of their business.

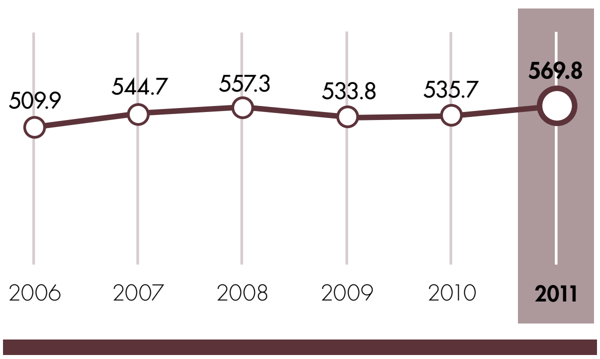
Each business is supported by the commitment to continued investment in people, product, facilities and IT. This commitment has provided the basis for the group's growth and performance enabling it to develop into Europe's leading floorcovering distributor.



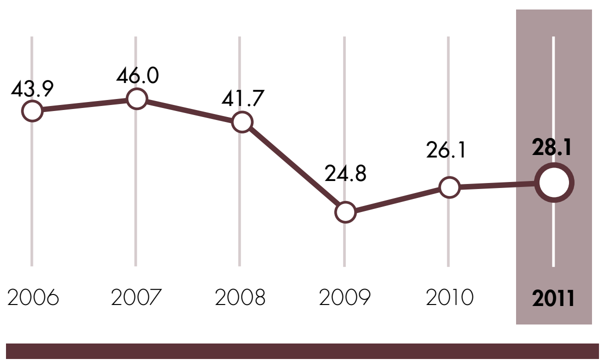
Highlights

Financial Highlights

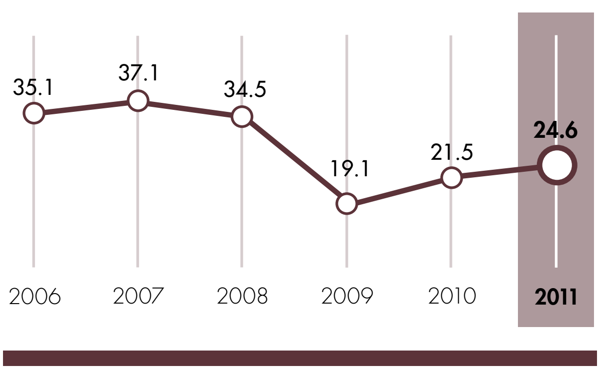
Revenue (£m)



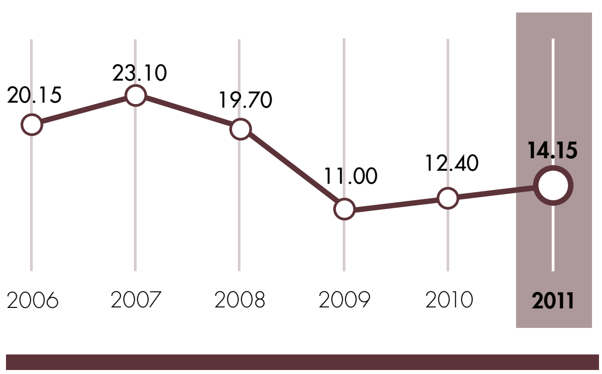
Operating Profit (£m)



Earnings Per Share (p)



Proposed Dividends (p)



Development Highlights

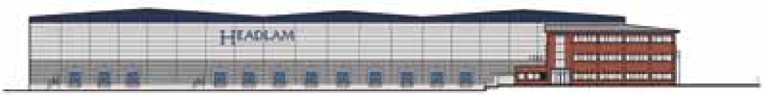
iPads

The introduction of iPads, in conjunction with the development of bespoke software, to all our sales people has undoubtedly been beneficial in further improving their working practices and time management and ultimately, provides an enhanced service to our customers.

The iPads provide our sales people with improved visibility of real time customer data, the ability to access stock files to place orders and give an immediate flow of information on customer visits to our sales managers. An additional benefit is that our businesses' extensive marketing literature and display information can be contained within the iPad for efficient demonstration to our customers.

Investment in infrastructure

We have agreed to acquire, subject to planning permission, land adjacent to the existing distribution centre in Coleshill in order to increase the size of the centre from 159,500 square feet to 283,800 square feet. This will provide the capacity to increase our central stock holding in certain product sectors to satisfy the demand from our regional distribution centres and manage our future working capital investment on a more efficient basis. The existing and proposed elevations are shown below and it is anticipated that the development will be complete by late Summer 2013.



Existing Elevation

Proposed Elevation

Market Presence

The UK operating structure is based on five business sectors each aimed at maximising market penetration and supporting different aspects of the floorcovering market.

Our Regional and National multi-product businesses provide a comprehensive residential and commercial product range and extensive geographical coverage.

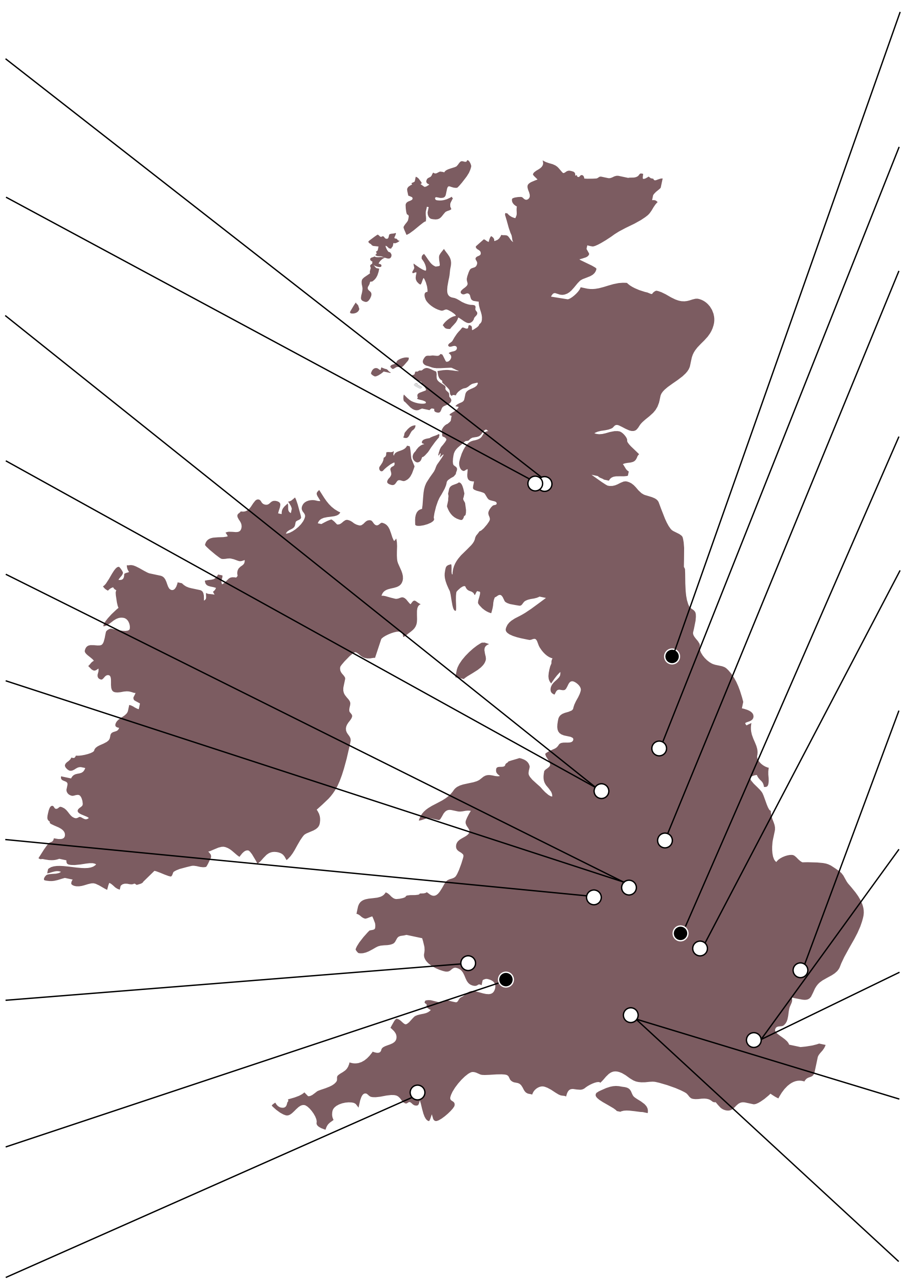
The Regional commercial businesses focus on strong relationships with suppliers and a high level of localised service for their customers.

Our Residential specialist businesses supply medium to premium residential carpet on a national basis and the Commercial specialist businesses, which have a national presence, provide a range of products servicing various aspects of the commercial market.

Our business in France operates from two distribution centres and 21 service centres and the businesses in Switzerland and the Netherlands each operate from a single distribution centre. All five businesses on the Continent offer an extensive range of products providing full national coverage across their respective countries.

Regional Multi-product Distribution

○ Distribution Centre
● Service Centre



MCD Scotland

Headlam

HBS Floortrade

Hadfields — The Floorcovering Specialist

centralflooring distributors

KJC a passion for flooring

MCD

MCD

Bailey Carpets Bristol

Baileys Plymouth

Solmere Carpet Distributors

Wilkies

Cheshires nottingham

garrard waters simply flooring

BEDS Flooring

faithfull floorcoverings

Clifford Carpets

Culpeck Expertise in Floorcoverings

DJ Hann

florco Service you expect

Market Presence continued

National Multi-product Distribution

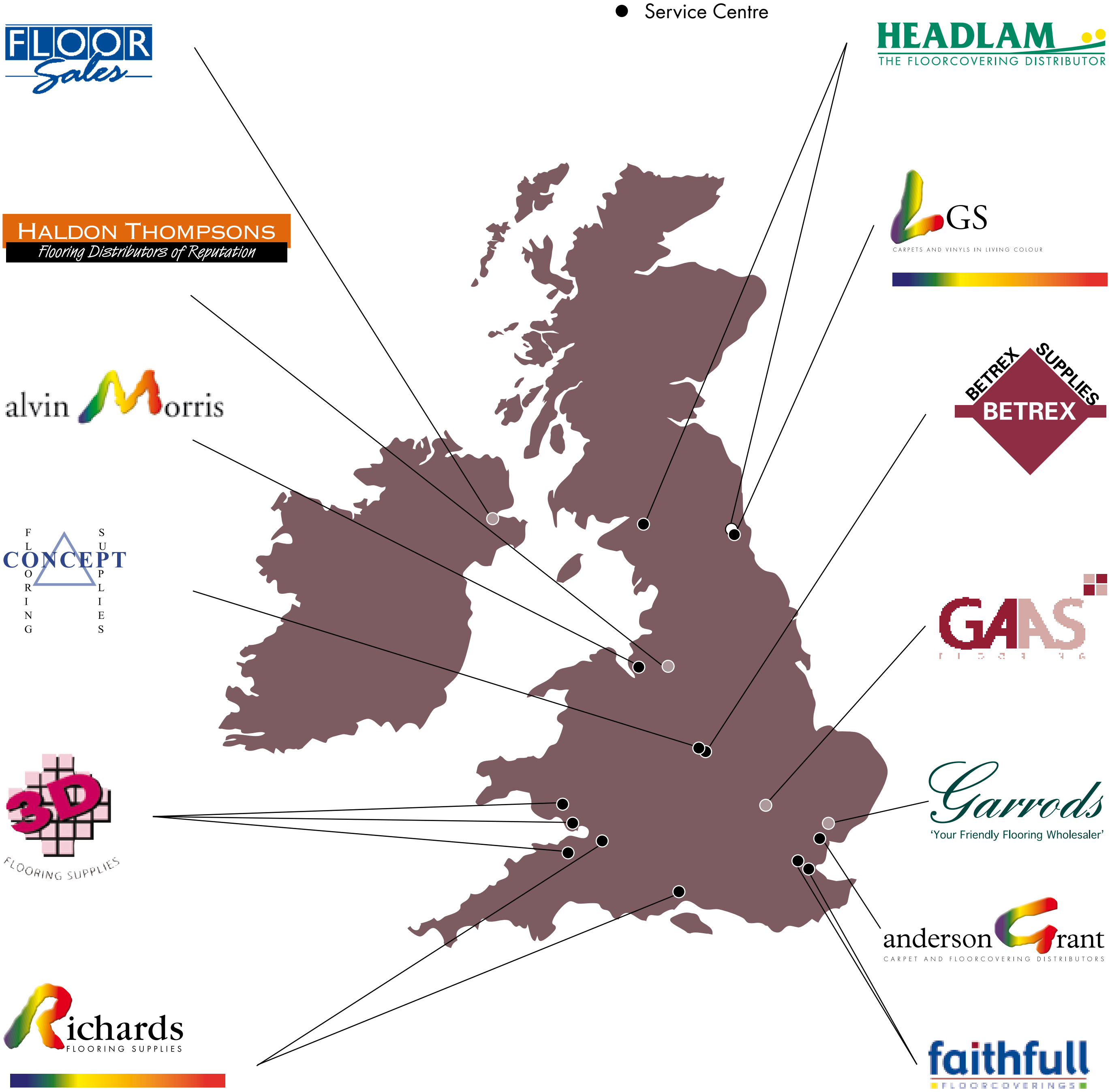
- Distribution Hub
- Distribution Centre
- Trans-shipping Location

Mercado Belfast
CARPETS AND VINYLS IN LIVING COLOUR

Mercado
CARPETS AND VINYLS IN LIVING COLOUR

Regional Commercial Distribution

○ Distribution Centre
● Shared Distribution Centre
● Service Centre



Market Presence continued

National Residential Specialist Products

○ Distribution Centre

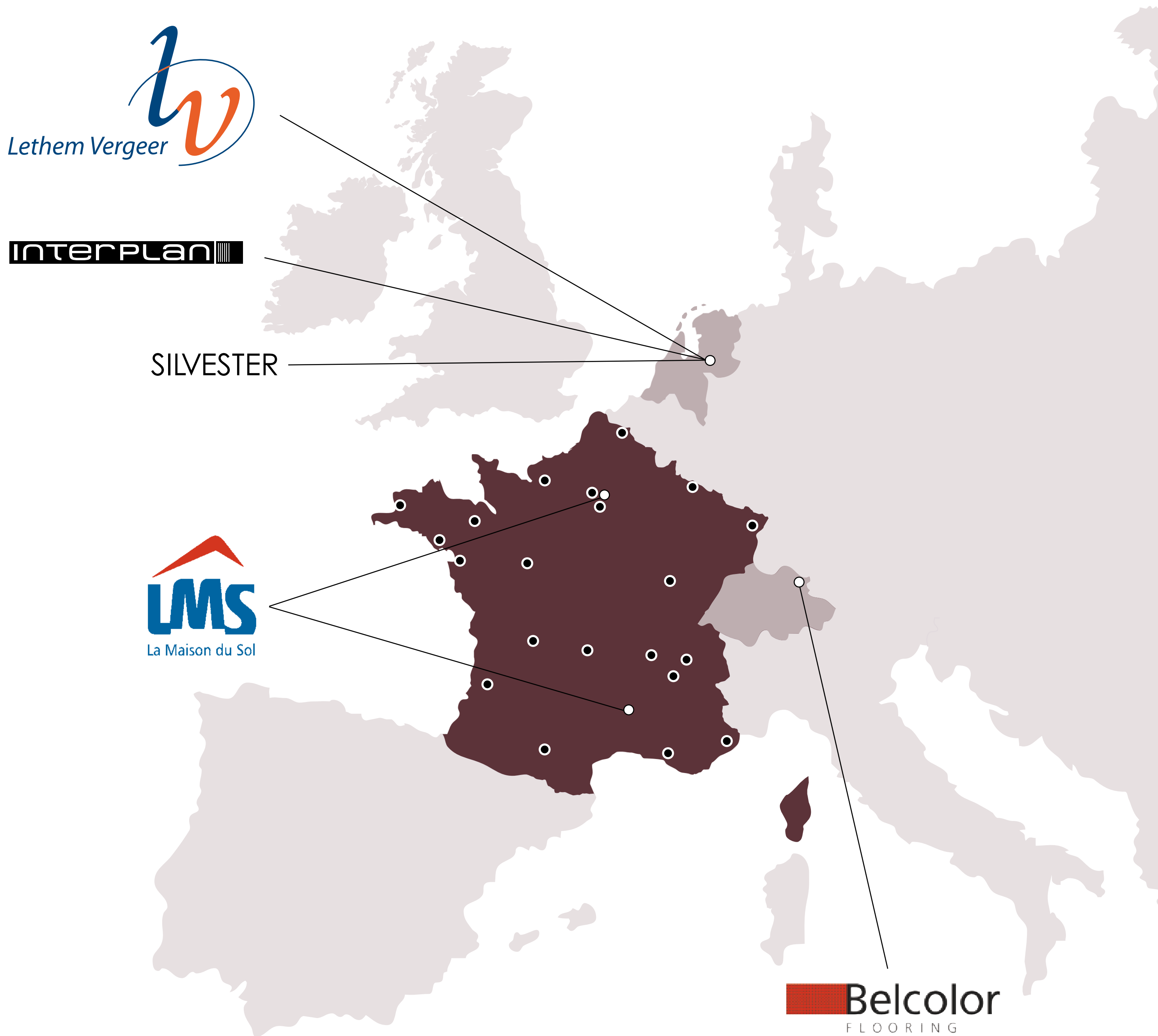
National Commercial Specialist Products

○ Distribution Centre

Market Presence continued

European Multi-product Distribution

○ Distribution Centre
● Service Centre



Excellence in Systems

1. Order

Customers in the UK, who are principally independent flooring retailers and contractors, placed 3,877,835 orders during 2011

ACTIVE CUSTOMER ACCOUNTS

2009	2010	2011
41,334	41,994	**43,347**

2. Select

Immediate order processing, comprehensive product ranges and high stock levels allow us to respond quickly to customer demand

UK WAREHOUSE CAPACITY

52

million cubic feet

3. Cut

Investment in material processing and handling equipment enables us to increase efficiency and reduce waste

UK CUT LENGTHS

34,328

per week

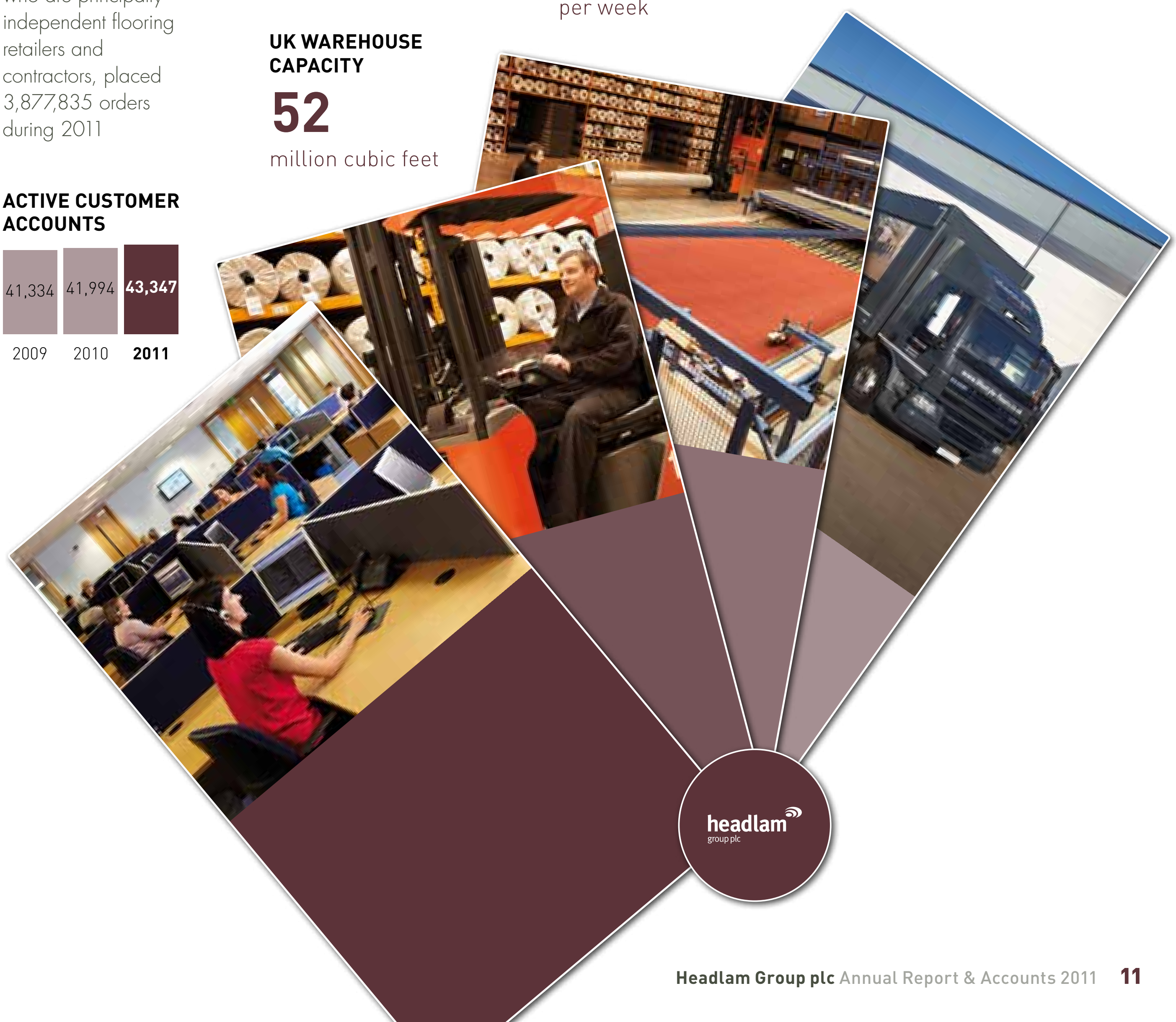
4. Deliver

Orders, which are received on a daily basis, are processed immediately and subject to customers requirements delivered the following day

UK DELIVERIES

1,143,860

during 2011



Chairman's Statement

I am pleased to report that the group's revenue increased by 6.4% in 2011 from £535.7 million to £569.8 million. Like for like revenue increased in the UK by 7.7% and, declined in Continental Europe by 5.0%. The increase in the UK, achieved in challenging conditions, represents a continued outperformance compared with the floorcovering market.

Earnings and dividend

Profit before tax increased by 10.3% from £25.0 million to £27.6 million and earnings per share improved by 14.4% from 21.5p to 24.6p. The board is therefore proposing to increase the final dividend by 14.9% from 8.57p to 9.85p resulting in a total dividend for the year of 14.15p, up 14.1% on 2010.

The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 2 July 2012 to shareholders on the register at close of business on 1 June 2012.

Strategy

Our strategy remains focused on the development of our floorcovering distribution businesses in the UK and Continental Europe and the continued improvement of the service we provide to independent floorcovering retailers and contractors.

The strategy is based upon a well defined operating structure that delivers sustained product development, marketing and distribution services aimed at supporting and enhancing our customers' position in their markets. This structure, built upon over many years, has allowed us to continually outperform the floorcovering market through various economic cycles. This has been particularly evident in recent years when conditions have proved to be particularly challenging and during which time the group has maintained the ability to increase its market share.

One of the key components of the group's structure is the deliberate proliferation of autonomous businesses controlled by dedicated management teams empowered to independently develop and enlarge their individual business. This decentralised approach, set within a well developed and consistently applied framework of operational and financial controls, provides the group with a wide and penetrating access to the floorcovering market enabling our businesses to minimise risk in challenging trading environments and respond swiftly to opportunities.

In the UK, it was particularly encouraging to see this strategy deliver success in 2011 when each of the five business sectors and all our product categories showed increases in revenue against the previous year.

> With the benefit of the clearly defined strategy and autonomous structure, the group has made a solid start to 2012.

We have a number of investment plans at various stages of development, aimed at enlarging and improving the infrastructure of the group. The plans relate to replacing one and extending two existing distribution centres and establishing additional service centres, which will enhance our logistics capability and contribute to the group's long-term future growth objectives.

Employees

2011 represents another year of progress for the group and has been achieved through the collective endeavour of all our employees. The board would like to thank our management and employees for their efforts and contribution in producing another positive result over the course of the year.

Outlook

With the benefit of the clearly defined strategy and autonomous structure, the group has made a solid start to 2012. Each of the management teams in the UK and Continental Europe are clearly focused on their specific objectives with regard to revenue and profit contribution.

Whilst we are operating in challenging markets and a particularly competitive environment persists, the autonomous structure combined with the experience and tenacity of our individual management teams, sales representatives and employees should enable the group to achieve its internal objectives assuming normal seasonal trends prevail.

Graham Waldron Chairman

Chief Executive's Review

The 7.7% like for like increase in UK revenue reflects a particularly positive performance, in a floorcovering market, where various indicators would suggest that challenging trading conditions remain.

Market sectors

The 50 businesses in the UK, operating from 18 distribution centres and 16 service centres, are structured within five market sectors based on their geographical position or product offering.

Regional multi-product: These 20 businesses, operating in both the residential and commercial markets, collectively provide a comprehensive national coverage. During the year the revenue from these businesses increased by 5.3% and given that they represent 51% of UK revenue, their positive performance is important since it provides the group with a solid base from which to expand its market presence.

National multi-product: The Mercado businesses have been able to increase revenue by 6.8% across their residential and commercial activities throughout England, Wales and Northern Ireland. We have implemented further initiatives to enhance Mercado's geographical presence and these are covered more fully below.

Regional commercial: This sector, which increased revenue by 10.2%, currently includes 18 operations based in 5 distribution and 13 service centres. During the year, we opened a new service centre in Carlisle and with modest investment, intend to increase the number of service centres to expand our UK locations.

Residential specialist: The 14 businesses, operating principally in the middle to premium quality carpet market, achieved a successful year increasing their revenue by 16.1%. Further targeted investment in sales and marketing activities should result in these businesses gaining additional market share within their sector.

Commercial specialist: These businesses, which increased revenue by 1.7% during the year operate throughout the commercial markets but have a primary focus in the healthcare and education sectors. With additional product development, these businesses can secure opportunities in other commercial segments.

Suppliers

Our suppliers are integral to the business development of the group and liaise closely with our senior and operating management teams. This relationship with the leading floorcovering manufacturers, principally in the UK and Continental Europe, ensures that our 50 businesses in the UK and five businesses in Continental Europe are continuously able to provide independent floorcovering retailers and contractors with new products. This is supported by appropriate point of sale displays to present new floorcovering products and innovations to the ultimate end user.

One particular innovation, developed during 2011, is the revolutionary carpet fibre WOLLTEC™. This fibre, which is exclusive to the group, combines the appearance and luxury characteristics of wool with the durability and stain resistant properties of polypropylene. The products manufactured with this fibre, which have received a particularly positive reaction from independent floorcovering retailers, are an example of how the group maintains its position at the forefront of new floorcovering technology and passes the benefits to its customers.

Market Presence

Our external sales representatives are positioning new product into customers on a daily basis, using various types of display stands and sample books. In conjunction with the ongoing product launches, we further improve our supplier and customer relationships with an extensive programme of promotional events and customer initiatives.

During 2011, our businesses launched 3,501 (*2010: 3,109*) new products and we supplied our customers with 658,188 (*2010: 626,637*) sample books and display stands. This level of activity has contributed to the particularly encouraging trend for 2011 where our businesses increased revenue in each of the product categories of carpet, residential vinyl, wood, laminate, commercial flooring and accessories. Whilst revenue attributable to commercial flooring increased at a slightly faster rate than residential, the overall mix remains unchanged compared with last year at 69% residential and 31% commercial.

Lifestyle Floors is now firmly established as a trade brand in the UK floorcovering market. The steps taken to significantly enlarge our market presence, principally through the installation of display modules and lecterns, have been extremely well received by independent floorcovering retailers.

We have invested in a management team who are responsible for enhancing the performance of Lifestyle Floors, by identifying opportunities to maximise the brand and supervise product development. They also manage a team of ten merchandisers who are being utilised to ensure that the modules and lecterns used to display the product are up to date, complete and in pristine condition allowing the independent floorcovering retailer to maximise the potential of the brand.

> "Our external sales representatives are positioning new product into customers on a daily basis."

Customers

We continue to maximise our presence with independent floorcovering retailers and contractors, through our 383 external sales people, collectively visiting our customers 488,660 (*2010: 475,901*) times during the year.

In the UK, the group is focused on encouraging the individual sales and marketing autonomy of the 50 businesses. We are able to provide an efficient logistics service to our customers because of our comprehensive stockholding and availability of next day delivery. During 2011, our fleet of 371 vehicles completed 1,143,860 (*2010: 1,126,676*) deliveries to our customers' premises.

Chief Executive's Review continued

Active accounts in the UK increased from 41,994 to 43,347 during the year. As reflected in our revenue increase, the independent sector is in good health and continues to take market share. It is inevitable that there are business failures and the occurrence of bad debts has increased compared with the previous year, however, the average period of credit taken by our independent customer base, decreased from 42.0 to 40.9 days.

iPads

The introduction of iPads, in conjunction with the development of bespoke software, to all of our sales people has undoubtedly been beneficial in further improving their working practices and time management and ultimately, provides an enhanced service to our customers.

The iPads provide our sales people with improved visibility of real time customer data, the ability to access stock files to place orders and give an immediate flow of information on customer visits to our sales managers. An additional benefit is that our businesses' extensive marketing literature and display information can be contained within the iPad for efficient demonstration to our customers.

We have launched the iPad initiative in the Netherlands and intend to extend it to France and Switzerland during 2012.

Continental Europe

In Continental Europe, each of our five businesses has contributed to an increased level of profitability in mixed market conditions.

Belcolor, our business based in Switzerland, purchases 44.0% of its total product requirements in Euros. The appreciation of the Swiss Franc against the Euro has therefore had a beneficial impact on the business, improving gross margins during the year, compensating for reductions in revenue and enabling Belcolor to produce a satisfactory result compared with last year.

Market conditions were relatively stable in France, allowing LMS to increase its profitability. Similarly in the Netherlands, Lethem Vergeer, Interplan and Sylvester were able to produce a solid result.

Management and employees

In addition to the group's strategy and operating structure, the other key element underpinning our ongoing success is the strength and experience of our management teams and employees.

The group has a clear policy of promoting employees from within wherever possible affording all employees the opportunity to develop and fulfil their career aspirations. This has enabled employees to progress from relatively junior positions into middle and senior management roles and has allowed us to develop an entrepreneurial culture throughout the business.

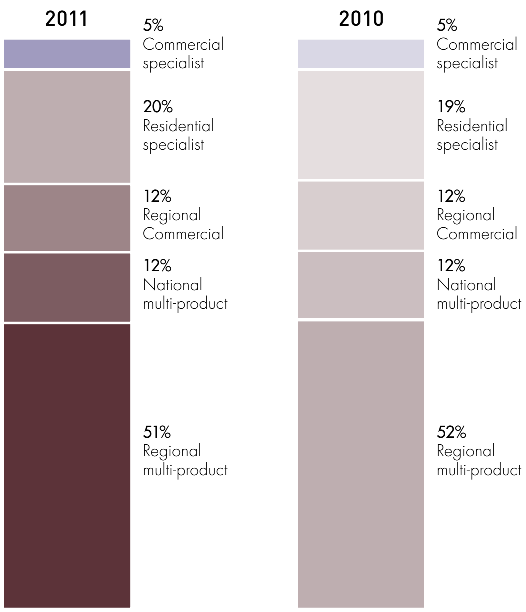
The benefit of this approach is that the group has operating management teams, with in-depth knowledge of their business objectives and processes, leading the development of our businesses.

The strength of our management at the individual business level is supported by the small team of senior executive managers who through guidance and direction, ensure that our teams are pursuing the group's strategy and contributing to the achievement of our operating objectives.

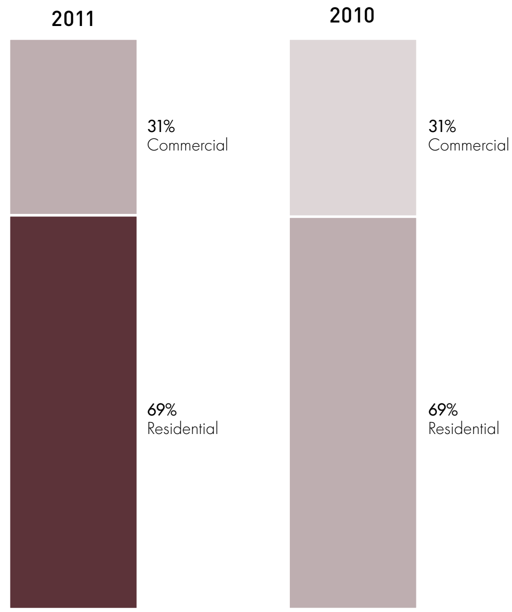
Investments

We currently have a number of plans to further improve and enlarge the infrastructure of the group.

UK REVENUE PERCENTAGES BY MARKET SECTOR



UK REVENUE PERCENTAGES BY PRINCIPAL PRODUCT



We have obtained planning permission to extend our distribution centre in Tamworth, increasing its footprint from 147,400 square feet to 160,200 square feet. This will allow our Residential and Commercial specialist businesses to further develop their activities in the middle to higher market sectors that they serve.

In Coleshill, we have agreed to acquire, subject to planning permission, land adjacent to the existing distribution centre in order to increase the size of the centre from 159,500 square feet to 283,800 square feet. This will provide the capacity to increase our central stock holding in certain product sectors to satisfy the demand from our regional distribution centres and manage our future working capital investment on a more efficient basis.

We have been involved in a very protracted process to relocate Faithfulls, our Regional multi-product business in Hadleigh, near Ipswich. Unfortunately, the planning permission issues proved to be insurmountable and therefore, we are currently in dialogue with other parties to acquire an alternative site, to accommodate a 127,000 square feet distribution centre, in close proximity to our existing operation.

Mercado, our National multi-product business, is currently in the process of opening a 6,800 square feet service centre in Liverpool. The service centre will enable Mercado to expand its position in the area and provides an opportunity to develop its market share in the commercial sector.

Furthermore, we plan to relocate the trans-shipping depot based in Chelmsford, which Mercado utilises to service the southeast of England. The new facility, which is located in the near vicinity, will also operate as a service centre for Mercado to enlarge its commercial activities in this region.

We are evaluating other modest investments to increase the number of service centres in specific geographical locations, which will expand our regional commercial activities.

Outlook

The first ten weeks of 2012 have continued a positive trend with all five business sectors and each product category in the UK continuing to produce increases in revenue against the corresponding period last year.

Markets remain challenging and somewhat unpredictable due to the general economic outlook combined with uncertainty over both raw material prices and currency exchange. However through the group's strategy and structure combined with extensive product and marketing initiatives, we are confident that our individual businesses can collectively outperform the market.

Tony Brewer Group Chief Executive


lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
WOLLTEC
You won't believe it's not wool!
gaskell WOOL RICH
Mr Tomkinson
your carpet specialist


lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
manx
WOOL / SISAL / SEAGRASS / COIR / JUTE
Creative Floorcoverings & Rugs by
CRUCIAL TRADING
Calm
GEORGIAN CARPETS
art·work
GEORGIAN CARPETS

Financial Review

Revenue

The revenue result for 2011 is the highest ever recorded by the group and represents a very satisfactory achievement given the current trading environment. At £569.8 million, it exceeds the results achieved in 2007 and 2008 respectively amounting to £544.7 million and £557.3 million, which were previously the two best years and were, attained prior to markets being affected by the current economic issues.

However, whilst we continue to make steady progress in the UK, in markets that anecdotal evidence suggests remain flat, the significant impact of currency translation on the evolution of group revenue should not be overlooked.

By way of illustration, the table below documents the principal factors giving rise to the changes in group revenue between 2007 and 2011.

	£000	£000
Revenue 2007		544,718
UK growth		3,297
Continental European decline	(6,808)	
Benefits of currency translation	28,588	
		21,780
Revenue 2011		569,795

The analysis highlights the benefits of currency gains, which arise from the depreciation of Sterling against the Euro and Swiss Franc. Based on the average currency rates used to translate the results of the Continental businesses in 2007 and 2011, Sterling has depreciated by 21.1% against the Euro and 40.9% against the Swiss Franc.

Growth in the UK during the four years since 2007 is the net result of expansion in the Residential and Commercial specialist businesses amounting to £33.2 million and a net decline of £29.9 million in the traditional distribution businesses.

The Residential specialist businesses represent a sector the group has invested in during the last ten years, firstly by acquisition and secondly, through ongoing investment in sales and marketing, the combination of which has seen this sector continue to grow notwithstanding market contraction.

The decline in the multi-product businesses has occurred as a direct consequence of the decrease in UK floorcovering markets. These businesses collectively represent 63% of UK revenue and as highlighted in the Chief Executive's Review, the resumption of growth in these two sectors during 2011 was an important step forward, since they provide the UK operation with the base of its market presence.

The impact of the reduction in the floorcovering markets in Continental Europe has been at its most acute in Switzerland, where revenues, at constant currency compared with those achieved in 2007, have reduced by 14.7%. Revenue is down in the Netherlands over the four year period by 9.1% and in France by 4.5%.

Gross margin and expenses

Group gross margin as a percentage of revenue remained unchanged compared with 2010. In the UK, the ongoing improvement in gross margin performance was unable to progress because of changes in product mix and increased price competition, particularly during the second half of the year. Further price competition is expected to be a feature of UK trading during 2012.

Total distribution and administration expenses as a percentage of revenue remained unchanged compared with the last two years at 25.9%. The increase in expenditure during the year, amounting to £8.8 million, was principally due to

- employment costs, in constant currency terms, up 5.9% to £4.4 million,
- fuel costs, up 14.0% to £1.4 million,
- cost of the delivery fleet up 12.5%, £1.0 million and
- sampling and bad debts up 7.2% to £1.1 million

Net finance costs

Net finance costs reduced during the year by £0.6 million compared with 2010. The change during the year was almost entirely attributable to the net reduction in finance cost associated with the group's pension plans.

Following renewal of the group's term facility, net finance costs are likely to increase during 2012 due to pricing changes on the new facilities.

Taxation

The effective rate of taxation reduced to 26% during the year, reflecting the decrease in the UK headline corporation tax rate and also the further future reduction already enacted, which impacts upon deferred taxation. The anticipated effective rate for 2012 is expected to reduce to 25% due to announced UK rate reductions.

Dividends

Total dividends paid and proposed for 2011 have increased by 14.1% from 12.40 pence to 14.15 pence. Dividend cover of 1.74 times is in line with last year and represents a cover ratio the board anticipate maintaining for the foreseeable future.

Refinancing

The group has entered into two separate agreements with Barclays Bank and The Royal Bank of Scotland and completed the re-financing of its existing term facility.

The new facilities, provided equally by the two banks and totalling £40.0 million, are for a term of four years, which can be extended to five on the exercise of a separate option by each bank.

The former facility, amounting to £30.0 million has been repaid in full and cancelled.

In addition to the above, the group has extended its uncommitted UK facilities, amounting to £35.0 million, for another 12 months.

Financial Review continued

Cash flows

Operating cash flows before changes in working capital

Operating cash flows before changes in working capital increased during the year by £2.3 million from £31.5 million to £33.8 million.

Net working capital investment during the year amounted to £12.9 million compared with £0.2 million during the previous year. The group continues to provide its customers with a wide range of product. This commitment, coupled with price increases introduced by suppliers during the first quarter of 2011, which averaged 3.6%, has resulted in an additional £8.7 million investment in inventory.

The additional funding required in connection with trade receivables has arisen due to the increase in revenue during the year. However, as already noted in the Chief Executive's Review, the average period of credit taken by our independent customer base, as measured at the end of the year, has reduced compared with the previous year.

The additional net working capital investment is the reason for cash generated from operations reducing by £10.5 million during the year. However, the decrease in cash payments relating to tax, £4.1 million, and the enhanced transfer value exercise, £4.2 million, was the principal reason for the reduction in net cash from operating activities to £2.2 million.

Cash flows from investing and financing activities

Additions to property, plant and equipment during the year were modest compared with previous years. However, as highlighted in the Chief Executive's Review, the group intends to embark on further investment over the next few years with approximately £24.0 million being committed to the development of the Coleshill extension and the new distribution centre for Faithfulls. It is too early in the process to comment on the detailed timing of the cash flows.

Cash out flows relating to financing activities amounted to £12.1 million compared with £10.0 million in the previous year. The main component of the cash flow relates to dividends but during the year, £1.6 million was utilised to acquire shares in the company to crystallise the cost of satisfying potential awards under the employee share plan arrangements.

Net debt

Group net funds at the end of the year decreased compared with the previous year by £2.9 million from £10.5 million to £7.6 million. The details are shown in the table below.

Employee benefits

As disclosed in the Cash Flow Statement, the group made further payments totalling £3.3 million in connection with the enhanced transfer value exercise during the first quarter of 2011, enabling deferred members of the UK defined benefit pension plan the opportunity to transfer out.

The group does not anticipate repeating this exercise in the foreseeable future.

The results of the triennial review of the UK defined benefit pension plan revealed a net deficit reduction from £22.4 million

Changes in net funds

	At 1 January 2011 £000	Cash flows £000	Translation differences £000	At 31 December 2011 £000
Cash at bank and in hand	44,758	(3,211)	(53)	41,494
Debt due within one year	(225)	(30,000)	6	(30,219)
Debt due after one year	(34,011)	30,228	92	(3,691)
	10,522	(2,983)	45	7,584

to £11.5 million. The reduction has been appreciably facilitated by both the additional contributions to the plan and the transfer of deferred members.

The company has agreed with the plan trustee to maintain additional contributions in line with the arrangement agreed in 2008, which means that each year's contribution will continue to increase on the previous year at a rate of 3.2%. This commitment gave rise to a cash payment of £2.8 million during the year and should result, all else being equal, in the plan deficit being completely eliminated by December 2015.

Going concern

Having reviewed the group's resources and a range of likely out-turns, the directors believe they have reasonable grounds for stating that the group has adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the group's financial accounts.

Steve Wilson Group Finance Director

Directors, Officers and Advisers

DIRECTORS

G Waldron ❇
Chairman

Graham was appointed an executive director in June 1991 becoming Chairman later that year until 31 December 1999. On the resignation of Trevor Larman on 1 June 2006 he was re-appointed Chairman. He has 59 years experience in the floorcovering industry. He was the non-executive Chairman of Tandem Group plc until his retirement from their board on 28 April 2010.

A J Brewer ■
Group Chief Executive

Tony was appointed an executive director in June 1991, becoming Managing Director of the Floorcoverings Division in January 1992, and was appointed Group Chief Executive in November 2000. He has 34 years experience in the floorcovering industry.

S G Wilson
Group Finance Director

Steve was appointed Group Finance Director in December 1991. He was the non-executive Chairman of Synergy Health plc until his retirement from their board on 22 September 2010 and is a fellow of the Institute of Chartered Accountants.

R W Peters ◆ ● ■
Non-executive Director

Dick was appointed a non-executive director in December 2005. He was formerly Senior Partner for the East Midlands practice of Deloitte & Touche in Nottingham. He is a BSc in Mathematics and Statistics and is a fellow of the Institute of Chartered Accountants. He has considerable experience of auditing large companies, both UK and overseas, transactional support and project management activities. He is a director and Chairman of Headlam Pension Trustees Limited.

M K O'Leary ◆ ● ■
Senior Independent Director

Mike was appointed a non-executive director in March 2006. He previously served on the Board of Misys plc in an executive capacity for 15 years and was CEO of Marlborough Stirling. He is currently non-executive Chairman of EMIS Group plc and also of Digital Healthcare Limited and is a non-executive director at Psion plc.

A K Eastgate ◆ ● ■
Non-executive Director

Andrew was appointed a non-executive director in May 2010. He was formerly a Partner in Pinsents including being head of Pinsents' corporate practice in Birmingham. Andrew has a broad experience of advising quoted companies, particularly in connection with transactions and compliance issues. He is a non-executive director of Epwin Investment Holdings Limited.

COMPANY SECRETARY

G M Duggan

Geoff was appointed Company Secretary in April 1998. He is a fellow of the Institute of Chartered Secretaries and Administrators and a fellow of the Chartered Institute of Management Accountants.

SENIOR EXECUTIVE MANAGEMENT

G B Phillips
Finance Director Operations

Gary joined the company in June 1992 and is the Finance Director of operations. He is an associate of the Chartered Institute of Management Accountants.

A R Judge
Commercial Director, Coleshill and Tamworth businesses

Tony joined the company in May 1992, is the Managing Director of all businesses operating from the Coleshill and Tamworth distribution centres and has operational responsibility for the Thatcham and Stockport businesses. Tony has 31 years experience in the floorcovering industry.

K R Yates
Managing Director, Mercado

Keith joined Mercado in April 1983 and was subsequently appointed its Managing Director in 1996. In addition he has operational responsibility for the businesses in Scotland. Keith has 29 years experience in the floorcovering industry.

M W McMaster
Commercial Director selected UK Operations

Mike joined the company in July 1984 and was appointed to the Senior Executive Management in January 2009 with operational responsibility for fifteen of the UK businesses. Mike has 41 years experience in the floorcovering industry.

◆ Audit committee
● Remuneration committee
■ Nomination committee
❇ Charities committee

ADVISERS

Auditors
KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham, B4 6GH

Taxation Advisers
Deloitte LLP
Four Brindley Place
Birmingham B1 2HZ

Principal Bankers
Barclays Bank PLC
PO Box 3333
One Snowhill
Snow Hill Queensway
Birmingham, B3 2WN

The Royal Bank of Scotland plc
Corporate and Institutional Banking
5th Floor, 2 St Philips Place
Birmingham B3 2RB

Solicitors
Pinsent Masons LLP
3 Colmore Circus
Birmingham
B4 6BH

Stockbrokers
Arden Partners plc
Arden House
17 Highfield Road, Edgbaston
Birmingham B15 3DU

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Financial Calendar

Announcements	
Interim Management Statement	18 May 2012
Annual General Meeting	15 June 2012
Interim results announced	24 August 2012
Interim Management Statement	16 November 2012
Full year results announced	March 2013
Dividend Dates	
Final dividend for 2011, if approved, payable to qualifying shareholders on the register as at 1 June 2012	2 July 2012
Interim dividend for 2012 announced	24 August 2012
Interim dividend for 2012 payable	2 January 2013

Directors' Report

Introduction
The directors present their annual report and audited financial statements as at, and for the year ended, 31 December 2011.

This Directors' Report should be read in conjunction with the Chairman's Statement, the Chief Executive's Review, the Financial Review, the Corporate Governance statement and the directors' Remuneration Report, which provide a detailed review of the group's activities and progress during the year. Each of these is incorporated by reference in, and shall be deemed to form part of this Directors' Report, to the extent required by applicable law or regulation.

Principal activities
The principal activities of the group are wholly aligned to the sales, marketing, supply and distribution of floorcovering and certain other ancillary products. The principal activity of the company is that of a holding company and its principal trading subsidiaries are listed on page 104.

Financial results and dividends
The profit for the financial year attributable to equity shareholders of the company was £20.4 million, as shown in the Consolidated Income Statement set out on page 54.

An interim dividend of 4.30p per share (*2010: 3.83p*) was paid on 3 January 2012 to shareholders on the register at the close of business on 2 December 2011. The directors propose a final dividend of 9.85p per ordinary share (*2010: 8.57p*), to be paid on 2 July 2012 to shareholders on the register of members at the close of business on 1 June 2012, the associated ex-dividend date being 30 May 2012. This would bring the total dividend for the year to 14.15p per ordinary share (*2010: 12.40p*). The payment of the final dividend is subject to shareholder approval at the Annual General Meeting ("AGM").

Directors and their interests
The directors of the company during the year were Graham Waldron, Tony Brewer, Steve Wilson, Dick Peters, Mike O'Leary and Andrew Eastgate. Biographical details of the directors currently serving on the board are set out on page 24.

There were no changes to the board in the year and no other person has acted as a director of the company during the year. The company's Articles of Association ("articles") give directors power to appoint and replace directors. They also provide that each director shall retire from office and shall be eligible for re-appointment at the third AGM after the general meeting at which they were appointed or last re-appointed. Accordingly, Steve Wilson and Mike O'Leary, who both retire by rotation, and being eligible, offer themselves for re-election at the forthcoming AGM. In proposing their re-election, the board confirms to shareholders that following evaluation, each of these individuals' performance continues to be effective and they have expressed a willingness to continue in their roles.

Details of directors' interests, including interests in the company's shares, are disclosed in the directors' Remuneration Report.

Qualifying third party indemnities
The articles entitle the directors of the company, to the extent permitted by the Companies Act 2006 and other applicable legislation (together, the Companies Acts), to be indemnified out of the assets of the company in the event that they suffer any expenses in connection with certain proceedings relating to the execution of their duties as directors of the company. In addition, and in common with many other companies, the company has insurance in favour of its directors and officers in respect of certain losses or liabilities to which they may be exposed due to their office.

Directors' conflict of interests
No director had, at any time during the period under review, any interests in any contract with the company or any of its subsidiaries, a position which was unchanged at 9 March 2012.

The UK Corporate Governance Code
A statement on the group's corporate governance is set out on pages 32 to 37.

Principal risks and uncertainties
The group's business, results and financial condition are influenced by a range of risks and uncertainties many of which are beyond the control of the board. Whilst the following highlights some of these risks it is not intended to provide an exhaustive analysis of the risks affecting the business. For instance, there are some risks which are as yet not known and others which whilst not presently material could become a significant factor in the future.

Market demand
A significant proportion of the group's sales are to independent retailers and flooring contractors. The activity levels within this customer base are determined by consumer demand created through residential property refurbishment or moves, new residential housing developments and a wide range of commercial refurbishment and new building projects. Periods of recession, low consumer confidence or changes in trends and preferences have the potential to affect market activity and therefore demand for products supplied by the group. However, market activity is monitored in each individual business and at group level on a daily basis which enables a rapid response to any factors adversely affecting trading. Furthermore, since the group's principal activities are supply and distribution, it has the ability to quickly respond to market changes. This, coupled with the development of broad market penetration through the establishment of a range of diverse regional, national and specialist businesses provides the group with a degree of resilience and protection.

Competitor risk
The group operates in four different geographical markets which generally share similar trading characteristics. Within each market, the group competes with a variety of regional and national distributors, with manufacturers selling directly to our customer base and indirectly with multiple retail chains. The group seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base. Substantial and continued investment in

management, an extensive product offering, a knowledgeable sales resource, stock availability, IT, efficient material handling, and logistics removes the need to compete strictly on price and allows the group to enhance its overall market position through its commitment to service. The distribution competition in Continental Europe is diverse and very fragmented. The group has deliberately adopted a cautious acquisition policy in these markets, searching for opportunities that provide good growth opportunities but at sensible valuations. Given the number of opportunities it is possible that a competitor, following a more aggressive acquisition strategy in Continental Europe, could challenge the group's position as Europe's leading floorcovering distributor.

Credit risk
The group trades with the majority of its customers on credit terms and therefore there is always the risk that customers are unable to pay outstanding balances. The group has standardised credit checking and debt collection procedures at each individual business. Businesses are encouraged to share credit information with other group businesses on a regular basis in order to prevent the escalation of small credit risks. All open accounts are subject to credit limits and businesses must obtain central approval for credit limits in excess of £10,000. These procedures, combined with the local knowledge of the credit control teams, not only reduce the risk of default, but also, in a number of instances, provide opportunities to assist the customer to trade out of their default position. The group does not use credit insurance since the level of default is generally low. Appropriate impairment provisions are made whenever the likelihood of default is high.

Infrastructure
An important element of the group's ability to service its customer base is its network of distribution and service centres. The group's policy of improvement through continued investment in new or extended facilities has been one of the principal drivers behind the group's historic growth rates. In order to support growth rates in the future, the group will continue to invest in new centres. There is a risk that future growth will be constrained if these development projects are unduly delayed through land availability, planning consent or prohibitive building cost.

Systems
The group is reliant on its IT systems to deliver its operational objectives and maintain financial control. As a consequence, any prolonged IT failure has the potential to adversely affect business activity. However, each business has its own dedicated computer system and failure in one will not interrupt another. Furthermore, the group operates well defined back up procedures and has contingency plans in place to enable swift recovery from a failure of this nature.

Transport
The majority of customer orders result in deliveries within twenty four hours on vehicles operated by the group. Any interruption to this service, for example, major disruption to road networks or the prolonged reduced availability of vehicle fuel could have an adverse affect on activity.

People
The group's ability to deliver continued success is very dependent upon its people. The group is committed to providing a workplace that is safe and environmentally sound and creating opportunities for individuals to progress their careers. Recruitment, training and development are aimed at ensuring that the group has suitably skilled and qualified people to meet the operational needs of the business.

Pension
The cost of funding the group's defined benefit plans may increase due to a decline in investment returns, movement in interest rates and longer life expectancy. As a result of the triennial actuarial valuation of the UK plan undertaken at 31 March 2008 and that undertaken at 31 March 2011, the group agreed to make additional payments every year until 2015 when it was planned that the scheme funding deficit would be removed, details of which are provided in note 20. The results of future scheme valuations, the next being 31 March 2014, could result in this commitment increasing or decreasing.

Government legislation
The group's operations are regulated by a variety of laws, which relate, amongst others, to health and safety, the environment, employment, commercial, corporate, financial and tax. The group is committed to complying with these requirements in each of the markets in which it operates and achieves this by managing its obligations at the group level and within individual businesses. Where appropriate, the group engages the services of competent third party advisers. Changes in regulations are incorporated into the group's policies and procedures on a timely basis.

Contributions for political and charitable purposes
The group's Charities Committee considers requests for charitable donations within set criteria. During 2011, in addition to donations made to overseas charities, the group contributed charitable donations to UK charitable organisations, principally to local organisations serving the communities in which it operates, of £39,523 (*2010: £26,253*).

The group's policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure. Accordingly neither the company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (*2010: £nil*).

Financial instruments
Details of the use by the company and its subsidiaries of financial instruments can be found in note 23 to the Financial Statements.

Employees
The average number of employees and their remuneration are shown in note 4 to the Financial Statements. At the year end the group had 2,062 employees (*2010: 2,020*) throughout the United Kingdom and Continental Europe. Reward is linked to business plans and targets thereby giving employees the opportunity to share in the financial

Directors' Report
continued

success of the group. In keeping with the structure of the business, this policy is applied locally, and as a result, staff of all levels regularly benefit from achieving local targets. The group recognises the value of its employees and seeks to create an energetic, dynamic and responsive environment in which to work. The company maintains a policy of employing the best candidates available in every position, regardless of gender, ethnic group or background. It places considerable importance on communications with employees which take place at many levels through the organisation and by a variety of means on both a formal and informal level.

Where existing employees become disabled, it is the group's policy wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate and gives full and fair consideration to applications for employment from disabled persons. Further details of arrangements relating to employees are described in the Corporate and Social Responsibility report on pages 49 to 52.

The company has communicated an internally operated whistle blowing policy and procedure to employees. The policy enables them to report any concerns on matters affecting the group or their employment, without fear of recrimination, and reduces the risk of malpractice taking place and remaining unreported. In addition, the group does not tolerate matters of discrimination or harassment and bullying and policies and procedures are in place for reporting and dealing with these matters.

Employees are encouraged to own shares in the company and the group operates an HMRC Approved Savings Related Share Option Scheme (SAYE). Those employees who choose to take up the option to purchase shares in the company may enter into a savings arrangement for either a three or five year period, with the option price determined by reference to the share price at the date of grant. On exercise the shares are purchased by the employee free of income tax and national insurance although capital gains tax rules apply. Shareholder approval is sought at the AGM to be held on 15 June 2012 for the adoption of a new SAYE scheme on expiry of that approved in 2002.

The environment
The group regards compliance with relevant environmental laws and the adoption of responsible standards as integral to its business operation. It is also committed to introducing measures to limit any adverse effects its business may have on the environment and will promote continuous improvement in accordance with best available techniques.

Supplier payment policy
It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers. The group seeks to strictly comply with these payment terms whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The payment policy has been and will continue to be developed to meet the group's specific requirements and is generally not based on any particular code or standard relating to payment practice. The number of creditor days of the company at 31 December 2011 was 46.7 days (*2010: 45 days*).

Fixed assets
A consideration of the market value of the group's tangible fixed assets is detailed in note 1 of the Financial Statements.

Share capital
As at 31 December 2011, the issued share capital of the company comprised a single class of ordinary shares of 5 pence each, with 85,363,743 shares in issue at that date. Of these, 2,241,197 were held in treasury. No shares were issued during the year, although 4,406 were transferred out of treasury in connection with the SAYE scheme. Details of the company's share capital are set out in note 22 of the Financial Statements which should be treated as forming part of this report.

Subject to the provisions of the articles and the Companies Acts, 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 Services Authority (the Listing Rules), whereby certain employees require the approval of the company to deal in the company's shares.

The company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the company.

Substantial shareholdings
As at 9 March 2012, in accordance with rule 5.1 of the disclosure and transparency rules, the company had been notified of the following interests in the ordinary share capital of the company.

Ordinary shares of 5p each

Shareholder	Nature of holding	Number	Per cent
Franklin Templeton Institutional, LLC	Indirect	10,777,818	12.97
Tweedy, Browne Company LLC	Direct	4,523,274	5.44
Aberforth Partners LLP	Indirect	4,283,326	5.15
Threadneedle Investments	Direct and indirect	4,154,941	4.99
Schroders plc	Indirect	3,565,486	4.18
Legal & General Investment Management Limited	Indirect	3,317,829	3.99
Blackrock, Inc	Indirect	2,775,989	3.25

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.

Rights under employees' share schemes
As at 31 December 2011, Kleinwort Benson (Channel Islands) Limited ("Kleinwort Benson"), as trustee of the Headlam Group Employee Trust Company Limited ("Trust") which acts as the trustee of the Headlam Group Co-Investment Plan 2008 ("CIP") and the Headlam Group Performance Share Plan 2008 ("PSP"), which were approved by shareholders on 20 June 2008, held 600,000 shares, approximately 0.7% of the issued share capital of the company, on trust for the benefit of the directors and certain senior managers of the group. Kleinwort Benson waives the dividends payable in respect of these shares.

As at the same date, the Trust held 100,088 shares, approximately 0.1% of the issued share capital of the company, which may be used to fulfil the exercise of SAYE options, the dividend payable in respect of these shares similarly being waived.

Voting
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 after the meeting. The holders of ordinary shares are entitled to receive the company's 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.

Appointment and replacement of directors
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 company by ordinary resolution or by the board, a director appointed by the board holding office only until the next AGM of the company after their appointment at which they are then eligible to stand for election. The articles provide that at every AGM of the company, one-third of the directors, those longest in office since last election, shall retire from office and may offer themselves for re-election, such number to exclude any director who was appointed by the board and is standing for election. The company does not seek to comply with the provision in The UK Corporate Governance Code which requires the annual re-election of directors.

The company may by ordinary resolution, but subject to special notice, remove any director before the expiry of the director's period of office. The office of a director shall be vacated if certain circumstances arise, as set out in the articles.

Amendment of articles
The company's articles may only be amended by a special resolution at a general meeting of shareholders.

Powers of the directors
Subject to the articles, the Companies Acts 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.

Powers in relation to the company issuing its shares
The directors were granted general authority at the AGM on 20 June 2011 to allot shares in the company up to an aggregate nominal amount of £1,122,500, representing 22,450,000 ordinary shares. Additionally the directors were granted authority to allot shares in the company up to an aggregate nominal amount of £1,122,500 in connection with a rights issue and £213,000 in respect of cash, without first offering them to existing shareholders. No shares have been allotted by the company during the year and these authorities will expire on 15 June 2012. Special resolutions will be proposed at the forthcoming AGM to renew each of these authorities.

Directors' Report
continued

Powers in relation to the company buying back its shares
The company may only buy back shares if the articles do not prohibit it from doing so and it has received the requisite authority from shareholders in general meeting. The articles do not contain any such prohibition and the directors were granted authority at the AGM on 20 June 2011 to purchase shares in the company up to 10% of the issued share capital, this authority expiring on 15 June 2012. Whilst no shares have been purchased under the buyback authority by the company during the year, a special resolution will be proposed at the AGM to be held on 15 June 2012 to renew the directors' power to make market purchases.

Change of control
The company has entered into certain agreements that may take effect, alter or terminate upon a change of control of the company following a takeover bid. The significant agreements in this respect are the group's term loan 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 relevant lender may cancel all or any part of the relevant facility and/or declare that all amounts outstanding under the relevant facility are immediately due and payable by the company.

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 bid taking place, or will lapse upon the expiry of such a period.

Matching share awards granted under the 2008 CIP and awards granted under the 2008 PSP may, proportionate to the performance period, vest within a period of six months from a change of control of the company. At the end of such period, awards will lapse and cease to be exercisable to the extent not exercised.

There are no agreements between the company and its directors providing for compensation for loss of office that occurs as a result of a change of control.

Directors' responsibilities
The Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements can be found on page 31.

Going concern
The director's opinion in respect of going concern together with further information relating to the financial position of the group, its cash flows, liquidity position and borrowing facilities is given in the Financial Review on pages 20 to 23 and in note 1 to the Financial Statements.

Auditors
In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of the group's auditors, KPMG Audit Plc, will be proposed at the forthcoming AGM. Each director who holds office at the date of approval of this Directors' Report confirms that, so far as each such director is aware, there is no relevant audit information of which the auditors are unaware; and the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

AGM
This year's AGM will be held at the group's distribution facility in Coleshill, Birmingham on Friday 15 June 2012 at 10.00am. The notice convening this meeting is set out within this Annual Report and Accounts on page 106, along with explanatory notes regarding the resolutions that will be proposed at the meeting on pages 112 to 114.

Recommendation
The directors consider that each of the resolutions to be proposed at the AGM is in the best interests of the company and the shareholders as a whole. Accordingly, the directors unanimously recommend that all shareholders vote in favour of all resolutions, as the directors intend to do in respect of their own beneficial holdings.

This report was approved by the board on 9 March 2012 and signed on its behalf by

Geoff Duggan
Company Secretary
Gorsey Lane
Coleshill
Birmingham
B46 1LW

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts and the Financial Statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report

We can confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company and the subsidiaries included in the consolidation taken as a whole; and

- the Directors' Report includes a fair presentation of the development and performance of the business and the position of the company and group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the board

Steve Wilson
Group Finance Director
9 March 2012

Corporate Governance

The Combined Code on Corporate Governance

This report sets out how the principles of the UK Corporate Governance Code (the "Code") are applied, reports on the company's compliance with the Code's provisions and provides an explanation where the provisions have not been complied with. This will be the first reporting period in respect of the new Code. The Code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

Whilst the company is a constituent member of the FTSE Small Cap Index, and thereby not subject to the Code, which applies to companies listed in the FTSE 100 and FTSE 250 Indices, it continues voluntarily to seek to comply with the provisions of the Code. In seeking to achieve a high standard of corporate governance, the company considers the group's reputation and performance will be enhanced, to the benefit of all interested parties.

The board considers that it has complied with the provisions of the Code throughout the year ended 31 December 2011 and up to the date of this report, with the exception of the following:

- Code B.6.2 states that the evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. The board considered the requirements of the Code but, mindful of the costs associated and perceived benefit of doing so, determined that board evaluation, similar to prior years, was to be undertaken in house.

- Code B.7.1 states that all directors of FTSE 350 companies should be subject to annual election by shareholders. The board does not consider the annual election of directors to be appropriate, considering that existing provisions for the re-election of directors are sufficient and better serve the interests of the company.

In addition to compliance with the Code described above, the board considers that it has complied fully with the provisions of the Quoted Companies Alliance report on Corporate Governance Guidelines for Smaller Quoted Companies issued in September 2010.

Board of directors

During the year and as at 31 December 2011 the board consisted of six members, three executive directors comprising Graham Waldron, Chairman, Tony Brewer, Group Chief Executive and Steve Wilson, Group Finance Director and three independent non-executive directors, Dick Peters, Mike O'Leary and Andrew Eastgate.

The board considers that the balance achieved between executive and non-executive directors during the year was appropriate and effective for the control and direction of the business. The company considers that diversity in the boardroom is essential to good business, appointment processes continuing to ensure that all appointments are made on merit.

The board is collectively responsible to shareholders for the proper management and success of the group. Its role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed; to set strategic aims, ensure that the necessary financial and human resources are in place to meet its objectives and review management performance; to set the group's values and standards and to ensure that its obligations to its shareholders and others are understood and met.

The roles and responsibilities of the Chairman and Group Chief Executive are clearly divided and periodically reviewed by the board. Whilst collectively they are responsible for the leadership of the group, the Chairman's primary responsibility is for leading the board and ensuring its effectiveness and the Group Chief Executive is responsible for implementing strategy, running the businesses in accordance with the objectives and policies agreed by the board and for the executive management of the group. The Chairman communicates frequently with the non-executive and executive directors and the non-executive directors have the opportunity to meet with and discuss any issues or concerns with the Chairman at any time throughout the year. Matters that are not specifically reserved for the board and its committees under their terms of reference or for shareholders in general meeting are delegated to the Group Chief Executive.

The board maintains overall control of the group's affairs through a schedule of matters reserved for its decision. These include, but are not limited to, setting group strategy, approval of the business objectives and annual plan, acquisitions and disposals, authority limits for capital and other expenditure, material treasury matters, changes to capital structure and dividend policy, committee terms of reference, board composition, succession planning, health and safety, risk management, financial reporting and controls and corporate governance. The board is assisted by committees that it has established with written terms of reference, details of which are set out below.

During the year the board conducted an in house evaluation of its performance with no remedial actions arising. The board intends to review the way in which it conducts its in house evaluation procedures during 2012.

The directors bring strong judgement to the board's deliberations and the size, diversity and balance of skills and experience of the board is considered appropriate for the requirements of the business. The board believes that all three non-executive directors are independent of management and free from any business or other relationship, including those relationships and circumstances referred to in provision A.3.1 of the Code that could materially interfere with the exercise of independent and objective judgement. In making this determination the board has considered whether each director is independent in character and judgement and whether there are relationships or circumstances which are likely to or could affect the director's judgement. Mike O'Leary, who served as the Senior Independent Director throughout the year, is available to shareholders if they have concerns which are not resolved through the normal channels of the Chairman, Group Chief Executive or Group Finance Director, or for which such contact is inappropriate. The non-executive directors do not participate in any bonus, share option or pension scheme of the company. They are initially appointed for a three-year term and, subject to review and re-election, can serve up to a maximum of three such terms.

All directors are subject to election by shareholders at the first AGM following their appointment by the board. Under the articles of the company, each of the directors is required to retire by rotation at least once every three years. Details of the directors retiring and seeking re-election at an AGM are given to shareholders in the Directors' Report and also in the Notice of AGM and the biographical details of the directors are shown on page 24.

Board information, induction, training and professional development

The board has a rolling agenda which is regularly updated in respect of specific topics that directors have requested for review at future meetings, including health, safety and environmental matters, finance and operational performance, risk management, business development initiatives, legal and regulatory developments and governance and best practice guidelines that affect the group. The board reviews the key activities of the business, receiving papers and presentations from senior executive management generally a week in advance of the meeting. The Company Secretary is responsible to the board in respect of board procedures and is available to individual directors. In conjunction with the Chairman, the Company Secretary ensures that information distributed to the board is sufficient, clear and accurate, that it is circulated in a timely manner and is appropriate to enable the board to discharge its duties. All directors are equally accountable for the proper stewardship of the group's affairs, however the non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully discussed and critically examined.

The induction of newly appointed directors includes background information about the group, directors' responsibilities, board meeting procedures, a number of other governance-related issues and procedures for dealing in company shares. A briefing on the general group strategy, including visits to group businesses, is provided by the Group Chief Executive. External training is arranged with suitable providers as appropriate and ongoing training is provided as and when necessary. Training and development in the year took various forms, including visits to group businesses and attendance at courses run by professional bodies on various commercial and regulatory matters. Directors receive regular updates appropriate to the business throughout the year aimed at developing and refreshing their knowledge and capabilities. 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.

Board meetings and attendance

The board usually meets nine times a year. During the year there are sufficient opportunities for the Chairman to meet with the non-executive directors without the executive directors being present should this be deemed appropriate. In addition, directors have contact between meetings and on occasions visit trading locations in order to maintain contact with the group's business. A record of meetings held during the year is set out below.

Board and committee meeting attendance

Name	Board	Audit	Remuneration	Nomination
Graham Waldron	9/9	3/3	2/3	*
Tony Brewer	9/9	1/3	3/3	1/1
Stephen Wilson	9/9	1/3	3/3	*
Dick Peters	9/9	3/3	3/3	1/1
Mike O'Leary	9/9	3/3	3/3	1/1
Andrew Eastgate	9/9	3/3	2/3	1/1

* Executive directors do not attend these meetings unless invited to do so by the respective committee Chairman.

In addition to the board meetings above there were two meetings which approved the 2011 Interim and 2010 Annual Report and Accounts. These meetings are constituted by a committee of the board formed for that sole purpose comprising the Group Chief Executive and Group Finance Director having considered the views of the whole board beforehand.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the company or any of its subsidiary undertakings other than a third-party indemnity provision between each director and the company and service contracts between each executive director and the company. 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. These provisions, which are qualifying third-party indemnity provisions as defined by Section 236 of the Companies Act 2006, were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts and interests in the shares of the company are set out in the directors' Remuneration Report.

The company also provides an indemnity for the benefit of each person who was a director of Headlam Group Pension Trustees Limited, which is a corporate trustee of the company's occupational pension schemes, in respect of liabilities that may attach to them in their capacity as directors of that corporate trustee. These provisions, which are qualifying pension scheme indemnity provisions as defined in Section 235 of the Companies Act 2006, were in force throughout the year and are currently in force.

Corporate Governance
continued

Directors' conflicts of interest
Procedures are maintained by the board whereby potential conflicts of interests are reviewed regularly. These procedures have been designed so that the board may be reasonably assured that any potential situation where a director may have a direct or indirect interest which may conflict or may possibly conflict with the interests of the company are identified and where appropriate dealt with in accordance with the Companies Act 2006 and the company's articles. The board has not had to deal with any conflict during the period.

Board committees
The board has established Audit, Remuneration and Nomination committees to oversee and debate important issues of policy and assist in attending to its responsibilities, each with terms of reference that each comply with the provisions of the Code and are available on written request from the Company Secretary at the registered office and are available on the company's website. The roles of the Audit, Remuneration and Nomination committees, whose membership is comprised of the three independent non-executive directors, with the Group Chief Executive additionally serving on the Nomination committee, are set out below.

Audit committee
The Audit committee is comprised of the three non-executive directors and was chaired during the year by Dick Peters. The Company Secretary acts as secretary to the committee. Dick Peters is a chartered accountant with considerable financial and audit experience and is considered by the board to have recent and relevant financial experience.

The Audit committee is responsible for monitoring and reviewing:
- the group's systems of internal control and the processes for monitoring and evaluating the risks facing the group on an ongoing basis
- updates from executive directors and senior executive management on key financial control matters
- the consistency of and any changes to the group's accounting policies, the application of appropriate accounting standards and methods used to account for significant or unusual transactions
- the integrity of the interim and annual financial statements, including a review of the significant financial reporting judgements contained in them
- the potential impact on the financial statements of certain matters such as impairment of asset values and employee benefits
- the effectiveness of the external audit process
- the application of the board's policy on non-audit work performed by the group's external auditor together with the non-audit fees payable to the external auditor
- the external auditors' plan for the audit of the group's accounts, confirmation of auditor independence and of the individuals carrying out the audit, confirmation of the proposed audit fee, approving the audit terms of engagement and management's response to any major external audit recommendations
- reports from the external auditor on the group's systems of internal control, including a summary of and commentary on the business risks and internal control processes, and reporting to the board on the results of this review
- non-audit services and fees
- the appointment, re-appointment or dismissal of the external auditor
- the appropriateness of an internal audit function
- the group's compliance with corporate governance principles
- arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting and other matters

In addition, the fees and objectivity of the group's auditor are considered by the committee. The committee recommends that shareholders re-appoint KPMG Audit Plc as the group's auditor, in accordance with resolution 5 set out in the Notice of AGM, and authorises the directors to determine their remuneration, as set out in resolution 6.

The committee periodically reviews its terms of reference and its effectiveness and recommends to the board any changes required as a result of such review.

Whilst only members of the committee are entitled to be present at meetings, the auditor, Chairman, Group Chief Executive and Group Finance Director may attend meetings by invitation. In accordance with the Code the board has undertaken an assessment of the need for a group internal audit function. The board considers that the control systems and procedures undertaken by the group are adequately performed by management and therefore does not currently propose to introduce a group internal audit function but will keep the matter under review. However detailed monthly reviews are carried out by the Finance Director for Operations and Financial Controller. This process has over the years identified a number of risks where action plans have been developed to eliminate, minimise or mitigate these risks, (including the use of insurance where appropriate. The Finance Director for Operations reports to the Group Finance Director and has access to the Chairman of the committee. The committee members, all other directors and senior executive management have direct access to the external auditor throughout the year, to seek advice or raise any issues or concerns.

The committee has an agenda linked to events in the group's financial calendar, normally meeting at least twice a year, including meetings before the annual and interim results announcements. The committee met three times in the year, members' attendance record being given on page 33, during which it discharged its responsibilities as set out in its terms of reference and schedule of business for the year. The committee has authority to investigate any matters within its terms of reference, to access resources, to call for information and to obtain external professional advice at the cost of the company.

The committee has independent access to the external auditor who has direct access to the Chairman of the committee outside formal committee meetings and at each meeting there is an opportunity for the external auditor to discuss matters with the committee without any executive management being present. The Audit committee has the specific task of keeping under review the nature and extent of non-audit services provided by the external auditor in order to ensure that objectivity and independence are maintained. The committee seeks to balance the benefits of continuity of audit personnel and the need to ensure independence through a change of audit personnel by agreeing with the auditor staff rotation policies. Whilst KPMG have been an external auditor to the group since 1992, there is a procedure in place for the audit partner to change not more than every five years, so maintaining objectivity and independence without the need to change firm, the last such change taking place during 2011. The external auditor has in place processes to ensure its independence is maintained including safeguards to ensure that, where it does provide non-audit services, its independence is not compromised. It has written to the Audit committee confirming that, in its opinion, it is independent.

When appointing advisers for non-audit work, the group considers the value for money, experience and objectivity required and in this respect it has used Deloitte to conduct non-audit tax work. The committee recognises that there are occasions when it is advantageous to use the external auditor to undertake non-audit services, when they are best placed to do so. The policy states that non-audit fees paid to the principal external auditor should not exceed 250% of the audit fee, except in the case of significant events. The Chairman of the committee is required to authorise non-audit work above a pre-agreed threshold. A breakdown of 2010 and 2011 audit and non-audit fees is provided in note 3 to the Financial Statements. The non-audit services provided by the external auditor in 2011, predominantly in respect of iXBRL mapping, P11D software, advice in respect of VAT and corporate tax services to the group's Continental European businesses amounting to £45,000 was below the pre-agreed threshold.

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 has ensured, as far as possible by enquiry of them, the independence of the external auditors. The Chairman of the committee will be available at the AGM to answer any questions on the work of the committee. The terms of reference of the committee are available on request from the Company Secretary at the registered office and are available on the company's website.

Remuneration committee

The Remuneration committee is comprised of the three non-executive directors and was chaired during the year by Mike O'Leary. It establishes, on behalf of the board, the remuneration policy generally, approves specific arrangements for the Chairman and the executive directors and reviews and comments upon the proposed arrangements for senior executive management so as to ensure consistency within the overall remuneration policy and group strategy. Further information on the activities of the committee is given in the directors' Remuneration Report on pages 38 to 48 which should be read in conjunction with this report. The directors' Remuneration Report also describes how the principles of the Code are applied in respect of remuneration matters and includes a statement on the company's policy on directors' and senior executive managers' remuneration, benefits, share scheme entitlements and pension arrangements. During the period no director was, and procedures are in place to ensure that no director is, involved in deciding or determining their own remuneration. A resolution to approve the Remuneration Report will be proposed at the AGM.

Nominations committee

The Nominations committee is comprised of the three non-executive directors and the Group Chief Executive and was chaired during the year by Mike O'Leary. The terms of reference of the committee are available on request to the Company Secretary at the registered office and are available on the company's website.

The committee leads the process for identifying, and makes recommendations to the board on, candidates for appointment as directors of the company and as Company Secretary, giving full consideration to succession planning and the leadership needs of the group. It also makes recommendations to the board on the composition and Chairmanship of the Audit and Remuneration committees. It keeps under review the structure, size and composition of the board, including the balance of skills, knowledge and experience and the independence of the non-executive directors, and makes recommendations to the board with regard to any changes. The committee meets when required and met once in the year, as reflected in the attendance record during 2011 given on page 33. Only members of the committee are entitled to be present at meetings but others may be invited by the committee to attend. The board has agreed the procedures to be followed by the Nominations committee in making appointments to the various positions on the board and as Company Secretary. The committee has access to such information and advice both from within the group and externally, at the cost of the company, as it deems necessary. This may include the appointment of external executive search consultants, where appropriate. No director is involved in any decisions regarding their appointment.

The committee ensures that newly appointed directors receive a full induction and when considering the re-appointment of directors ensures that the board has an appropriate balance of skills, knowledge and experience. Items discussed by the committee during the year to enable it to discharge its duties in accordance with its terms of reference included the proposals to re-elect Steve Wilson and Mike O'Leary under the retirement by rotation provisions.

The committee, in conjunction with the board, receives updates from the Group Chief Executive on succession and development planning for senior positions within the group. Changes to directors' commitments are reported to the committee as they arise and are considered on their individual merits. There were no significant changes to any of the directors' external commitments during the year. Appointments to the committee are made by the board.

Corporate Governance
continued

Communication with shareholders

The company places considerable importance on communication with shareholders. When reporting to shareholders, the board aims to present a balanced and understandable assessment of the group's financial position and prospects, reporting four times a year when its half year and full year results are announced, and an interim and an annual report is issued to shareholders, and through interim management statements typically released in May and November. Further information regarding business developments is available to investors on the group's website www.headlam.com.

The company has an ongoing programme of dialogue and meetings between the executive directors and institutional investors and analysts which cover strategy, trading and market conditions. Contact with the major shareholders is principally maintained by the Group Chief Executive and Group Finance Director. During the year a number of meetings were held at certain of our businesses with the aim of providing shareholders with increased exposure to our operations and management. The Chairman ensures that the views of shareholders are communicated to the board as a whole.

The Group Chief Executive and Group Finance Director have met with the company's brokers during the year to ensure they are aware of the current views of major shareholders and of any material issues they may have. These reports include summaries on the market's reaction to results announcements and the subsequent meetings between management and investors. External brokers' reports on the company are circulated to all directors. Whilst the Senior Independent Director and the other non-executive directors are invited to attend presentations to analysts and institutional shareholders, in particular the annual and interim results presentations, they did not attend any meetings with shareholders in the year.

Risk management and internal controls

The Code requires that the directors review the effectiveness of the group's system of internal control. The board recognises that the management of risk through the application of a consistent process is key to ensuring a robust system of internal control, the principle risks and uncertainties facing the company including some of those identified in the Director's Report. This however is not an exhaustive list and there may be other risks that have not been considered or that the board consider now are insignificant or immaterial in nature, but that may arise and have a larger effect than originally expected.

Directors are required by the Code to review and report annually to shareholders on the effectiveness of the company's systems of internal control, which includes financial, operational and compliance controls and risk management. The board has responsibility for establishing and maintaining the group's systems of internal control and for reviewing its effectiveness whilst management is responsible for the implementation of internal control systems. The internal control provisions of the Code continue to be applied by the board through a continuous process for identifying, evaluating and managing the significant risks the group faces.

The group's risk management processes seek to ensure sustainable development throughout the conduct of its business in a way which satisfies its customers, maintains proper relationships with suppliers and contractors, mitigate losses from unforeseen causes, provides a safe and healthy workplace, develops environmentally aware processes, minimises the cost and consumption of increasingly scarce resources, reduces waste and maintains a positive relationship with the communities in which it operates. The systems are designed to meet the group's particular needs and to manage rather than eliminate risks, by their nature, providing reasonable and not absolute assurance against material misstatement or loss. The measures taken, including physical controls, segregation of duties and reviews by management, are considered by the board to provide sufficient and objective assurance.

The board maintained its process of hierarchical reporting and review during the year in order to evaluate the effectiveness of the group's systems of financial and non-financial controls. A comprehensive series of operating and financial control procedures applying to all businesses has been developed and the group finance team performs monthly reviews to verify that the businesses are complying with the prescribed operating and financial control procedures. Additionally, the board reviews risk management arrangements and the Audit committee receives reports from the external auditor on matters identified in the course of its statutory audit work.

These procedures provide a documented and auditable trail of accountability, the results of which are periodically reviewed for completeness and accuracy. These procedures allow for successive assurances to be given at increasingly higher levels of management through to the board. Planned corrective actions are monitored for timely completion. The board has not identified any failings or weaknesses, or been advised of any, which it has determined to be significant during the course of its review of the system of internal control. There were in addition no changes in the group's internal controls or financial reporting that have materially affected, or are reasonably likely to affect, the group's systems of internal control.

A comprehensive planning system includes detailed reviews at all subsidiaries and formal reviews and approval of annual plans by the board. Actual performance is measured on a monthly basis against plan and prior year, including a detailed explanation of significant variances. Revenue, gross margin and cash flow, are reported on a daily basis against plan and prior year. The control procedures operated by the group are designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to fraud. Guidelines for capital expenditure and investment appraisal include annual plans, detailed appraisal and review procedures, authority levels and due diligence requirements when businesses are acquired, the acquisition or disposal of a business requiring formal board approval.

These detailed reviews are an important aspect of management reporting in the identification of new and emerging risks. An ongoing process of risk management and internal control in accordance with the Code has been in place for the financial year under review and up to the date of this report, the careful management of risk considered to be a key activity in delivering business opportunities. The ethos of the group, delegation of responsibility and other control procedures together with accounting policies and procedures are communicated through the group and employment handbook, supported by the group's anti bribery policy communicated during the year. The integrity and competence of personnel is assessed during the recruitment process and monitored throughout employment.

The group promotes a high standard of health and safety management at all levels supported by training programmes at operating businesses. Group health and safety rules are monitored and audited to promote a high level of awareness and commitment, with individual businesses assessed on a periodic basis. Remedial solutions are implemented where necessary, action plans and progress being monitored and reported.

The Corporate Governance report and the Audit committee report contained within have been approved by the board and are signed on its behalf by

Geoff Duggan
Company Secretary
9 March 2012

Remuneration Report

The purpose of this report is to inform shareholders of the company's policies on directors' and senior executive managements' remuneration for the year ended 31 December 2011 and, so far as practicable, for subsequent years as well, and to provide details of the remuneration of individual directors as determined by the Remuneration committee ("the committee").

It has been prepared by the committee on behalf of the board and in accordance with the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Corporate Governance Code. It also meets the relevant requirements of the Financial Services Authority Listing Rules.

This report has been approved both by the committee and the board and, in accordance with the Companies Act 2006, shareholders will be asked to approve the report by way of a resolution that will be proposed at the AGM of the company on Friday 15 June 2012, at which the Chairman of the committee will be available to answer any questions.

The first part of the report, commencing with the role of the committee, commentary on remuneration policy including share options, Co-Investment Plan awards and share scheme explanatory notes does not require to be audited. The second part commencing with directors remuneration and including a review of directors' remuneration, detail of directors' emoluments, share awards and options and pension arrangements does require to be, and has been, audited in accordance with the relevant statutory requirements.

Unaudited information

Composition of the Remuneration committee

The committee is comprised of the Chairman, Mike O'Leary and two other non-executive directors. Mike O'Leary and Dick Peters served throughout both the period under review and the prior period, with Andrew Eastgate joining the committee on 17 May 2010 following his appointment as a non-executive director. The experience and responsibilities of committee members are set out in their biographies on page 24. The members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interest and, as independent non-executive directors, no day to day involvement in running the business. In accordance with the committee's terms of reference, no one attending a committee meeting may participate in discussions relating to their own terms and conditions of service or remuneration.

A table, identifying the committee members, other attendees and members' record of attendance at the three meetings held during the year, is set out below.

Committee member	Position	Comments	Number of meetings attended during the year	Meetings eligible to attend
Mike O'Leary	Chairman of the committee	Senior Independent Director	3	3
Dick Peters	Member	Independent non-executive director	3	3
Andrew Eastgate	Member	Independent non-executive director	2	3
Committee attendee	**Position**	**Comments**		
Graham Waldron	Chairman	Attends by invitation	2	
Tony Brewer	Group Chief Executive	Attends by invitation	3	
Steve Wilson	Group Finance Director	Attends by invitation	3	
Geoff Duggan	Company Secretary	Secretary to the committee	3	

The role of the Remuneration committee

The committee is responsible for setting the framework and policy for the remuneration of executive directors which it reviews annually for appropriateness and relevance. It is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the committee fully considers relevant legal and regulatory requirements including the provisions and recommendations of the UK Corporate Governance Code.

The committee has received delegated authority from the board to determine and agree the remuneration strategy for executive directors and senior executive management. When determining strategy, the committee recognises the importance of retaining capable individuals and the need to reward performance which contributes to the success of the company.

It is also responsible for determining the specific elements of the executive directors' and senior executive managements' remuneration, performance targets, contractual terms and compensation arrangements. Furthermore, it ensures that in the event of termination, contractual terms and payments are fair both to the company and to the individual in that failure is not rewarded and the duty to mitigate loss is recognised. In addition, the committee oversees any major changes in employee benefit structures throughout the group and approves the design of all share incentive plans and, oversees any subsequent amendment. It reviews and recommends appropriate performance conditions and targets for the variable element of remuneration and determines the extent to which the performance targets have been achieved.

In addition to receiving advice from its external consultants, members attend seminars on the subject and review data and surveys from a variety of published sources with particular reference to the scale and composition of the total remuneration packages to executives.

In setting remuneration policy and levels for the executive directors and senior executive management, the committee takes into account the economic environment and financial performance of the group, along with pay and employment conditions of other group employees, especially when determining base salary increases.

The committee's terms of reference are available from the company on request and are available on the company's website, www.headlam.com. They are reviewed periodically to take account of best practice and corporate governance requirements and were last reviewed in 2010.

Remuneration policy

Following a review in October 2011, the committee concluded that the current remuneration policy remains appropriate and the objectives continue to be:

- ensure that the remuneration structure supports the strategy of the business;
- ensure that the remuneration structure motivates the executive directors and senior executive management to succeed and appropriately rewards them for their contribution to the attainment of the group's challenging short and long-term targets;
- maintain, particularly through reward schemes based on performance, a competitive package of pay and benefits which provides the motivation for future achievement;
- facilitate the building and retention of a high calibre and focussed team, which will work effectively to achieve the group's longer term strategic objectives;
- align the executive directors' and senior executive management interests with those of shareholders by offering participation in schemes which provide opportunities to build shareholdings in the company; and further encourage executive directors' to build up meaningful shareholdings, and
- facilitate effective succession planning.

In order to encourage and reward enhanced business performance and shareholder returns, the committee considers that a substantial proportion of the executive director's and senior executive management's remuneration should be variable and performance related. The committee is satisfied that the incentive structure does not raise governance issues by inadvertently motivating or encouraging irresponsible or reckless behaviour.

In deciding that the current remuneration strategy remains appropriate for 2012, the committee has taken into account the group's performance over the last year and the current economic environment. The remuneration policy will continue to be monitored and reviewed by the committee to ensure that the remuneration structure and associated performance measures remain appropriately aligned with the group's strategic objectives. The individual salary, bonus and benefit levels of the executive directors and senior executive management are and will continue to be reviewed annually by the committee.

The committee considers that in making smaller but more frequent awards under the long-term incentive schemes, each subject to the attainment of specific performance targets over a three year period, it further aligns the interests of directors and senior executive management.

Remuneration Report
continued

Remuneration components
The current components of executive remuneration and how they are aligned with the overall business strategy are summarised in the table below:

Component	Policy for executive directors and senior executive management	Purpose and link to business strategy
Base salaries	- Reviewed annually - Influenced by role and experience - Benchmarked using data from a variety of published sources	- Market competitive salaries help the group to recruit, retain and motivate the best talent
Annual performance bonus	- Based on achieving stretching group profit before tax targets - Maximum of 150% of base salary	- Alignment with the group's strategic priorities of increasing market share and improving profitability - Maximum bonuses are only available for the delivery of above target growth in earnings
2008 Co-Investment Plan	- Deferral of between 15% and 100% of annual bonus - Other funds can be invested under certain circumstances - Up to 2 for 1 matching subject to stretching EPS and TSR targets	- Involves personal financial commitment - Encourages executives to increase their company shareholding - Aligns executives interests with long-term corporate performance and shareholder returns
Other benefits	- The group provides a company car, medical insurance and life assurance cover to its executive directors and senior executive management	- Provision of market typical employee benefits assist the group to recruit, retain and motivate

Base salaries
Generally, the appropriate market rate for comparable positions and levels of responsibility and the individual executive's experience, performance and value to the business are reflected in the committee's assessment of base salaries.

The committee reviews base salary annually with any change taking effect from 1 January. When reviewing base salaries, the committee takes account of the current economic climate, challenges facing the business and pay environment for employees in general. In respect of 2012 it also considered that for three years from 2009 to 2011, the executives' base salaries had remained unchanged. The committee has approved an average inflationary increase of 2.5% to base salaries for the group's workforce, including the executive directors and senior executive management. The exception to this increase will be where pay increases need to be granted to any employees whose base salary is considerably behind the market or to individuals who are promoted to a more senior role.

Annual performance bonus
The scheme focuses on annual objectives and links individual performance with a business financial target. The financial target is calculated by reference to the extent to which the group's profit before tax meets the planned target. The annual performance related bonus scheme is reviewed by the committee to ensure that it remains competitive and, whilst subject to a stretching target, continues to offer an incentive to the executive directors and senior executive management. The committee establishes the financial target that must be attained if a bonus is to be paid, the target being designed to drive performance and to strengthen the alignment between the interests of shareholders and its senior management, whilst also encouraging management retention.

In 2010 the annual performance bonus comprised a cash bonus based on the achievement of the group's financial target, with an award of 97% of base salary being paid. The bonus was based on 75% of base salary on attainment of target plus a further 22% for attainment of above target performance, such outperformance being calculated by reference to a predetermined matrix, subject to a maximum of 150% of base salary.

The basis of the performance related scheme for 2011 was unchanged from that in respect of 2010, also being based on the achievement of a profit before tax target. Growth in market share and increasing profitability continued to be an area of major focus for the group in 2011. A bonus of 75% of base salary was attainable on achievement of the performance target, with a maximum bonus, under the scheme, of 150%

for over-achievement against the target. In the event that 90% of the financial target was achieved, a bonus of 10% of base salary was to be awarded below which, no bonus was to be awarded. In adopting the performance parameters described above, the committee decided that there would be no discretion to make bonus awards for further over or under performance.

The committee is satisfied that the profit before tax target for 2011 was exceeded and accordingly performance-related bonuses, including 24.7% of base salary in respect of over-achievement, were awarded to the executive directors as shown in the table below.

The performance related components of remuneration for executive directors and senior executive management are paid in March following the completion of the annual audit.

For 2012, the basis for calculating the annual performance bonus remains the same as that used for 2010 and 2011. On achievement of the profit before tax target, a bonus of 75% of base salary will be applicable, whilst a performance of 90% profit before tax target gives rise to a 10% bonus with incremental adjustments between these two measures. The maximum bonus payment of 150% of base salary will only be paid for achievement of a performance that is 28% or more above the profit before tax target.

Bonus ranges for 2011 and 2012 and actual bonus outcome for 2011 as a percentage of salary

Executive Director	Actual bonus level	Maximum bonus opportunity	Target bonus level
Group Chief Executive	99.7%	150%	75%
Group Finance Director	99.7%	150%	75%
Chairman	–	–	–

Share incentive arrangements

In order to align their interests with the company's shareholders, the committee is keen to encourage executive directors and senior executive management to increase their shareholdings in the company, although it notes that the current executive directors have significant personal shareholdings. The committee recognises the importance of share incentives in recruiting and retaining directors and employees on whose performance the success of the company depends. The share incentive arrangements also provide a key link between rewards to executive directors and senior executive management and the achievement of a sustained improvement in long-term financial performance.

Shareholders have approved one employee sharesave scheme, two share option schemes and two executive share schemes.

The Headlam Group Sharesave Scheme ("SAYE"), adopted in June 2002 is open to all eligible employees on the same basis, including executive directors, providing a long-term savings and investment opportunity. A resolution to approve the adoption of a new SAYE scheme on expiry of the current one is included in the 15 June 2012 AGM Notice of Meeting.

The two share option schemes, Headlam Group Approved Executive Share Option Scheme 2008 and the Headlam Group Unapproved Executive Share Option Scheme 2008 ("ESOS") and two executive share schemes, Headlam Group Co-Investment Plan 2008 ("CIP"), Headlam Group Performance Share Plan 2008 ("PSP"), were approved in June 2008.

The committee intend to use the CIP and PSP as the principal incentive vehicles for executive directors and senior executive management, with awards being made on an annual basis. Whilst awards have been made under the CIP, as detailed below, the committee has not yet implemented the PSP and does not intend to do so during 2012. The committee anticipates using the ESOS to reward employees below the board and it is not the current intention to grant awards under the ESOS to executive directors or senior executive management. The committee determines if performance conditions, to enable an award under the CIP, have been met once the EPS and TSR figures are known for the relevant financial years.

Headlam Group Co-Investment Plan 2008 (the "CIP")

Participants may be invited, at the discretion of the committee, to take not less than 15% and up to 100% of their annual bonus in the form of shares, the number of shares allocated being calculated by reference to the net value of the bonus after deduction of income tax and employees national insurance. If an annual bonus award is not achieved in any year and therefore not available for investment in the CIP, the committee may permit participants to invest alternative funds but subject to a maximum of 50% of any bonus paid in the preceding year. In addition, instead of investing a bonus award or other funds, the participant may utilise shares already held and previously acquired in the market. Initially this option was to only apply to the first year in which the award was made but, has subsequently been amended, by shareholder approval in 2011, and now applies to subsequent awards as well.

Participants, having accepted the invitation, are then granted awards in the form of matching share awards. The maximum value of the matching share award is twice the value of the shares that would have been acquired with the gross bonus award. It is currently intended that awards will be satisfied by the transfer of shares from an employee share trust, such shares having been acquired by the trust on the market to the extent required. Subject to the satisfaction in full or part of the relevant performance targets, an award will be exercisable between three and ten years after the award date.

Performance targets are measured over a fixed period of three years, beginning not earlier than the year in which an award is made. On adoption of the scheme in 2008 they were a mix of Earnings Per Share ("EPS") growth targets and total shareholder return ("TSR") targets against the FTSE 250 index, excluding investment trusts, with 50% of the award determined by the EPS growth targets and 50% by the TSR targets. The FTSE 250 index had been chosen as it was a relevant broad based equity index in which the group had over a number of years been a constituent member.

The committee considers that achieving real EPS growth in the medium term is of paramount importance for the long-term success of the business and is a measure more reflective of management performance. By contrast, TSR is a market driven measurement affected by macro-economic influences many of which, are not within management's control. After considering the performance targets during 2011, the committee decided to change the basis of measurement to the FTSE SmallCap Index with 80% of the award determined by EPS growth targets and 20% by TSR targets. The committee carefully considered using a specific comparator group rather than a broad index but regarded the FTSE SmallCap index as a relevant broad based equity index particularly since the company is now a constituent member.

Headlam Group Performance Share Plan 2008 (the "PSP")

The PSP provides for the grant of non-transferable awards, in the form of nil cost options, to acquire existing shares. It is currently intended that awards will be satisfied by the transfer of shares from an employee share trust, such shares having been acquired by the trust on the market.

Whilst selected directors and employees are eligible to participate at the discretion of the committee, it is intended that only the executive directors and senior executive management will participate in the PSP. The aggregate market value of shares over which an award may normally be made to a participant in any year may not exceed their basic annual salary. However, awards may be made in excess of this limit in circumstances the committee deem exceptional. Subject to the satisfaction in full or part of performance targets, an award will be exercisable between three and ten years after the award date.

Under the rules of the plan, performance targets are to be measured over a fixed period of three years, beginning not earlier than the year in which an award is made. Performance targets are to be a mix of EPS growth targets and TSR measured against an appropriate index. Subject to committee approval before awards are granted, any awards made in the 2008 year when the scheme was adopted were to be split with 50% determined by an EPS growth target and 50% by a TSR target. The targets that would have applied to the original award are those described below and are the same as those that apply to any awards under the CIP. To date there have been no options granted under this scheme and the committee has no current intention to implement the PSP in 2012.

Vesting of the TSR and EPS elements under the CIP and PSP

TSR ranking of the group	Matching under the CIP	Vesting under the PSP*
Below median	None	0%
Median	1 for 1 matching	30%
Upper quartile	2 for 1 matching	100%
Between median and upper quartile	Straight line matching	Straight line vesting

Vesting of the EPS element under the CIP and PSP

EPS growth relative to RPI	Matching under the CIP	Vesting under the PSP*
Less than RPI+3% p.a.	None	0%
RPI+3% p.a.	1 for 1 matching	30%
RPI+6% p.a.	2 for 1 matching	100%
Between median and upper quartile	Straight line matching	Straight line vesting

Actual Long Term Incentive Awards
In August 2011 awards were granted under the CIP to the executive directors and senior executive management which were subject, similar to awards made in October 2010, to the TSR and EPS performance targets described above. In considering making awards in 2011, the committee had due regard to the macro-economic influences on TSR, many of which were not within management's control. As a result the committee decided to grant awards in 2011 that were weighted 20% to TSR and 80% to EPS performance targets, also amending awards made in 2010 to reflect the same proportion. The awards were determined by reference to prior year bonus with matching share awards of up to 2 for 1, dependent on achievement of the performance targets. In 2010 shareholders approved an amendment to the rules allowing participants to use existing shareholdings to fund grants made under the scheme up to a value of one times base salary, to be over a number of grant years rather than all in the first year of grant as envisaged in 2008 when the scheme was first adopted.

Headlam Group Approved and Unapproved Executive Share Option Schemes 2008
The schemes are respectively, an HM Revenue & Customs ("HMRC") approved discretionary share option scheme and a non-HMRC approved discretionary share option scheme which provide for the grant of non-transferrable options to acquire ordinary shares in the company by way of purchase or subscription to eligible employees. It is intended the executive directors and senior executive management will not participate in these schemes in the future.

The exercise price of an option cannot be less than the market value of a share at the date of grant, or in the case of subscription, not less than the share's nominal value. Options may normally be exercised three years after the grant date subject to the satisfaction in full or part of performance targets. They cannot however be exercised more than ten years after the grant date.

On adoption of the schemes in 2008, the performance target for options granted in the first year was EPS growth against growth in the Retail Prices Index ("RPI") over a three year performance period, measured on a scaling basis. To date there have been no options granted under either of these schemes.

Headlam Group Executive Approved and Unapproved Share Option Schemes 1998
As set out in the analysis of share options in note 21, there are options granted in 2005 that could still be exercised. The performance targets for options granted under the 1998 Share Option Schemes are based on the extent to which growth in the group's EPS exceeds growth in RPI over a three year performance period, EPS being calculated on a fully diluted basis. In respect of the approved scheme, EPS growth must exceed RPI by 3% per annum over the three year performance period. In respect of the unapproved scheme, for options up to one times eligible earnings, EPS growth must exceed RPI growth by 3% per annum over the three year performance period and by 5% over the three year performance period for options granted of between one times and two times eligible earnings. The committee felt that these performance conditions were appropriate at the time the options were granted.

Headlam Group Sharesave Scheme 2002
The group encourages share ownership by employees. With the exception of non-executive directors, all employees are eligible to participate in the scheme. Options granted under the scheme may not normally be exercisable until the option holder has completed their three or five year savings contract, monthly savings being a minimum of £10 and a maximum of £250. Under the scheme, options may be granted at a price which represents a 20% discount to market price at the date of grant. Shareholders are being asked to adopt a new HMRC approved SAYE scheme at the AGM on 15 June 2012 on expiry of the current scheme.

Dilution
The committee is aware of, and supports, the ABI guidelines regarding dilution and regularly monitors compliance with these requirements.
The committee included provisions which limit the number of newly issued shares which can be granted in a 10 year period to 10% of the issued share capital under all employee schemes and 5% under the discretionary share plans.

Remuneration Report
continued

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 4% of the issued share capital and in respect of grants under discretionary plans was 2% of issued capital. It is the intention that options exercised under the SAYE scheme and the two executive share option schemes are satisfied by shares held in treasury. With regard to the PSP and the CIP it is the committee's intention to make market purchases of shares through a trust, if required, taking into account the likelihood of any performance targets being met and also potential lapsing of awards when employees leave employment.

Further information on share-based payments is set out in note 21 to the Financial Statements.

Other benefits
Executive directors receive taxable benefits comprising a company car and fuel and non-contributory private medical insurance, which are similar to those provided in comparable companies.

Retirement benefits
The group provides an opportunity for its directors and senior executive management to participate in occupational pension arrangements. Detail regarding the structure and nature of the pension plans is given on page 47.

Service contracts
The current policy is for executive directors' service contract notice periods to be normally no longer than twelve months. The service contracts of the executive directors' have no fixed term but provide that either the director or the company may terminate the employment by giving twelve months written notice and that the company may pay compensation in lieu of notice. All future appointments to the board will comply with this requirement.

Service agreements contain neither a liquidated damages nor a change of control clause. It is the company's policy to ensure that any payments made to a director in the event of the early termination of a service agreement reflect the circumstances giving rise to termination and, where considered appropriate, the obligation of the outgoing director to mitigate his loss. Accordingly, consideration is given to making compensation payments in instalments and is conditional on the leaver's employment and earnings status. The service agreements of the executive directors who served during the twelve months ended 31 December 2011 were entered into on 11 October 2005.

The Chairman does not hold a service contract and does not participate in the company's executive share schemes, incentive plans or pension schemes. Additionally, he is not a member of the various committees of the board.

The service agreements of the continuing directors are available for inspection at the registered office of the company during normal business hours on each business day.

External appointments of executive directors
The board believes that experience of other companies' practices and challenges is valuable both for the personal development of its executive directors and for the company. It is therefore the company's policy to allow each executive director to accept one non-executive directorship of another company, provided that there is no conflict of interest, although the board retains the discretion to vary this policy. Fees received by executive directors in respect of external non-executive appointments are retained by the individual director.

Non-executive directors
The non-executive directors do not have service agreements but instead are appointed for an initial period of three years by letter of appointment which is terminable by either party subject to one month's notice, for which no compensation is payable. Letters of appointment for non-executive directors are available on application to the Company Secretary. At the end of the initial period, the company discusses with the non-executive director whether they wish to renew their appointment and if it is in the best interests of the company for their appointment to be renewed. Such renewal would normally be for a further period of three years and subject to the same termination conditions. Non-executive directors are typically expected to serve two three-year terms, although the board may invite them to serve for an additional period. All appointments and subsequent re-appointment are subject to approval by shareholders. None of the executive directors currently hold non-executive appointments.

Non-executive directors' fees are reviewed by the board annually by reference to prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a positive contribution to the group's affairs. The annual fees were reviewed with effect from 1 January increasing by 2.5% to £35,875, with an additional £5,125 being paid to the respective chairmen of the Audit and Remuneration committees. Non-executive directors are not involved in any discussion or decision about their own remuneration nor do they participate in any of the company's share schemes, incentive plans or pension schemes. The aggregate limit for fees paid to non-executive directors is laid down in the articles. Mike O'Leary has been designated Senior Independent Director for which he receives no additional fees.

Most recent re-election dates
The table below shows the dates of appointment and the most recent re-election dates for directors.

Name of director	Date of appointment	Date of last re-election at an AGM
Executive Directors		
Graham Waldron	June 1991	June 2010
Tony Brewer	June 1991	June 2011
Steve Wilson	December 1991	June 2009
Non-executive Directors		
Dick Peters	December 2005	June 2010
Mike O'Leary	March 2006	June 2009
Andrew Eastgate	May 2010	June 2011

Directors' interests in shares
The table below has been prepared in accordance with Listing Rule 9.8.6R as required by Section 822 of the Companies Act 2006. It shows the beneficial interests of directors, including family interests, who served in the year to 31 December 2011 or who hold office at the date of this report in the issued share capital of the company.

Name of director	Shareholdings at 31 December 2011	Shareholdings at 31 December 2010
Executive Directors		
Graham Waldron	**360,638**	360,638
Tony Brewer	**519,942**	519,942
Steve Wilson	**450,770**	400,770
Non-executive Directors		
Dick Peters	**5,000**	5,000
Mike O'Leary	**1,000**	–
Andrew Eastgate	**1,000**	–

There were no changes in the beneficial interests of the directors in the company's shares between 31 December 2011 and 9 March 2012.

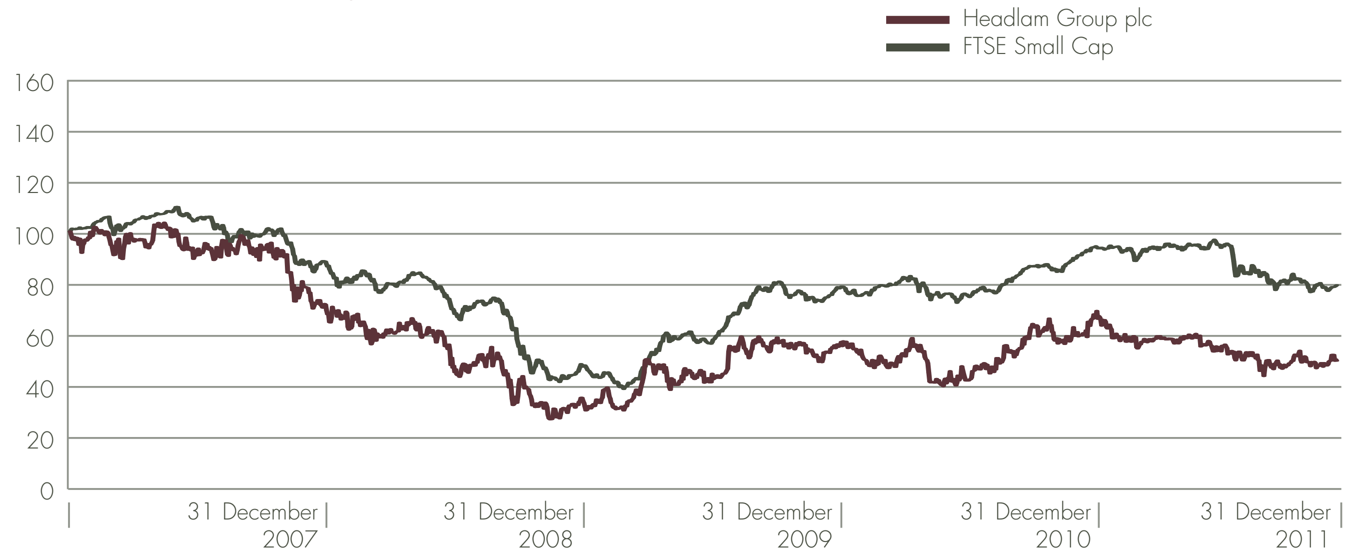
Shareholding guidelines for executive directors
It is the company's policy that executive directors are required to have a beneficial, including family, interest, in the shares of the company equivalent in value to at least once time's base salary. Newly appointed directors are expected to build their interest over a five year period. The executive directors currently meet these guidelines, as shown in the table above.

Remuneration Report
continued

Performance graph
The graph below has been produced in accordance with the requirements of Schedule 8 of the Large and Medium sized Companies and Groups (Accounts Reports) Regulations 2008. It shows the total shareholder return for a holding in the company's shares for the period from 1 January 2006 to 31 December 2011 relative to a holding of shares representing the FTSE SmallCap index. The calculation of the return assumes dividends are reinvested to purchase additional equity. The FTSE SmallCap index is a broad index that allows comparison of the company's performance against the performance of the index within which it is a constituent member, as a whole. Household goods and textiles is the sector in which the company's share price is reported.

Total shareholder return

5 Year Return Index for FTSE Small Cap as at 31 December 2011



Source: Thomson Financial

Audited information

Directors' remuneration

The remuneration of each director, excluding long-term, share based incentive schemes and pensions, for the year ended 31 December 2011 compared to 2010 is shown below.

	Salary and fees		Benefits		Performance related pay		Total	
	2011 £000	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000
Executive directors								
Tony Brewer	**520**	520	**24**	35	**518**	504	**1,062**	1,059
Steve Wilson	**376**	376	**31**	31	**374**	364	**781**	771
Graham Waldron	**115**	115	**21**	19	**–**	–	**136**	134
Non-executive directors								
Andrew Eastgate (ii)	**35**	22	**–**	–	**–**	–	**35**	22
David Grove (i)	**–**	8	**–**	–	**–**	–	**–**	8
Mike O'Leary	**40**	40	**–**	–	**–**	–	**40**	40
Dick Peters	**40**	40	**–**	–	**–**	–	**40**	40
	1,126	1,121	**76**	85	**892**	868	**2,094**	2,074

(i) David Grove resigned from the board on 17 March 2010
(ii) Andrew Eastgate was appointed on 17 May 2010

Benefits are in respect of taxable benefits arising from employment by the company and relate to the provision of a company car and fuel and private medical insurance. Gains made by executive directors in respect of share awards are excluded from the table above.

Pension benefits

With respect to executive directors, the group's defined benefit pension scheme provided benefits at a normal retirement age of fifty five based upon pensionable earnings and pensionable service. The maximum pension payable under the scheme was equivalent to an amount that would not have resulted in any additional tax charge being payable under HMRC rules. The scheme included pension provisions for members' dependants. Lump sum death in service benefits are provided through a separate scheme. Benefit accrual in respect of Tony Brewer ceased at the end of 2010 when he elected to transfer his benefits to a self invested pension plan ("SIPP"). The company contributed £32,811 to Tony Brewer's SIPP during the year following which it has no further obligation to provide future pension benefit. Steve Wilson transferred his benefits to a SIPP during 2010 and the company's obligation to provide future pension benefit ceased on the date of transfer.

Directors' interests in share option schemes

Matching share awards under the CIP were granted for nil consideration on 23 August 2011 when the price of an ordinary share was 260.00 pence. The awards are subject to the performance conditions as outlined in the policy section with an exercise price of an aggregate £1 for all the matching award shares.

Remuneration Report
continued

Details of executive directors' interests in the SAYE scheme, executive share option schemes and CIP are set out below, a description of which is given on pages 41 to 43:

	Options held at 1 January 2011	Options granted during the year	Options cancelled during the year	Options exercised during the year	Options held at 31 December 2011	Exercise price (pence)	Date from which exercisable/ vesting date	Expiry date
Tony Brewer								
1998 USOS (i)	342,858	–	–	–	342,858	420.00	Aug 2008	Aug 2012
1998 ESOS (ii)	7,142	–	–	–	7,142	420.00	Aug 2008	Aug 2015
Sharesave (iii)	7,043	–	–	–	7,043	222.20	Jul 2014	Jan 2015
CIP (iv)	98,859	–	–	–	98,859	nil	Oct 2013	Oct 2020
CIP (iv)	–	100,000	–	–	100,000	nil	Aug 2014	Aug 2021
Steve Wilson								
1998 USOS (i)	242,858	–	–	–	242,858	420.00	Aug 2008	Aug 2012
1998 ESOS (ii)	7,142	–	–	–	7,142	420.00	Aug 2008	Aug 2015
Sharesave (iii)	7,043	–	–	–	7,043	222.20	Jul 2014	Jan 2015
CIP (iv)	71,388	–	–	–	71,388	nil	Oct 2013	Oct 2020
CIP (iv)	–	72,212	–	–	72,212	nil	Aug 2014	Aug 2021
Graham Waldron								
Sharesave (iii)	4,117	–	–	–	4,117	222.20	Jul 2012	Jan 2013

(i) Headlam Group Unapproved Executive Share Option Scheme 1998 (1998 USOS)
Details of the operation of the scheme including the performance conditions attaching to options are provided on page 43.
(ii) Headlam Group Approved Executive Share Option Scheme 1998 (1998 ESOS)
Details of the operation of the scheme including the performance conditions attaching to options are provided on page 43.
(iii) Headlam Group Sharesave Scheme 2002 (Sharesave)
Details of the operation of the scheme are provided on page 43.
(iv) Headlam Group Co-Investment Plan 2008 (CIP)
Details of the operation of the scheme including the performance conditions attaching to options are provided on pages 41 and 42.

The mid market closing price of a Headlam Group plc ordinary share on 31 December 2011, the last trading day of the financial year, was 255.00p and the price range during the year was 233.25p to 354.00p, with an average price of 284.86p. There were no changes in the options held by the directors between 31 December 2011 and 9 March 2012. The company's register of director's interests, which is open to inspection, contains full details of directors' share interests.

Gains made by directors
The aggregate amount of gains made by executive directors on the exercise of share options was £nil (*2010: £nil*).

Awards under the Headlam Group Sharesave Scheme 2002
On 11 May 2011, options were granted by the company over 206,242 shares to 145 employees for terms of either three or five years at an option price of 246.00p per share, representing a 20% discount to the average market price of the three days immediately preceding the award.

This report has been approved by the board of directors and signed on its behalf by

M.K. O'Leary

Mike O'Leary
Chairman of the Remuneration Committee
9 March 2012

Corporate and Social Responsibility

The company is committed to managing its business in a socially responsible manner aiming to improve the management of social, environmental and economic issues within its control or influence throughout the business and its supply network.

We recognise that the proper management of corporate social responsibility ("CSR") makes good business sense and can result in strategic, commercial and reputational benefits. The group has reviewed its CSR policy to ensure that it meets the needs of the markets and communities in which it operates. The approach aims to recognise the importance of CSR issues, to encourage and facilitate positive management behaviour whilst aligned with the group's business strategy. It also seeks to take proper account of the morale and welfare of our employees, the satisfaction of our customers and our impact on the environment. In doing so, communication with our stakeholders, including shareholders, employees, customers, suppliers, local communities and government and non-governmental organisations, is considered to be an essential part and we aim to be open and transparent in all that we do. Communication is through a variety of channels including the AGM, Annual Report and Accounts, Interim report, Interim Management Statements and trading updates, all of which are available on our website at www.headlam.com. Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website. In addition face to face meetings are held with our major institutional shareholders to both assist them with their understanding of the announcements but also to ensure that the board is aware of their views and concerns.

Communication with employees is predominantly through our employee handbook which includes our ethics, fraud and whistle blowing policies. All of our employees are required to act ethically and responsibly in all of our business dealings with stakeholders. An updated anti bribery policy has been issued and communicated to our employees during the year following the implementation of the Bribery Act 2010. We do not permit bribery, anti-competitive or corrupt practices in any of our business dealings. We are committed to continuous improvements in all aspects of CSR, our policies, our systems, our performance and our reporting.

Social and environmental factors are considered by individual businesses within the group and at a group level, managing relationships with stakeholders and communicating with them professionally and responsibly. Our approach towards charitable donations and our support in local communities is set out in the Director's Report. In the latter part of the year the group introduced a charitable payroll giving scheme, Pennies from Heaven, whereby the group matches the monthly contributions made by employees, inclusive of gift aid. Great Ormond Street Hospital Children's Charity and MacMillan Cancer Support are the charities benefiting from the scheme. In addition, employees participated in a variety of fund raising activities and supported charities local to their businesses.

We have continued to make progress in our use of natural resources, waste and energy management, health and safety and staff development and welfare.

Health and safety

The group's policy on health and safety seeks to ensure that the group's operations are carried out at all times in compliance with the relevant health and safety guidance in the jurisdictions in which we operate. We aim to ensure the health and safety at work of employees and all persons likely to be affected, including contractors, customers, staff and members of the public where appropriate. It is at the heart of our corporate responsibility. A fundamental part of our business involves protecting our employees, contractors and visitors from injury.

The group health and safety policy, developed over a number of years, is tailored to each of our business operations and the circumstances in which they operate, amendments arising as changes in procedures and processes are considered appropriate which also result in some minor modifications to our control and inspection procedures. We are committed to developing and maintaining a positive health and safety culture in which statutory requirements are viewed as a minimum and continually strive for improvement.

The board, which endorses the health and safety policy, receives a detailed presentation on health and safety matters on an annual basis with interim updates as considered necessary. The presentation includes a detailed review on health and safety issues at each trading location, including comment on improvements recommended following inspections undertaken by our advisers. These inspections form the basis on which we determine our standards, being continually reviewed and standards raised. Additional inspections are undertaken where changes to operations have occurred or new premises occupied. These are complemented by annual inspections of racking systems carried out by independent externally appointed assessors and in the UK, risk inspections undertaken by our insurers at several of our businesses. The presentation also outlines planned health and safety initiatives intended to improve standards and comments on potential future legislative and best practice developments and challenges.

UK businesses, on not less than an annual basis, each receive a bespoke comprehensive health and safety manual for use as a source of information, guidance and training together with a set of compliance documentation which is reviewed, and updated as necessary. Each of our businesses promotes health and safety committees comprising representatives from the various business departments. These meet on a periodic basis and are co-ordinated by the health and safety manager on site. Management teams are encouraged to create a supportive culture recognising the value of employee participation.

Corporate and Social Responsibility
continued

Employee induction includes relevant health and safety information, so ensuring all employees are aware of our policies, and guidance and managers are guided and supported in risk assessment techniques. Job specific training undertaken with employees, including periodic refresher training, is supported by good practice guides which set out the important do's and don'ts associated with many of the roles and duties undertaken by employees. Employee training packs have been reviewed during the year and their scope expanded. They include an awareness of impending changes in relevant legislation and other specialist subjects. Courses provided by external assessors complement in house forklift truck training undertaken on a one to one basis. Local management responsible for health and safety has completed the Institute of Safety and Health Managing Safely Course.

Through periodic review and consistent reporting structures, we seek to ensure that we make our employees aware of our high standards of health and safety and continue to improve health and safety systems, procedures and guidance, providing adequate resources in doing so. Our businesses maintain good relationships with health and safety and environmental health regulators with positive and prompt responses to any findings and/or observations following compliance inspections.

Whilst the current low frequency of reportable accidents reflects the success of our health and safety policies we continue to aim for lower levels. In 2011 we experienced twenty accidents that necessitated a report to the Health and Safety Executive in compliance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995. These were predominantly in respect of slips, trips and falls, none of which resulted in serious injury. All reportable accidents are investigated and in the minority of instances where improvement is required, changes are implemented in a timely manner. There were no prosecutions for breaches of health and safety or enforcement actions in the year.

Introduced in 2010, the continuing professional competence scheme ("CPC") requires commercial vehicle drivers to undertake five days CPC training in a five year period. In order to ensure so far as possible that our drivers comply, the group provides a day's training in the year for each commercial vehicle driver utilising the services of an external training agency. The subject matter in 2011 included drivers working time and associated tachograph usage, defensive driving and fuel efficient techniques. CPC training in 2012 will include drivers working time, digital tachograph operation, hazard perception, vehicle conditions and defect checks, new technology and future legislation.

Management remains committed to providing a safe working environment with the appropriate working practices and training however this can only be achieved if employees equally give their commitment to a rigorous health and safety culture. This is kept at the forefront through periodic refresher training. Where appropriate, investment will be made in automated dispatch sortation equipment to reduce manual handling.

Containment and inspection regimes in higher risk areas such as fuel and lubrication stores, compressors and fork lift truck battery charging areas, are kept under review, fire risk protection having been improved, training and awareness increased and special containers sited remote from the main buildings for the storage of flammable products.

People

It is the group's policy that all employees, irrespective of age, gender, ethnic origin, religion or disability should have access to employment opportunities. Consideration is given to applications for employment having due regard to the particular aptitudes and abilities of the applicants and to our responsibilities under the Disability Discrimination Act. Cognisant of the nature of the group's activities, where practicable, employees who develop a disability during employment are given the opportunity to retrain for alternative employment.

The group has designed its recruitment, training and development processes in order to ensure that it has suitably skilled and qualified employees to meet the operational needs of the business, also participating in work experience placement schemes. The group is committed to developing the potential of its people offering opportunities for employees to develop and grow, periodically reviewing its succession planning processes. The majority of training is delivered through internal resources, a significant proportion of which is on a one to one basis, with assistance from external providers as and when required. Employee turnover remains low resulting in a stable employee base.

The continued success of our business relies on good relations and communications with employees and on the provision of a workplace that is safe and environmentally sound, which complies with applicable laws and regulations and so provides an environment in which people can flourish and succeed. Our employees' wellbeing and professional development is a key element to recruiting and retaining high performing individuals. Our people seek to deliver their best for the business, which combined with a fair and responsible way of doing business, generates a common ambition to add value.

The group expects employees to respect confidential information, company time and assets and believes in open and honest communication, fair treatment and equal opportunities, supporting the fundamental principles of good governance.

It is the group's continued practice to maintain employee participation and involvement in matters which affect their interests through formal and informal meetings, placing considerable value on the involvement of its employees. Communication between business unit management and employees is valued on matters affecting the welfare of the business, which includes regular senior management visits to operating units. Employees continue to be informed on matters affecting them and on the various factors affecting the performance of the group. One aspect is the group's Annual Report and Accounts which provide employees with a greater awareness of the group's performance as well as the financial and economic factors that affect it.

Eligible employees are able to benefit from the group's performance through participation in share schemes, including a savings related share scheme. Considering it important for its employees to make provision for their retirement, the group offers opportunities for participation in retirement plans, also providing death in service benefits through a group life assurance scheme.

Environmental

The business operates distribution facilities in the UK, France, Switzerland and the Netherlands, each involved in the wholesale distribution of floorcoverings and associated products. As a wholesale distributor, we are not a significant consumer of electricity, gas or water. Our requirement for electricity is predominantly in respect of fork lift truck battery charging, the operation of specialist cutting tables used to cut lengths from full and part rolls of broadloom products, associated mechanical handling and compressed air equipment, office and warehouse lighting and office equipment. Gas is consumed predominantly in respect of office heating and very limited localised radiant heating above parts of the cutting tables located within the distribution centre.

Whilst water consumption is predominantly in respect of employee welfare and commercial vehicle washing, some of which filter and recycle wash water, we incur the majority of our water charges in respect of fixed water rates relating to rain water discharge from business locations. We seek to reduce charges by analysing invoices received in respect of water and through the installation of water meters, and make consumption savings in electricity, gas and water through the introduction on repair, renewal or installation of energy or water efficient techniques and equipment.

The actual cost of electricity, gas and water charges in 2011 amounted to 0.20% of revenue, a reduction of 0.02% on prior year. The group was required to register under the carbon reduction commitment scheme that came into effect in 2010, having electricity consumption in 2008 when data was first collected, of 5,323 MWh in respect of its half hourly metered premises, 6,000 MWh consumption being the lower limit for compliance.

The voluntary installation of automated meter reading is being considered in respect of sites with non-half hourly electricity meters, the benefit over time being in the more detailed management of consumption.

Modern energy efficient construction techniques and products are incorporated when we invest in new facilities or undertake refurbishment or repair works. During the year, when refurbishing two of our distribution facilities, we installed intelligent lighting into the warehouse which is both more efficient and movement sensitive, automatically switching off during periods of inactivity. Future projects will similarly incorporate intelligent lighting systems and where practical, renewable energy solutions. Due to the nature of our business and with our proactive approach when planning and developing new facilities, we believe that our activities generally have a low impact on the environment, with no environmental legal or compliance issues arising during the year.

The waste arising from our operations is predominantly protective plastic packaging, polythene wrapping, cardboard poles and boxes and wooden pallets. The cardboard poles in the centre of full and part rolls and cut lengths of carpet and vinyl delivered to our customers are later collected and re-used to destruction. We continue to increase the percentage that we recycle, baling plastics and cardboard and stacking unwanted pallets for dispatch to specialist re-processing agents when it is economic to do so. This has significantly reduced the amount of our waste going to landfill sites. Guidance on waste management is issued to the managers of the individual businesses to increase awareness of the need to control and reduce waste. Where possible, wrapping and packing materials are sourced from manufacturers where a high proportion of recycled materials are used. In addition to the above, we recycle and shred paper, aluminium cans, plastics and general waste.

During the year, the group became a key funding member of Carpet Recycling UK, a not for profit organisation formed with the aim of diverting carpet material from landfill through developing an end market for reprocessing and fibre recovery.

Commercial and motor vehicles are replaced respectively on a five and three yearly basis in doing so improving operational efficiencies and reducing operating costs and vehicle emissions. As a result, all of our commercial vehicles comply with Euro 4 emission standards introduced in October 2006, which reduced the levels of carbon monoxide, hydrocarbon, nitrogen oxide and particulate emissions. Those registered between October 2008 and current date are Euro 5 compliant, which further reduce levels of noxious emissions that cause harm to the environment. We periodically review our fleet requirements to ensure the optimum design to maximise capacity and improve aerodynamics.

Corporate and Social Responsibility
continued

Achieving sustained growth and profitability

Whilst seeking to achieve the group's goal of sustained growth and profitability there are a number of areas which will assist in meeting our CSR obligations while, at the same time, attaining our financial objectives.

Representatives from our businesses visit supplier premises on a periodic basis to improve our understanding and control of our supply chain and to ensure as far as possible that adequate standards are operated. We continue to investigate the benefits from using green specification guides and modify our strategy accordingly and to work with suppliers to ensure where appropriate products are supplied from renewable sources, including recycled products, and that their manufacturing processes fairly reward employees and do not seek to exploit.

We seek to manage our operations to minimise the likelihood of adverse impact, minimising energy consumption utilising energy efficient lighting and heating. New facilities are subjected to an environmental assessment prior to construction allowing solutions to any identified environmental issues to be incorporated into the planning process. We seek to minimise energy consumption during the construction of new premises and the effects on the environment, wherever possible, subject to the operating constraints of the business, retaining and augmenting existing trees and vegetation. Existing sites are maintained in a tidy condition to minimise ecological impact. We work with local authorities to design new facilities which not only comply with guidelines but seek to blend in with their surroundings through the careful use of quality materials, landscaping and design features, recognising that our business operations will be around for many years, thereby having an impact on future generations. We support the desire to see development take place in sustainable locations and when designing new facilities, work with transport consultants to formulate green travel plans incorporating car sharing schemes and provision for bicycles.

Independent Auditor's Report
to the members of Headlam Group plc

We have audited the Financial Statements of Headlam Group plc for the year ended 31 December 2011 set out on pages 54 to 104. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:

- the Financial Statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- information given in the Corporate Governance Statement set out on pages 32 to 37 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company Financial Statements and the part of the directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance statement has not been prepared by the company

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 23, in relation to going concern;
- the part of the Corporate Governance statement on pages 32 to 37 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on directors' remuneration.

G. Neale

G Neale
Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

9 March 2012

Consolidated Income Statement
for the year ended 31 December 2011

	Note	2011 £000	2010 £000
Revenue	2	**569,795**	535,690
Cost of sales		**(394,056)**	(370,731)
Gross profit		**175,739**	164,959
Distribution expenses		**(110,623)**	(102,016)
Administrative expenses		**(37,064)**	(36,877)
Operating profit	2	**28,052**	26,066
Finance income	6	**4,520**	4,637
Finance expenses	6	**(4,984)**	(5,697)
Net finance costs		**(464)**	(1,060)
Profit before tax	3	**27,588**	25,006
Taxation	7	**(7,184)**	(7,127)
Profit for the year attributable to the equity shareholders		**20,404**	17,879
Dividend paid per share	22	**12.40p**	11.00p
Earnings per share			
Basic	9	**24.6p**	21.5p
Diluted	9	**24.4p**	21.5p

All group operations during the financial years were continuing operations.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	Note	Group 2011 £000	Group 2010 £000
Profit for the year attributable to the equity shareholders		**20,404**	17,879
Other comprehensive income:			
Foreign exchange translation differences arising on translation of overseas operations		**(234)**	1,094
Actuarial losses and gains on defined benefit plans	20	**(7,839)**	356
Effective portion of changes in fair value of cash flow hedges		–	(1)
Transfers to profit or loss on cash flow hedges		–	225
Income tax on other comprehensive income		**1,855**	9
Other comprehensive (expense)/income for the year		**(6,218)**	1,683
Total comprehensive income attributable to the equity shareholders for the year		**14,186**	19,562

Statements of Financial Position
at 31 December 2011

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Assets					
Non-current assets					
Property, plant and equipment	10	**94,201**	97,215	**76,551**	77,968
Intangible assets	11	**13,210**	13,210	**–**	–
Investments in subsidiary undertakings	12	**–**	–	**87,341**	86,703
Deferred tax assets	13	**962**	896	**381**	213
		108,373	111,321	**164,273**	164,884
Current assets					
Inventories	14	**114,196**	105,694	**–**	–
Trade and other receivables	15	**111,656**	102,240	**14,951**	27,924
Income tax receivable	8	**–**	–	**221**	–
Cash and cash equivalents	16	**41,494**	44,758	**23,921**	23,369
Assets held for sale	17	**362**	362	**362**	362
		267,708	253,054	**39,455**	51,655
Total assets		**376,081**	364,375	**203,728**	216,539
Liabilities					
Current liabilities					
Other interest-bearing loans and borrowings	18	**(30,219)**	(225)	**(30,000)**	–
Trade and other payables	19	**(154,490)**	(149,476)	**(36,326)**	(38,552)
Employee benefits	20	**(2,669)**	(2,586)	**(2,669)**	(2,586)
Income tax payable	8	**(6,678)**	(4,201)	**–**	(1,485)
		(194,056)	(156,488)	**(68,995)**	(42,623)
Non-current liabilities					
Other interest-bearing loans and borrowings	18	**(3,691)**	(34,011)	**–**	(30,000)
Employee benefits	20	**(11,789)**	(10,138)	**(9,866)**	(8,745)
		(15,480)	(44,149)	**(9,866)**	(38,745)
Total liabilities		**(209,536)**	(200,637)	**(78,861)**	(81,368)
Net assets		**166,545**	163,738	**124,867**	135,171
Equity attributable to equity holders of the parent					
Share capital	22	**4,268**	4,268	**4,268**	4,268
Share premium		**53,512**	53,512	**53,512**	53,512
Other reserves	22	**(7,013)**	(6,571)	**7,408**	7,616
Retained earnings		**115,778**	112,529	**59,679**	69,775
Total equity		**166,545**	163,738	**124,867**	135,171

These Financial Statements were approved by the board of directors on 9 March 2012 and were signed on its behalf by:

Tony Brewer
Director

Steve Wilson
Director

Company Number: 460129

Statement of Changes in Equity
for the year ended 31 December 2011

Group	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2010	4,268	53,512	88	5,297	(224)	(13,057)	102,745	152,629
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	17,879	17,879
Other comprehensive income	–	–	–	1,094	224	–	365	1,683
Total comprehensive income for the year	–	–	–	1,094	224	–	18,244	19,562
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	448	448
Share options exercised by employees	–	–	–	–	–	7	–	7
Deferred tax on share options	–	–	–	–	–	–	224	224
Dividends to equity holders	–	–	–	–	–	–	(9,132)	(9,132)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	7	(8,460)	(8,453)
Balance at 31 December 2010	4,268	53,512	88	6,391	–	(13,050)	112,529	163,738
Balance at 1 January 2011	**4,268**	**53,512**	**88**	**6,391**	**–**	**(13,050)**	**112,529**	**163,738**
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	20,404	20,404
Other comprehensive income	–	–	–	(234)	–	–	(5,984)	(6,218)
Total comprehensive income for the year	–	–	–	(234)	–	–	14,420	14,186
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	871	871
Consideration for purchase of own shares	–	–	–	–	–	(1,575)	–	(1,575)
Share options exercised by employees	–	–	–	–	–	1,367	(1,357)	10
Deferred tax on share options	–	–	–	–	–	–	(390)	(390)
Dividends to equity holders	–	–	–	–	–	–	(10,295)	(10,295)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	(208)	(11,171)	(11,379)
Balance at 31 December 2011	**4,268**	**53,512**	**88**	**6,157**	**–**	**(13,258)**	**115,778**	**166,545**

Statement of Changes in Equity
for the year ended 31 December 2011

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Special reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2010	4,268	53,512	88	20,578	(224)	(13,057)	59,875	125,040
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	17,901	17,901
Other comprehensive income	–	–	–	–	224	–	683	907
Total comprehensive income for the year	–	–	–	–	224	–	18,584	18,808
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	448	448
Share options exercised by employees	–	–	–	–	–	7	–	7
Dividends to equity holders	–	–	–	–	–	–	(9,132)	(9,132)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	7	(8,684)	(8,677)
Balance at 31 December 2010	4,268	53,512	88	20,578	–	(13,050)	69,775	135,171
Balance at 1 January 2011	4,268	53,512	88	20,578	–	(13,050)	69,775	135,171
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	6,419	6,419
Other comprehensive income	–	–	–	–	–	–	(5,577)	(5,577)
Total comprehensive income for the year	–	–	–	–	–	–	842	842
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	871	871
Consideration for purchase of own shares	–	–	–	–	–	(1,575)	–	(1,575)
Share options exercised by employees	–	–	–	–	–	1,367	(1,357)	10
Deferred tax on share options	–	–	–	–	–	–	(157)	(157)
Dividends to equity holders	–	–	–	–	–	–	(10,295)	(10,295)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	(208)	(10,938)	(11,146)
Balance at 31 December 2011	4,268	53,512	88	20,578	–	(13,258)	59,679	124,867

Cash Flow Statements
for the year ended 31 December 2011

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Cash flows from operating activities					
Profit before tax for the year		27,588	25,006	2,428	4,534
Adjustments for:					
Depreciation, amortisation and impairment		4,883	5,519	1,471	1,936
Net settlement loss/(gain) on enhanced transfer value exercise		56	(176)	56	(176)
Finance income	6	(4,520)	(4,637)	(4,370)	(4,402)
Finance expense	6	4,984	5,697	4,263	5,062
Profit on sale of property, plant and equipment		(86)	(314)	–	(222)
Share–based payments	20	871	448	233	47
Operating cash flows before changes in working capital and other payables		33,776	31,543	4,083	6,779
Change in inventories		(8,700)	(5,770)	–	–
Change in trade and other receivables		(9,764)	(1,405)	392	(437)
Change in trade and other payables		5,544	6,947	8,708	(2,664)
Cash generated from the operations		20,856	31,315	13,183	3,678
Interest paid		(1,342)	(1,344)	(614)	(731)
Tax (paid)/received		(3,380)	(7,506)	1,330	890
Additional contributions to defined benefit plan		(2,781)	(2,706)	(2,781)	(2,706)
Enhanced transfer value exercise payments		(3,302)	(7,488)	(3,302)	(7,488)
Net cash flow from operating activities		10,051	12,271	7,816	(6,357)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		110	3,167	–	2,142
Interest received		751	834	429	427
Dividends received		–	–	4,221	14,526
Acquisition of property, plant and equipment	10	(2,035)	(6,995)	(54)	(5,717)
Net cash flow from investing activities		(1,174)	(2,994)	4,596	11,378
Cash flows from financing activities					
Proceeds from the issue of treasury shares		10	7	10	7
Payment to acquire own shares		(1,575)	–	(1,575)	–
Repayment of borrowings		(228)	(866)	–	–
Dividends paid	22	(10,295)	(9,132)	(10,295)	(9,132)
Net cash flow from financing activities		(12,088)	(9,991)	(11,860)	(9,125)
Net (decrease)/increase in cash and cash equivalents		(3,211)	(714)	552	(4,104)
Cash and cash equivalents at 1 January		44,758	44,979	23,369	27,473
Effect of exchange rate fluctuations on cash held		(53)	493	–	–
Cash and cash equivalents at 31 December	16	41,494	44,758	23,921	23,369

The company's profit before tax excludes dividends received from subsidiaries.

Notes to the Financial Statements

1 ACCOUNTING POLICIES

Reporting entity

Headlam Group plc (the "company") is a company incorporated and domiciled in the UK.

Statement of compliance

Both the company's Financial Statements and the group's Financial Statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). 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 2012.

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 group's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand.

The company and group Financial Statements are prepared on the historical cost basis with the exception of derivative financial instruments and pension scheme assets, both of which are stated at fair value. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

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 the foreseeable future.

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 and Chief Executive's Review on pages 12 to 17.

The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 23. In addition, note 23 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 27 to the Financial Statements, the group completed a refinancing of its existing facilities, which were due for renewal in July 2012, on 8 March 2012. The group's new banking arrangements, which run to March 2015 with an option, in the lenders favour, to extend for a further year, increase the level of committed facilities from £30 million to £40 million, and maintain uncommitted facilities at £35 million, which are renewable on an annual basis.

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

(b) Use of accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty at the Statement of Financial Position date that may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

The group is committed to investing in new facilities where existing facilities fail to provide satisfactory customer service in a cost effective manner. When construction on a new facility commences, the existing facility is marketed for sale and this action can on occasions give rise to an adverse difference between carrying value and market value. At the Statement of Financial Position date, the assets have been reported at their carrying value. Market values are formally assessed for all properties on a triennial basis and compared with the carrying values.

At the latest review, carried out at 31 December 2010, the 2011 carrying value of UK freehold and long leasehold land and buildings would have exceeded market value (on an existing use basis) by £9,403,000. The directors consider that the carrying value of the UK freehold and long leasehold land and buildings is supported by their ongoing value in use within the business. An impairment review has been undertaken on the portfolio each year and one property was impaired in 2010 by £466,000. No impairment was considered necessary in 2011.

Goodwill impairment
The outcome of the group's annual impairment test for goodwill is dependent on the forecast cash flows of each cash-generating unit together with key management assumptions including profit growth and discount rates. No impairment resulted from the annual impairment test for 2011.

Deferred tax assets
Deferred tax assets are recognised at the Statement of Financial Position date based on the assumption that there is a high expectation that the asset will be realised in due course. This assumption is dependent on the group's ability to generate sufficient future taxable profits.

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 principle assumptions are set out in note 20. The amount of the deficit is dependent on plan asset and liability values and the actuarial assumptions used to determine the deficit.

The assumptions include asset growth rates, pension and salary increases, price inflation, discount rate used to measure actuarial liabilities and mortality rates.

(c) Impact of newly adopted accounting standards
In the current year, the group has adopted the following new standards and interpretations. These were mandatory for the year ended 31 December 2011.

- Amendments to IAS 32 'Classification of Rights Issues' – requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights options or warrants pro rata to all of its existing owners of the same class of its own equity instruments.

- IAS 24 'Related parties disclosures (revised 2009)' – clarifies disclosure requirements for government related entities and amends the definition of a related party.

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' – clarifies the accounting treatment for when an entity renegotiates the terms of its debt, such that the liability is extinguished, in whole or in part, by the entity issuing its own equity instruments to the lender (referred to as a 'debt for equity swap'). It addresses the accounting for such a transaction by the debtor only.

- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement: The amendment to IFRIC 14 removes unintended consequences of when an entity is subject to a minimum funding requirement (MFR) and makes an early payment of contributions to cover those requirements. The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

None of the above standards and interpretations have had any impact on profit, earnings per share or net assets in the year ended 31 December 2011.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ended 31 December 2011, have been adopted in the year. None of these amendments have had a material impact on the group's Financial Statements.

(d) IFRS not yet applied
The following amendment has been published, endorsed by the EU, and available for early adoption but has not yet been applied by the group in these Financial Statements:

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets: will require additional disclosures about transfers of financial assets, e.g. securitisations and should enable users to understand the possible effects of any risks that may remain with the transferor. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The group has considered the impact of new standards and interpretations including the above amendment in respect of future periods on profit, earnings per share and net assets, none of which are expected to have a material impact.

Basis of consolidation
The group Financial Statements consolidate those of the company and its subsidiaries which together are referred to as the "group". The company's Financial Statements present information about the company as a separate entity and not about its group.

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the group's Financial Statements from the date that control commences until the date that control ceases.

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

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in the group's Financial Statements.

Foreign currency
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

Notes to the Financial Statements
continued

ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations
The assets and liabilities of foreign subsidiaries, are translated at foreign exchange rates ruling at the Statement of Financial Position date.

The revenues, expenses and cash flows of foreign subsidiaries are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign subsidiaries are taken directly to the translation reserve and reflected as a movement in the Statement of Comprehensive Income.

In respect of all foreign operations, any differences that have arisen after 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity.

Foreign currency exposure
Note 23 contains information about the foreign currency exposure of the group and risks in relation to foreign exchange movements.

Classification of financial instruments issued by the group
Financial instruments are recognised when the group becomes a party to the contractual provisions of the instrument.

Financial instruments issued by the group are treated as equity, i.e. forming part of shareholders' funds, only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company, or group as the case may be, to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company or group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number or its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these Financial Statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of financial expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Derivative financial instruments
The group holds derivative financial instruments to hedge its foreign currency and has held derivative financial instruments to hedge its interest rate risk exposures. At 31 December 2011, the group only held derivative financial instruments in respect of foreign currency exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement. 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.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

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

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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.

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. The annual rates applicable are:

Freehold and long leasehold properties – 2%
Short leasehold properties – period of lease
Motor vehicles – 25%
Office and computer equipment – 10% - 33.3%
Warehouse and production equipment – 10% - 20%
Land is not depreciated.

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.

Goodwill and other intangible assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

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 intangibles

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.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each Statement of Financial Position date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives of customer lists are deemed to be between 1 - 24 months.

Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement.

Trade and other receivables

Trade and other receivables are initially stated at fair value and subsequently at amortised cost less impairment losses. Debts are provided for, the credit loss allowance, on specific receivables in full as soon as they are known to be 'bad' or it becomes apparent that payment is 'doubtful'.

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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at amortised cost.

Cash and cash equivalents comprise cash balances and call deposits. 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 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 assets recoverable amount is estimated.

The recoverable amount for goodwill is estimated 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 whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statement.

Notes to the Financial Statements
continued

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.

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

Reversals of impairment
An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there had been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade payables
Trade payables are initially recognised at fair value and then are stated at amortised cost.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

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

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

Employee benefits
The company and the group operate both defined benefit and defined contribution plans, the assets of which are held in independent trustee administered funds. The pension cost is assessed in accordance with the advice of a qualified actuary.

Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans
The group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested.

To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses that arise in calculating the group's obligation in respect of a scheme are recognised immediately in reserves and reported in the Statement of Comprehensive Income.

Where the calculation results in a benefit to the group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

The group operates a UK defined benefit pension plan and a defined benefit plan in Switzerland. In the UK as 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 38 to 48.

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.

Revenue

Revenue from the sale of goods is measured at the fair value of the consideration, net of trade discounts and excludes intra-group sales and value added and similar taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer (which is the date on which goods are received by the customer), the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the group.

Lease payments

Leases are classified as finance leases whenever the lease transfers substantially all the risks and rewards of ownership to the group. All other leases are treated as operating leases.

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

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

Net financing costs

Net financing costs comprise interest payable, finance charges on shares classified as liabilities, finance leases, 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. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

The expected return on assets of funded defined benefits pension plans, less administration expenses of pension plans are recognised in financial income. The interest accruing on defined benefit pension plan liabilities are recognised in financial expenses.

Dividends

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.

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.

Notes to the Financial Statements
continued

2 SEGMENT REPORTING

The group has 50 operating segments in the UK and 5 operating segments in Continental Europe. Each segment represents an individual trading operation, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Group Chief Executive. Discrete financial information is available for each segment and used by the Group Chief Executive to assess performance and decide on resource allocation.

The operating segments have been aggregated to the extent that they have similar economic characteristics, with relevance to products and services, type and class of customer, methods of sale and distribution and the regulatory environment in which they operate. The group's internal management structure and financial reporting systems differentiate the operating segments on the basis of the differing economic characteristics in the UK and Continental Europe and accordingly present these as two separate reportable segments. This distinction is embedded in the construction of operating reports reviewed by the Group Chief Executive, the board and the executive management team and forms the basis for the presentation of operating segment information given below.

	UK		Continental Europe		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Revenue						
External revenues	466,968	432,815	102,827	102,875	569,795	535,690
Reportable segment operating profit	25,696	24,662	2,830	2,553	28,526	27,215
Reportable segment assets*	220,878	205,655	45,427	47,589	266,305	253,244
Reportable segment liabilities	(136,358)	(129,365)	(18,132)	(20,111)	(154,490)	(149,476)

During the year there are no inter-segment revenues for the reportable segments (*2010: £nil*).

* Reportable segment assets have been restated for the year ended 31 December 2010 to allocate relevant cash and cash equivalents between the reportable segments.

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

	2011 £000	2010 £000
Profit for the year		
Total profit for reportable segments	28,526	27,215
Impairment of assets	–	(466)
Unallocated expense	(474)	(683)
Operating profit	28,052	26,066
Finance income	4,520	4,637
Finance expense	(4,984)	(5,697)
Profit before taxation	27,588	25,006
Taxation	(7,184)	(7,127)
Profit for the year	20,404	17,879

2 SEGMENT REPORTING continued

	2011 £000	2010 £000
Assets		
Total assets for reportable segments	266,305	253,244
Unallocated assets:		
Properties, plant and equipment	84,531	86,504
Deferred tax assets	962	896
Assets held for sale	362	362
Cash and cash equivalents	23,921	23,369
Total assets	376,081	364,375
Liabilities		
Total liabilities for reportable segments	(154,490)	(149,476)
Unallocated liabilities:		
Employee benefits	(14,458)	(12,724)
Other interest-bearing loans and borrowings	(33,910)	(34,236)
Income tax payable	(6,678)	(4,201)
Total liabilities	(209,536)	(200,637)

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
Other material items 2011					
Capital expenditure	1,358	593	1,951	84	2,035
Depreciation	2,240	798	3,038	1,845	4,883
Other material items 2010					
Capital expenditure	784	553	1,337	5,658	6,995
Depreciation	2,503	747	3,250	1,803	5,053
Impairment of assets	–	–	–	466	466

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

Each segment is a continuing operation.

Notes to the Financial Statements
continued

2 SEGMENT REPORTING continued

The Group Chief Executive, the board and the senior executive management team have access to information that provides details on revenue by principal product group for the two reportable segments, as set out in the following table:

Revenue by principal product group and geographic origin is summarised below:

	UK		Continental Europe		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Revenue						
Residential	320,290	297,606	50,047	51,992	370,337	349,598
Commercial	146,678	135,209	52,780	50,883	199,458	186,092
	466,968	432,815	102,827	102,875	569,795	535,690

3 PROFIT BEFORE TAX

The following are included in profit before tax:

	2011 £000	2010 £000
Depreciation on property, plant and equipment	4,883	5,053
Impairment of assets	–	466
Profit on sale of property, plant and equipment	86	314
Operating lease rentals		
Plant and machinery	9,421	8,994
Land and buildings	1,628	1,708

Auditor's remuneration:

	2011 £000	2010 £000
Audit of these Financial Statements	64	62
Amounts received by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	152	145
Tax services	38	11
All other services	7	10
	261	228

Amounts paid to the company's auditor in respect of services to the company, other than the audit of the company's Financial Statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4 STAFF NUMBERS AND COSTS

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

	Number of employees Group	
	2011	2010
By sector:		
Floorcoverings	2,053	2,011
Central operations	9	9
	2,062	2,020
By function:		
Sales and distribution	1,896	1,859
Administration	166	161
	2,062	2,020

The aggregate payroll costs were as follows:

	£000	£000
Wages and salaries	66,755	62,734
Equity settled share based payment expense	871	448
Social security costs	8,965	8,160
Pension costs (note 20)	3,472	3,438
	80,063	74,780

5 DIRECTORS' EMOLUMENTS

	2011 £000	2010 £000
Directors emoluments	2,094	2,074
Equity settled share based payment expense	199	39

Further details of directors' emoluments, share options and pension entitlement are given in the Remuneration Report on pages 38 to 48.

Notes to the Financial Statements
continued

6 FINANCE INCOME AND EXPENSE

	2011 £000	2010 £000
Interest income:		
Bank interest	657	642
Other	49	179
Return on defined benefit plan assets	3,814	3,816
Finance income	4,520	4,637
Interest expense:		
Bank loans, overdrafts and other financial expenses	(1,188)	(1,122)
Net change in fair value of cash flow hedges transferred from equity	–	(125)
Interest on defined benefit plan obligation	(3,796)	(4,450)
Finance expenses	(4,984)	(5,697)

7 TAXATION

Recognised in the income statement

	2011 £000	2010 £000
Current tax expense:		
Current year	6,026	3,756
Adjustments for prior years	(241)	(697)
	5,785	3,059
Deferred tax expense:		
Origination and reversal of temporary differences	1,707	3,762
Effect of change in UK tax rate	(180)	40
Adjustments for prior years	(128)	266
	1,399	4,068
Total tax in income statement	7,184	7,127

	2011 £000	2010 £000
Tax relating to items credited/(charged) to equity		
Current tax on:		
Income and expenses recognised directly in equity	–	–
Deferred tax on:		
Share options	(390)	224
Deferred tax on other comprehensive income:		
Defined benefit plans	1,855	72
Cash flow hedge	–	(63)
Total tax reported directly in reserves	1,465	233

7 TAXATION continued

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% that was effective from 1 April 2011, was substantively enacted on 20 July 2010.

On 23 March 2011 the Chancellor announced further reductions in the main rate of UK corporation tax to 26% with effect from 1 April 2011 and a further reduction to 25% with effect from 1 April 2012. These changes became substantively enacted on 29 March 2011 and 5 July 2011 respectively. These will reduce the future current tax charge accordingly. The effect of these rate reductions creates a reduction in the deferred tax asset which has been included in the figures above. The deferred tax asset at 31 December 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

The Chancellor proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 25 per cent to 23 per cent, if these applied to the deferred tax balance at 31 December 2011 would be to further reduce the deferred tax asset by approximately £77,000.

Reconciliation of effective tax rate

	2011		2010	
	%	£000	%	£000
Profit before tax		27,588		25,006
Tax using the UK corporation tax rate	26.5	7,309	28.0	7,001
Effect of change in UK tax rate	(0.5)	(147)	0.2	40
Non-deductible expenses	1.5	419	2.5	635
Effect of tax rates in foreign jurisdictions	(0.1)	(28)	(0.5)	(118)
Over provided in prior years	(1.4)	(369)	(1.7)	(431)
Total tax in Income Statement	26.0	7,184	28.5	7,127

8 CURRENT TAX LIABILITIES

The group's current tax liability of £6,678,000 (*2010: £4,201,000*) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable. The company's current tax asset of £221,000 (*2010: £1,485,000 liability*) represents the amount of income tax receivable in respect of current and prior year periods which exceed any amounts payable.

Notes to the Financial Statements
continued

9 EARNINGS PER SHARE

	2011 £000	2010 £000
Earnings		
Earnings for the purposes of basic earnings per share being profit attributable to equity holders of the parent	20,404	17,879

	2011	2010
Number of shares		
Issued ordinary shares at 1 January	85,363,743	85,363,743
Effect of shares held in treasury	(2,423,159)	(2,246,489)
Weighted average number of ordinary shares for the purposes of basic earnings per share	82,940,584	83,117,254
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	82,940,584	83,117,254
Dilutive effect of share options	596,479	113,570
Weighted average number of ordinary shares for the purposes of diluted earnings per share	83,537,063	83,230,824

At 31 December 2011, the company held 2,841,197 shares in treasury and these are excluded from the calculation of earnings per share.

10 PROPERTY, PLANT AND EQUIPMENT

Group	Land & buildings £000	Plant & equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2010	95,442	26,936	–	122,378
Additions	5,653	1,284	58	6,995
Disposals	(755)	(829)	–	(1,584)
Effect of movements in foreign exchange	605	73	–	678
Transfer to assets held for sale	(491)	–	–	(491)
Balance at 31 December 2010	100,454	27,464	58	127,976
Balance at 1 January 2011	**100,454**	**27,464**	**58**	**127,976**
Additions	**31**	**1,950**	**54**	**2,035**
Disposals	**–**	**(1,633)**	**–**	**(1,633)**
Effect of movements in foreign exchange	**(127)**	**(121)**	**–**	**(248)**
Balance at 31 December 2011	**100,358**	**27,660**	**112**	**128,130**
Depreciation				
Balance at 1 January 2010	11,785	14,063	–	25,848
Depreciation charge for the year	1,794	3,259	–	5,053
Asset impairment	466	–	–	466
Disposals	(224)	(718)	–	(942)
Effect of movements in foreign exchange	414	51	–	465
Transfer to assets held for sale	(129)	–	–	(129)
Balance at 31 December 2010	14,106	16,655	–	30,761
Balance at 1 January 2011	**14,106**	**16,655**	**–**	**30,761**
Depreciation charge for the year	**1,811**	**3,072**	**–**	**4,883**
Disposals	**–**	**(1,609)**	**–**	**(1,609)**
Effect of movements in foreign exchange	**(17)**	**(89)**	**–**	**(106)**
Balance at 31 December 2011	**15,900**	**18,029**	**–**	**33,929**
Net book value				
At 1 January 2010	83,657	12,873	–	96,530
At 31 December 2010 and 1 January 2011	86,348	10,809	58	97,215
At 31 December 2011	**84,458**	**9,631**	**112**	**94,201**

At 31 December 2011 the cost less accumulated depreciation of long leasehold property held by the group was £8,512,000 (*2010: £8,693,000*).

Notes to the Financial Statements
continued

10 PROPERTY, PLANT AND EQUIPMENT continued

Company	Land & buildings £000	Plant & equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2010	83,011	601	–	83,612
Additions	5,653	6	58	5,717
Disposals	(755)	(11)	–	(766)
Transfer to assets held for sale	(491)	–	–	(491)
Balance at 31 December 2010	87,418	596	58	88,072
Balance at 1 January 2011	**87,418**	**596**	**58**	**88,072**
Additions	**–**	**–**	**54**	**54**
Disposals	**–**	**(305)**	**–**	**(305)**
Balance at 31 December 2011	**87,418**	**291**	**112**	**87,821**
Depreciation				
Balance at 1 January 2010	8,061	469	–	8,530
Depreciation charge for the year	1,431	39	–	1,470
Asset impairment	466	–	–	466
Disposals	(224)	(9)	–	(233)
Transfer to assets held for sale	(129)	–	–	(129)
Balance at 31 December 2010	9,605	499	–	10,104
Balance at 1 January 2011	**9,605**	**499**	**–**	**10,104**
Depreciation charge for the year	**1,432**	**39**	**–**	**1,471**
Disposals	**–**	**(305)**	**–**	**(305)**
Balance at 31 December 2011	**11,037**	**233**	**–**	**11,270**
Net book value				
At 1 January 2010	74,950	132	–	75,082
At 31 December 2010 and 1 January 2011	77,813	97	58	77,968
At 31 December 2011	**76,381**	**58**	**112**	**76,551**

At 31 December 2011 the cost less accumulated depreciation of long leasehold property held by the company was £8,512,000 (*2010: £8,693,000*).

11 INTANGIBLE ASSETS – GROUP

	Goodwill £000	Customer lists £000	Total £000
Cost			
Balance at 1 January 2010 and 31 December 2010	13,210	4,142	17,352
Balance at 1 January 2011 and 31 December 2011	**13,210**	**4,142**	**17,352**
Amortisation			
Balance at 1 January 2010 and 31 December 2010	–	4,142	4,142
Balance at 1 January 2011 and 31 December 2011	**–**	**4,142**	**4,142**
Net book value			
At 1 January 2010 and 31 December 2010	13,210	–	13,210
At 1 January 2011 and 31 December 2011	**13,210**	**–**	**13,210**

Cumulative impairment losses recognised in relation to goodwill is £nil (*2010: £nil*).

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	2011 £000	2010 £000
Joseph, Hamilton & Seaton	UK	**4,348**	4,348
Crucial Trading	UK	**1,369**	1,369
Belcolor AG	Continental Europe	**3,342**	3,342
LMS SA	Continental Europe	**3,197**	3,197
Other	UK	**954**	954
		13,210	13,210

Notes to the Financial Statements
continued

11 INTANGIBLE ASSETS – GROUP continued

Impairment
Each year, or whenever events or a change in the economic environment or performance indicates a risk of impairment, the group reviews the value of goodwill balances allocated to its cash generating units. In the absence of any identified impairment risks, tests are performed based on internal valuations of each CGU.

An impairment test is a comparison of the carrying value of the assets of a business or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. Where the recoverable amount is less than the carrying value, an impairment results. During the year, all goodwill was tested for impairment, with no impairment charge resulting.

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2010, and applying the following key assumptions.

Key assumptions
Cash flows were projected based on past experience, actual operating results and the approved 2012 business plan. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.5% beyond the 2012 business plan.

The main assumptions within the operating cash flows used for 2012 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 CGU's. A pre tax weighted average cost of capital of 12.2% (*2010: 13.2%*) has been used for impairment testing, adjusted to 13.2% (*2010: 14.2%*) for Continental Europe to reflect the differing risk profile of that segment. The pre tax discount rate has been applied to the pre tax cash flows.

The CGU's in the UK have similar characteristics, and risk profiles, and therefore a single discount rate has been applied to each UK CGU. Similarly, the directors view the CGU's in Continental Europe as having consistent risk profiles and therefore a single risk factor has been applied. The CGU's in Continental Europe operate under a different regulatory environment and this is therefore reflected in the risk factor used to determine the discount rates in the UK and Continental Europe.

Sensitivity analysis
The two key assumptions made by the directors are the discount rate used and the growth rate beyond the business plan. Sensitivity analysis has been carried out by reference to both of these assumptions and neither a 1% increase in the discount rate or a 1% reduction in the growth rate would result in any impairment.

12 INVESTMENTS IN SUBSIDIARIES

Summary information on investments in subsidiary undertakings is as follows:

	£000
Cost	
Balance at 1 January 2010	88,552
Disposals during the year	(2,250)
Share options granted to employees of subsidiary undertakings	401
Balance at 31 December 2010	86,703
Balance at 1 January 2011	86,703
Share options granted to employees of subsidiary undertakings	**638**
Balance at 31 December 2011	**87,341**
Impairment	
Balance at 1 January 2010	2,160
Disposals during the year	(2,160)
Balance at 31 December 2010	–
Balance at 1 January 2011 and 31 December 2011	**–**
Carrying value	
At 1 January 2010	86,392
At 31 December 2010	86,703
At 31 December 2011	**87,341**

Disposals during the year ended 31 December 2010 relate to the striking-off and liquidation of non-trading subsidiaries.

The principal trading subsidiaries are listed on page 104.

Notes to the Financial Statements
continued

13 DEFERRED TAX ASSETS AND LIABILITIES - GROUP

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Property, plant and equipment	–	–	(3,198)	(3,683)	(3,198)	(3,683)
Intangible assets	–	–	(206)	(223)	(206)	(223)
Employee benefits	3,793	3,891	–	–	3,793	3,891
Other items	573	911	–	–	573	911
Tax assets/(liabilities)	4,366	4,802	(3,404)	(3,906)	962	896
Set-off of tax	(3,404)	(3,906)	3,404	3,906	–	–
	962	896	–	–	962	896

Movement in deferred tax during the year

	1 January 2011 £000	Recognised in income £000	Recognised in equity £000	31 December 2011 £000
Property, plant and equipment	(3,683)	485	–	(3,198)
Intangible assets	(223)	17	–	(206)
Employee benefits	3,891	(1,563)	1,465	3,793
Other items	911	(338)	–	573
	896	(1,399)	1,465	962

Movement in deferred tax during the prior year

	1 January 2010 £000	Recognised in income £000	Recognised in equity £000	31 December 2010 £000
Property, plant and equipment	(3,976)	293	–	(3,683)
Intangible assets	(189)	(34)	–	(223)
Employee benefits	6,350	(2,531)	72	3,891
Other items	2,546	(1,796)	161	911
	4,731	(4,068)	233	896

Unrecognised deferred tax assets and liabilities

At the Statement of Financial Position date the group has unused capital losses of £10,380,000 (*2010: £10,379,000*) available for offset against future chargeable gains. No deferred tax asset has been recognised in respect of this amount as the directors do not anticipate incurring significant chargeable gains in the foreseeable future.

13 DEFERRED TAX ASSETS AND LIABILITIES – COMPANY

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Property, plant and equipment	–	–	(2,962)	(3,271)	(2,962)	(3,271)
Employee benefits	3,086	3,217	–	–	3,086	3,217
Other items	257	267	–	–	257	267
Tax assets/(liabilities)	3,343	3,484	(2,962)	(3,271)	381	213
Set-off of tax	(2,962)	(3,271)	2,962	3,271	–	–
	381	213	–	–	381	213

Movement in deferred tax during the year

	1 January 2011 £000	Recognised in income £000	Recognised in equity £000	31 December 2011 £000
Property, plant and equipment	(3,271)	309	–	(2,962)
Employee benefits	3,217	(1,694)	1,563	3,086
Other items	267	(10)	–	257
	213	(1,395)	1,563	381

Movement in deferred tax during the prior year

	1 January 2010 £000	Recognised in income £000	Recognised in equity £000	31 December 2010 £000
Property, plant and equipment	(3,348)	77	–	(3,271)
Employee benefits	6,067	(2,788)	(62)	3,217
Cash flow hedge	63	–	(63)	–
Other items	987	(720)	–	267
	3,769	(3,431)	(125)	213

Unrecognised deferred tax assets and liabilities
At the Statement of Financial Position date the company has unused capital losses of £10,380,000 (*2010: £10,379,000*) available for offset against future chargeable gains. No deferred tax asset has been recognised in respect of this amount as the directors do not anticipate incurring significant chargeable gains in the foreseeable future.

Notes to the Financial Statements
continued

14 INVENTORIES

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Finished goods and goods held for resale	114,196	105,694	–	–

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Material cost	391,345	366,782	–	–
Processing cost	2,711	3,949	–	–
	394,056	370,731	–	–-

15 TRADE AND OTHER RECEIVABLES

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Trade receivables	87,848	78,878	–	–
Prepayments and accrued income	4,089	4,132	59	30
Other receivables	19,569	19,119	180	612
Amounts due from subsidiary undertakings	–	–	14,712	27,282
Derivative assets used for economic hedging:				
Other derivatives at fair value	150	111	–	–
	111,656	102,240	14,951	27,924

£2,635,000 (*2010: £2,160,000*) was recognised as an impairment loss in the Consolidated Income Statement in respect of trade receivables.

The impairment loss is attributable to the reportable segments as follows:

	2011 £000	2010 £000
UK	2,324	1,859
Continental Europe	311	301
	2,635	2,160

16 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	Group		Company	
	2011 **£000**	2010 £000	**2011** **£000**	2010 £000
Cash and cash equivalents per Statement of Financial Position	**41,494**	44,758	**23,921**	23,369

17 ASSETS HELD FOR SALE

	Group		Company	
	2011 **£000**	2010 £000	**2011** **£000**	2010 £000
Assets classified as held for sale:				
Property, plant and equipment	**362**	362	**362**	362

At 31 December 2010 the company held a freehold property in Bishop Auckland, UK that was being actively marketed for sale and is available for immediate disposal. This property was due to be disposed of during 2011 but the company now expects this to be early 2012.

The Bishop Auckland property forms part of the properties, plant and equipment reported under unallocated assets in note 2 as it is primarily a group activity to hold and maintain the properties.

18 OTHER INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the group's and company's interest-bearing loans and borrowings. For more information about the group's and company's exposure to interest rate and foreign currency risk, see note 23.

	Group		Company	
	2011 **£000**	2010 £000	**2011** **£000**	2010 £000
Current liabilities				
Interest bearing loan	**30,219**	225	**30,000**	–
	30,219	225	**30,000**	–
Non-current liabilities				
Interest bearing loans	**3,691**	34,011	**–**	30,000
	3,691	34,011	**–**	30,000

Included within the interest-bearing loans is an amount directly attributable to borrowing costs of £nil (*2010: £nil*).

Notes to the Financial Statements
continued

18 OTHER INTEREST-BEARING LOANS AND BORROWINGS continued

The group has undrawn borrowing facilities expiring in one year or less which, at 31 December 2011, amounted to £43,521,000 (*2010: £45,418,000*). The facility conditions for drawdown had been met during the period. The borrowing is unsecured and there is a cross guarantee in place between the company and its UK subsidiaries. There is a downstream guarantee from the company in relation to its borrowing facility in the Netherlands.

The undrawn borrowing facilities are as follows:

	Interest rate %	2011 £000	Interest rate %	2010 £000
UK	1.94	35,000	2.28	35,000
Netherlands	2.39	1,253	2.11	1,285
France	1.30	3,759	1.72	5,570
Switzerland	1.40	3,509	1.40	3,563
		43,521		45,418

All the borrowing facilities above bear interest at floating rates. The Swiss facility may be drawn as an overdraft or fixed rate loan with different rates depending on the term and amount.

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade payables	114,077	114,225	141	104
Taxation and social security	13,646	11,111	1,791	1,825
Non-trade payables and accrued expenses	26,767	24,140	3,621	3,565
Amounts due to subsidiary undertakings	–	–	30,773	33,058
	154,490	149,476	36,326	38,552

Included within non-trade payables and accrued expenses is an amount of £37,000 for accrued interest on unsecured bank loans (*2010: £31,000*).

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

20 EMPLOYEE BENEFITS

During the year, the group operated a UK and a Swiss defined benefit plan and defined contribution plans in the UK, France and the Netherlands. The Headlam Group plc Staff Retirement Benefits Scheme is the principal defined benefit plan which provides benefits to UK employees that have been admitted into the scheme. The scheme is self-administered and its assets are held independently of the company's finances. The scheme is funded partly by contributions from members and partly by contributions from the company at rates advised by professionally qualified actuaries. The latest actuarial valuation was carried out as at 31 March 2011 using the attained age method. The main annual rate assumptions used by the actuary were, increase in salaries 4.9%, increase of pensions in payment 3.4%, discount rate before retirement 6.4%, discount rate after retirement 4.65% and inflation 3.4%. Assets were taken at their audited market value at the valuation date. This valuation also used revised mortality assumptions. These revised assumptions have been derived to take account of the characteristics of plan members and include a greater allowance for future increases in longevity compared with the assumptions previously adopted.

During 2010, the UK Government announced a move to adopting Consumer Price Inflation ("CPI") rather than Retail Price Inflation ("RPI") as the basis for inflation assumptions underpinning retirement benefit obligations. The directors have considered this change and associated guidance. Having taken advice, the company has determined that RPI remains the appropriate basis for measuring its obligations, such that the change announced has had no impact on the group's retirement benefit obligations.

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 £1,973,000 (*2010: £1,848,000*). Contributions amounting to £133,000 (*2010: £125,000*) in respect of December 2011 payroll were paid in January 2012.

The total group cost of operating the plans during the year was £3,472,000 (*2010: £3,438,000*) and, at 31 December 2011, there was an amount of £326,000 (*2010: £366,000*) owed to the plans, being employer and employee contributions due for December 2011, which was paid in January 2012.

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.

During the year, the group completed the enhanced transfer value exercise for deferred members that commenced in 2010 as part of its ongoing strategy to reduce the Headlam Group plc Staff Retirement Benefits Scheme liability. The amounts recognised in the 2011 Financial Statements in respect of this exercise are set out below:

	Income Statement £000	Cash flow £000
Enhanced transfer value contribution made to UK scheme	–	3,246
Enhanced transfer value lump sum payments made direct to members (including associated tax and social security costs)	(56)	56
Effect of enhanced transfer value exercise	(56)	3,302

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Present value of funded defined benefit obligations	**(84,923)**	(80,889)	**(74,737)**	(71,713)
Fair value of plan assets	**70,692**	68,451	**62,202**	60,382
Net obligations	**(14,231)**	(12,438)	**(12,535)**	(11,331)
Recognised liability for defined benefit obligations	**(14,231)**	(12,438)	**(12,535)**	(11,331)
Other long-term employee benefits	**(227)**	(286)	**–**	–
Total employee benefits	**(14,458)**	(12,724)	**(12,535)**	(11,331)
Analysed as:				
Current liabilities	**(2,669)**	(2,586)	**(2,669)**	(2,586)
Non-current liabilities	**(11,789)**	(10,138)	**(9,866)**	(8,745)
Total employee benefits	**(14,458)**	(12,724)	**(12,535)**	(11,331)

Following the actuarial valuation of the Headlam Group plc Staff Retirement Benefits Scheme as at 31 March 2008 and the latest valuation as at 31 March 2011, a recovery plan was agreed between the Trustees of the scheme and the company to fund the deficit. In accordance with the recovery plan, payments were made to the scheme during 2011 of £2,579,000 which, in accordance with the recovery plan, increase to £2,662,000 in 2012. It was agreed that recovery payments, which commenced on 1 January 2009 and will cease on 31 December 2015, were to increase by 3.2% each year. The next actuarial valuation is due at 31 March 2014 and the opportunity will be used to reassess the recovery plan.

In addition to the recovery payments, company contributions as at the date of the last valuation have been fixed at 24.7% of pensionable salaries at that date, with no allowance made in respect of subsequent leavers. This represented an additional contribution amounting to £202,000 during 2011 (*2010: £207,000*).

During 2012, the group and company expect to pay regular ongoing contributions of approximately £3,805,000 to the UK defined benefit plan of which £2,662,000 relates to the agreed recovery payments, the balance being estimated service costs.

20 EMPLOYEE BENEFITS continued

Movements in present value of defined benefit obligation

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
At 1 January	**80,889**	88,253	**71,713**	81,412
Current service cost	**1,499**	1,579	**1,067**	1,277
Interest cost	**3,796**	4,450	**3,542**	4,235
Actuarial losses	**7,998**	2,839	**7,278**	2,467
Benefits paid	**(9,727)**	(13,009)	**(9,084)**	(13,202)
Contributions by members	**436**	401	**221**	218
Past service costs	**–**	11	**–**	11
Settlements	**–**	(4,705)	**–**	(4,705)
Effect of movements in foreign exchange	**32**	1,070	**–**	–
At 31 December	**84,923**	80,889	**74,737**	71,713

Movements in fair value of plan assets

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
At 1 January	**68,451**	65,803	**60,382**	59,583
Expected return on plan assets	**3,814**	3,816	**3,524**	3,556
Actuarial gains/(losses)	**159**	3,195	**(19)**	3,274
Contributions by employer:				
Future service contributions	**1,505**	1,595	**1,151**	1,288
Past service deficit contributions	**2,579**	2,499	**2,579**	2,499
Additional past service deficit contributions	**202**	207	**202**	207
Contributions for enhanced transfer values	**3,246**	2,959	**3,246**	2,959
Contributions by members	**436**	401	**221**	218
Benefits paid	**(9,727)**	(13,009)	**(9,084)**	(13,202)
Effect of movements in foreign exchange	**27**	985	**–**	–
At 31 December	**70,692**	68,451	**62,202**	60,382

Expense recognised in the income statement relating to defined benefit obligation (excluding transfer value exercise)

	Group 2011 £000	Group 2010 £000
Current service cost	**1,499**	1,579
Past service cost	**–**	11
Interest on defined benefit plan obligation	**3,796**	4,450
Expected return on defined benefit plan assets	**(3,814)**	(3,816)
Total	**1,481**	2,224

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

The (income)/expense recognised in the following line items in the Consolidated Income Statement are:

	Group	
	2011 £000	2010 £000
Administrative expenses/(income)	1,499	(3,115)
Net financing (income)/costs	(18)	634
	1,481	(2,481)

Actuarial gains and losses in the Statement of Comprehensive Income:

	Group	
	2011 £000	2010 £000
Actuarial losses on defined benefit obligation	(7,998)	(2,839)
Actuarial gain on plan assets	159	3,195
	(7,839)	356

Cumulative actuarial gains and losses reported in the Statement of Comprehensive Income since 1 January 2004, the transition date to IFRS, are £23,268,000 (*2010: £15,429,000*). Cumulative actuarial gains and losses reported in the company's Statement of Comprehensive Income are £21,660,000 (*2010: £14,363,000*).

The fair value of the plan assets and the return on those assets were as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Equities	13,349	36,517	11,626	34,879
Government debt	7,445	17,449	7,445	17,449
Corporate bonds	24,671	6,998	20,613	3,141
Annuities	4,775	4,587	4,775	4,587
Commodities	4,386	–	4,386	–
Hedge funds	7,751	–	7,751	–
Other	8,315	2,900	5,606	326
	70,692	68,451	62,202	60,382
Actual return on plan assets	4,343	7,665	3,505	6,830

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

20 EMPLOYEE BENEFITS continued

Principal actuarial assumptions, expressed as weighted averages, are as follows:

	Group		Company	
	2011 %	2010 %	2011 %	2010 %
Discount rate	**4.3**	5.1	**4.6**	5.4
Future salary increases	**4.3**	4.7	**4.6**	5.1
Future pension increases	**2.8**	3.2	**3.1**	3.6
Inflation rate	**2.8**	3.3	**3.1**	3.6
Expected rate of return on plan assets	**5.2**	5.7	**5.6**	6.0
Mortality table assumptions:				
UK pre-retirement	**AC00 (Ultimate) table**	AC00 (Ultimate) table	**AC00 (Ultimate) table**	AC00 (Ultimate) table
UK post-retirement – future-pensioners	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	103%(M)/110%(F) of the PCA00 tables with medium cohort projections
UK post-retirement – current pensioners	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	103%(M)/110%(F) of the PCA00 tables with medium cohort projections
Swiss scheme	**EVK 2000**	EVK 2000	**–**	–

The mortality assumption implies the expected future lifetime from age 65 is as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Non-pensioner male	**23.6**	23.4	**23.6**	23.4
Pensioner male	**22.1**	21.5	**22.1**	21.5
Non-pensioner female	**25.5**	25.3	**25.5**	25.3
Pensioner female	**23.9**	23.4	**23.9**	23.4

Notes to the Financial Statements
continued

20 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	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of defined benefit obligation	**(84,923)**	(80,889)	(88,253)	(69,441)	(71,350)
Fair value of plan assets	**70,692**	68,451	65,803	55,139	60,308
Deficit	**(14,231)**	(12,438)	(22,450)	(14,302)	(11,042)

Company	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of defined benefit obligation	**(74,737)**	(71,713)	(81,412)	(62,443)	(66,953)
Fair value of plan assets	**62,202**	60,382	59,583	49,534	56,098
Deficit	**(12,535)**	(11,331)	(21,829)	(12,909)	(10,855)

Experience adjustments

Group	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
On plan liabilities	**1,289**	(588)	(1,787)	83	482
On plan assets	**159**	3,195	6,083	(11,798)	507
As a percentage of plan liabilities	**1.5%**	(0.7%)	(2.0%)	0.1%	0.7%
As a percentage of plan assets	**0.2%**	4.7%	9.2%	(21.4%)	0.8%

Company	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
On plan liabilities	**1,404**	(522)	(1,402)	(24)	(14)
On plan assets	**(19)**	3,274	5,559	(10,785)	313
As a percentage of plan liabilities	**1.9%**	(0.7%)	(1.7%)	(0.0%)	(0.0%)
As a percentage of plan assets	**0.0%**	5.4%	9.3%	(21.8%)	0.6%

During the year, 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 2011 is £227,000 (*2010: £286,000*).

21 SHARE BASED PAYMENTS

Group and company

Executive directors and executive management currently participate in executive share option schemes. The option price may not be less than the greater of the mid-market value of the group's shares at the time when the options were granted or the nominal value. Options granted under the 1998 Inland Revenue approved scheme are normally exercisable between the third and tenth anniversaries of their date of grant, subject to the movement of the group's basic earnings per share exceeding RPI over the relevant period.

Options granted under the 1998 unapproved scheme are normally exercisable between the third and seventh anniversaries of their date of grant. Awards are subject to the movement of the group's basic earnings per share exceeding RPI between 3% and 5% per annum respectively over the relevant period.

Additionally, the group operates a savings related share option scheme ("sharesave scheme") which is open to employees subject to eligibility criteria determined by the directors prior to each option grant. The most recent grant was on 11 May 2011 when employees with over one month's service were invited to participate.

The group also operates a 2008 HMRC approved scheme, a 2008 unapproved scheme, the Headlam Group Performance Share Plan 2008 and the Headlam Group Co-Investment Plan 2008. Further details of these schemes and plans are given in the Remuneration Report on pages 41 and 43.

Notes to the Financial Statements
continued

21 SHARE BASED PAYMENTS continued

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 2011	2010	Vesting conditions	Contractual life of options
Approved 1998 scheme granted to key management 14 April 2003	**40,404**	40,404	Movement of the group's basic earnings per share exceeding RPI over the relevant period	14/04/06 – 14/04/13
Unapproved 1998 scheme granted to key management 22 August 2005	**1,242,864**	1,242,864	Movement of the group's basic earnings per share exceeding RPI by 3%-5% pa over the relevant period	22/08/08 – 22/08/12
Approved 1998 scheme granted to key management 22 August 2005	**57,136**	57,136	Movement of the group's basic earnings per share exceeding that of RPI by 3% pa over the relevant period	22/08/08 – 22/08/15
Five year sharesave scheme granted to other employees 25 May 2006	**40,499**	40,980	Continuous service	01/07/11 – 01/01/12
Three year sharesave scheme granted to other employees 8 May 2008	**54,808**	57,784	Continuous service	01/07/11 – 01/01/12
Five year sharesave scheme granted to other employees 8 May 2008	**42,608**	50,121	Continuous service	01/07/13 – 01/01/14
Three year sharesave scheme granted to other employees 19 May 2009	**381,457**	409,119	Continuous service	01/07/12 – 01/01/13
Five year sharesave scheme granted to other employees 19 May 2009	**374,246**	384,105	Continuous service	01/07/14 – 01/01/15
Three year sharesave scheme granted to other employees 21 May 2010	**53,486**	77,920	Continuous service	01/07/13 – 01/01/14
Five year sharesave scheme granted to other employees 21 May 2010	**63,928**	66,406	Continuous service	01/07/15 – 01/01/16
Headlam Group Co-Investment Plan 2008 granted to key management 8 October 2010*	**468,828**	468,828	If the real earnings per share growth is over 3%pa – 50% vesting, over 6% - 100% vesting. TSR- if company is ranked at median or above – 50%, upper quartile – 100%	08/10/13 – 08/10/20
Three year sharesave scheme granted to other employees 11 May 2011	**116,966**	–	Continuous service	01/07/14 – 01/01/15
Five year sharesave scheme granted to other employees 11 May 2011	**73,104**	–	Continuous service	01/07/16 – 01/01/17
Headlam Group Co-Investment Plan 2008 granted to key management 23 August 2011*	**436,346**	–	If the real earnings per share growth is over 3% pa – 50% vesting, over 6% - 100% vesting. TSR- if company is ranked at median or above – 50%, upper quartile – 100%	23/08/14 – 23/08/21
Total share options	**3,446,680**	2,895,667		

*Further details are provided on pages 41 and 42 of the Remuneration Report.

21 SHARE BASED PAYMENTS continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010
Outstanding at the beginning of the year	281.9	2,895,667	336.6	2,407,066
Exercised during the year	222.2	(4,406)	222.2	(3,044)
Granted during the year	79.0	642,588	63.5	627,736
Lapsed during the year	246.2	(87,169)	244.0	(136,091)
Outstanding at the end of the year	245.0	3,446,680	281.9	2,895,667
Exercisable at the end of the year	409.2	1,435,711	413.8	1,340,404

The weighted average share price for options exercised during the year was 304.7p, (*2010: 281.2p*).

The options outstanding at the year end have an exercise price in the range of 215.0p to 420.0p and a weighted average contractual life of 2.7 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. The estimate of the fair value of the services received is measured using the Black-Scholes option pricing model for the sharesave scheme and the Monte Carlo option pricing model for the Co-Investment Plan.

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 2011 are shown below:

2011		3 year Co-Investment Plan 2008	3 year Sharesave scheme	5 year Sharesave scheme
Number of options		436,346	126,868	79,374
Option pricing model		Monte Carlo	Black-Scholes	Black-Scholes
Fair value at measurement date:		–		
No performance conditions		–	96.9p	109.7p
Performance conditions	EPS 80%	239.0p	–	–
	TSR 20%	156.0p	–	–
Share price at 31 December		255.0p	255.0p	255.0p
Exercise price		–	246.0p	246.0p
Expected volatility		40.0%pa	47.8%pa	50.0%pa
Option life		3 years	3 years	5 years
Dividend yield		4.5%pa	4.8%pa	4.8%pa
Risk-free rate of interest		0.85%pa	1.5%pa	2.45%pa

Notes to the Financial Statements
continued

21 SHARE BASED PAYMENTS continued

Details of share options granted during 2010 are shown below:

2010		3 year Co-Investment Plan 2008	3 year Sharesave scheme	5 year Sharesave scheme
Number of options		468,828	86,307	72,601
Option pricing model		Monte Carlo	Black-Scholes	Black-Scholes
Fair value at measurement date:				
No performance conditions		–	93.1p	96.9p
Performance conditions	EPS 80%	282.0p	–	–
	TSR 20%	199.0p	–	–
Share price at 31 December		313.5p	313.5p	313.5p
Exercise price		–	251.0p	251.0p
Expected volatility		40.0%pa	45.7%pa	43.5%pa
Option life		3 years	3 years	5 years
Dividend yield		3.5%pa	5.1%pa	5.1%pa
Risk-free rate of interest		1.05%pa	1.3%pa	2.3%pa

The total expenses recognised for the year arising from share based payments are as follows:

	Group		Company		Subsidiaries	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Share options granted in 2006 under the SAYE 5 year scheme	15	35	–	–	15	35
Share options granted in 2008 under the SAYE 3 year scheme	58	93	–	–	58	93
Share options granted in 2008 under the SAYE 5 year scheme	63	63	–	–	63	63
Share options granted in 2009 under the SAYE 3 year scheme	102	102	3	3	99	99
Share options granted in 2009 under the SAYE 5 year scheme	30	30	1	1	29	29
Share options granted in 2010 under the SAYE 3 year scheme	27	16	–	–	27	16
Share options granted in 2010 under the SAYE 5 year scheme	14	9	–	–	14	9
Headlam Group Co-Investment Plan 2008	410	100	175	43	235	57
Share options granted in 2011 under the SAYE 3 year scheme	26	–	–	–	26	–
Share options granted in 2011 under the SAYE 5 year scheme	11	–	1	–	10	–
Headlam Group Co-Investment Plan 2008	115	–	54	–	61	–
Total expense recognised	871	448	234	47	637	401

22 CAPITAL AND RESERVES

Share capital

	Ordinary shares 2011 £000	2010 £000
Number of shares		
On issue at 1 January and 31 December – fully paid	85,363,743	85,363,743

	2011 £000	2010 £000
Allotted, called up and fully paid		
Ordinary shares of 5p each	4,268	4,268
	4,268	4,268
Shares classified as liabilities	–	–
Shares classified in shareholders funds	4,268	4,268
	4,268	4,268

During the year the company purchased 600,000 shares with a nominal value of £30,000 representing 0.7% of the issued share capital, for a consideration that amounted to £1,575,000. These shares were not purchased under the buy-back authority but were obtained to crystallise the cost of satisfying potential awards under the employee share plan arrangements. These shares are held as treasury shares.

At 31 December 2011, there were 2,841,197 (*2010: 2,245,603*) shares held in treasury. Dividends are not payable on these shares and they are excluded from the calculation of earnings per share. The shares held in treasury represent 3.3% of the issued share capital with a nominal value of £142,060.

In the period from 31 December 2011 to 9 March 2012 no shares have been purchased by the company.

Ordinary shares
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Dividends

	2011 £000	2010 £000
Interim dividend for 2010 of 3.83p paid 4 January 2011	3,180	–
Final dividend for 2010 of 8.57p paid 1 July 2011	7,115	–
Interim dividend for 2009 of 3.70p paid 2 January 2010	–	3,072
Final dividend for 2009 of 7.30p paid 1 July 2010	–	6,060
	10,295	9,132

The final proposed dividend of 9.85p per share (*2010: 8.57p per share*) will not be provided for until authorised by shareholders at the forthcoming AGM.

Interim dividends of 4.30p per share (*2010: 3.83p per share*) are provided for when the dividend is paid.

Notes to the Financial Statements
continued

22 CAPITAL AND RESERVES continued

The total value of dividends proposed but not recognised at 31 December 2011 is £11,663,000 (*2010: £10,294,000*).

Reserves

Other reserves
Other reserves as disclosed on the Statement of Financial Position comprise the capital redemption reserve, translation reserve, cash flow hedging reserve and treasury reserve. For the company this also includes a 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.

Cash flow hedging reserve
The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Treasury Reserve
The treasury reserve compromises the cost of the company's shares held by the group.

Special Reserve
The special reserve arose on the issuance of shares in connection with acquisitions made by the company in earlier years.

23 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 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 3 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. Notwithstanding the deteriorating economic circumstances during 2008 and 2009 and the consequential impact on the financial services sector, the directors consider the credit quality of cash and cash equivalents to be robust.

23 FINANCIAL INSTRUMENTS continued

The carrying amount of financial assets at the Statement of Financial Position date was:

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Trade and other receivables (note 15)	**107,567**	98,108	**14,892**	27,894
Cash and cash equivalents (note 16)	**41,494**	44,758	**23,921**	23,369
	149,061	142,866	**38,813**	51,263

The fair values of the above financial assets at both 31 December 2011 and 2010, are deemed to approximate to carrying value due to the short term maturity of the instruments.

The maximum exposure to credit risk for trade receivables at the Statement of Financial Position date by geographic region was:

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
UK	**74,597**	64,944	**–**	–
Continental Europe	**13,251**	13,934	**–**	–
	87,848	78,878	**–**	–

The ageing of trade receivables at the Statement of Financial Position date was:

	2011		2010	
	Gross	**Impairment**	Gross	Impairment
	£000	**£000**	£000	£000
Not past due	**81,191**	**(230)**	74,808	–
Past due 0-30 days	**4,428**	**(306)**	3,313	(554)
Past due 31-120 days	**5,260**	**(2,495)**	3,684	(2,373)
	90,879	**(3,031)**	81,805	(2,927)

All other receivables and derivative financial assets are not past due (*2010: not past due*).

The company had trade receivables of £nil (*2010:£nil*).

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Balance at 1 January	**2,927**	2,801	**–**	–
Amounts provided	**2,635**	2,160	**–**	–
Amounts utilised	**(2,510)**	(2,031)	**–**	–
Effect of movements in foreign exchange	**(21)**	(3)	**–**	–
Balance at 31 December	**3,031**	2,927	**–**	–

Based on historic default rates, the group believes that no general impairment allowance is necessary in respect of trade receivables, however, the group provides fully for specific debts when required. During the year the group's impairment loss as a percentage of revenue amounted to 0.46% (*2010: 0.40%*).

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 2011 cash and cash equivalents covered the amounts of borrowings maturing in the next twelve months with a net positive liquidity of £11,275,000 (*2010: £44,533,000*). Details of the total facilities that the group has access to are given in note 18.

The following are the contractual maturities of financial liabilities:

31 December 2011 Group	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1-2 years £000**	**2-5 years £000**	**More than 5 years £000**
Non-derivative financial liabilities						
Unsecured bank loans	**33,910**	**(34,924)**	**(30,571)**	**(334)**	**(962)**	**(3,057)**
Trade and other payables	**140,844**	**(140,844)**	**(140,844)**	**–**	**–**	**–**
	174,754	**(175,768)**	**(171,415)**	**(334)**	**(962)**	**(3,057)**

31 December 2010 Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	2-5 years £000	More than 5 years £000
Non-derivative financial liabilities						
Unsecured bank loans	34,236	(35,623)	(729)	(30,527)	(1,256)	(3,111)
Trade and other payables	138,365	(138,365)	(138,365)	–	–	–
	172,601	(173,988)	(139,094)	(30,527)	(1,256)	(3,111)

23 FINANCIAL INSTRUMENTS continued

Liquidity risk continued

31 December 2011 Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	2-5 years £000
Non-derivative financial liabilities					
Unsecured bank loans	30,000	(30,230)	(30,230)	–	–
Trade and other payables	34,535	(34,535)	(34,535)	–	–
	64,535	(64,765)	(64,765)	–	–

31 December 2010 Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	2-5 years £000
Non-derivative financial liabilities					
Unsecured bank loans	30,000	(30,587)	(391)	(30,196)	–
Trade and other payables	36,727	(36,727)	(36,727)	–	–
	66,727	(67,314)	(37,118)	(30,196)	–

The value of the group's financial liabilities as detailed above at 31 December 2011 and 2010 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.

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Liquidity risk continued
The table below sets out the group's accounting classification of each class of financial assets and liabilities at 31 December 2011 and 2010.

31 December 2011	Available for sale £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	41,494	–	–	41,494
Borrowings due within one year	–	–	(30,219)	(30,219)
Borrowings due after one year	–	–	(3,691)	(3,691)
Trade payables	–	–	(114,077)	(114,077)
Non-trade payables and accrued expenses	–	–	(26,767)	(26,767)
Trade receivables	–	–	87,848	87,848
Other receivables	–	–	19,569	19,569
Derivative assets	–	150	–	150
	41,494	150	(67,337)	(25,693)

31 December 2010	Available for sale £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	44,758	–	–	44,758
Borrowings due within one year	–	–	(225)	(225)
Borrowings due after one year	–	–	(34,011)	(34,011)
Trade payables	–	–	(114,225)	(114,225)
Non-trade payables and accrued expenses	–	–	(24,140)	(24,140)
Trade receivables	–	–	78,878	78,878
Other receivables	–	–	19,119	19,119
Derivative assets	–	111	–	111
	44,758	111	(74,604)	(29,735)

Under IAS 39, all derivative financial instruments not in a hedge relationship are derivatives at fair value through the income statement. 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.

23 FINANCIAL INSTRUMENTS continued

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. In accordance with this policy, and in order to manage it's exposure to UK interest rates, the group entered into two interest rate swaps in 2008 to fix £30 million of its sterling denominated borrowings. The first interest rate swap matured in October 2009 and the second matured in April 2010. These interest rate swaps were designated as a hedging instrument and accounted for as a cash flow hedge in accordance with the requirements of IAS 39.

At the reporting date the interest rate profile of the group's interest-bearing financial instruments was:

	Group Carrying amount		Company Carrying amount	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Variable rate instruments				
Financial assets	**41,494**	44,758	**23,921**	23,369
Financial liabilities	**(33,910)**	(34,236)	**(30,000)**	(30,000)
	7,584	10,522	**(6,079)**	(6,631)

There were no fixed rate instruments held by the group at 31 December 2011 (*2010: £nil*).

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 2010.

	Group				Company			
	Profit or loss		Equity		Profit or loss		Equity	
	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000
31 December 2011								
Variable rate instruments	**76**	**(76)**	**–**	**–**	**(61)**	**61**	**–**	**–**
31 December 2010								
Variable rate instruments	105	(105)	–	–	(66)	66	–	–

Notes to the Financial Statements
continued

23 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 uses forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in the functional currency of the acquiring company. These forward exchange contracts would have a maturity of less than one year after the Statement of Financial Position date. The group also enters into foreign currency contracts at spot rate where the amounts are not frequent or material. Gains and losses on currency contracts recognised as an asset as at 31 December 2011 amounted to £150,000 (*2010: asset £111,000*).

For the twelve month period to 31 December 2011, 10.1% (*2010: 9.8%*) of the group's operating profit was derived from overseas subsidiaries and at 31 December 2011, 24.4% (*2010: 23.7%*) 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 group's exposure to foreign currency risk was as follows:

		Group			Company	
2011	Euro amount £000	Other amount £000	Total £000	Euro amount £000	Other amount £000	Total £000
Trade and other receivables	86	143	229	77	17	94
Cash and cash equivalents	214	579	793	16	1	17
Trade and other payables	(1,165)	(1,412)	(2,577)	–	–	–
	(865)	(690)	(1,555)	93	18	111

		Group			Company	
2010	Euro amount £000	Other amount £000	Total £000	Euro amount £000	Other amount £000	Total £000
Trade and other receivables	178	180	358	82	17	99
Cash and cash equivalents	635	662	1,297	85	1	86
Trade and other payables	(1,340)	(889)	(2,229)	–	–	–
	(527)	(47)	(574)	167	18	185

23 FINANCIAL INSTRUMENTS continued

Sensitivity analysis

A 10 percent weakening of sterling against the following currencies at 31 December would have increased/(decreased) 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 2010.

	Group		Company	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Euro	**(86)**	(53)	**9**	17
Other	**(69)**	(5)	**2**	2

A 10 percent strengthening of sterling against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Fair values hierarchy

The financial instruments carried at fair value are categorised according to their valuation method. The different levels have been defined below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, as prices or indirectly, derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Forward currency contracts were fair valued in accordance with level 2 (*2010: level 2*).

Fair values

The carrying amounts shown in the Statement of Financial Position for financial instruments are a reasonable approximation to fair value.

Trade receivables, trade payables and cash and cash equivalents

Fair values are assumed to approximate to cost due to the short term maturity of the instrument.

Borrowings, other financial assets and other financial liabilities

Where available, market values have been used to determine fair values. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Capital management
The group views its finance capital resources as primary 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.

The board encourages employees of the group to hold the company's ordinary shares. The group operates a number of employee share option schemes. The company has acquired a number of its own shares under a share buy-back programme, and some of these shares have been used for issuing shares under the group's various share option incentive 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 8 March 2012, the group completed a refinancing of its banking facilities. The new facilities comprise £40 million committed facility and £35 million uncommitted facility. This represents an increase in total available facilities of £10 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.

During the year £1.6 million was utilised to acquire shares in the company to crystallise the cost of satisfying potential awards under the employee share plan arrangements.

No changes were made to the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

24 OPERATING LEASES

The aggregate payments, for which there are commitments under non-cancellable operating leases as at the end of the year, fall due as follows:

Group	2011 Land and buildings £000	2011 Plant and machinery £000	2011 Total £000	2010 Land and buildings £000	2010 Plant and machinery £000	2010 Total £000
Less than one year	1,330	8,317	9,647	748	6,407	7,155
Between one and five years	3,747	14,305	18,052	1,994	9,932	11,926
More than five years	2,626	5	2,631	2,313	26	2,339
	7,703	22,627	30,330	5,055	16,365	21,420

Company	2011 Land and buildings £000	2011 Plant and machinery £000	2011 Total £000	2010 Land and buildings £000	2010 Plant and machinery £000	2010 Total £000
Less than one year	26	7	33	18	6	24
Between one and five years	105	16	121	74	–	74
More than five years	1,959	–	1,959	1,396	–	1,396
	2,090	23	2,113	1,488	6	1,494

The group leases the majority of its motor and commercial vehicles on terms that range between three and five years and during the year ended 31 December 2011, total operating lease expense of £11,049,000 was recognised in the Consolidated Income Statement (*2010: £10,702,000*).

25 CAPITAL COMMITMENTS

Group
During the year ended 31 December 2011, the group entered into contracts to purchase property, plant and equipment for £709,000 (*2010: £421,000*). These commitments are expected to be settled in the following financial year.

Company
During the year ended 31 December 2011, the company entered into contracts to purchase property, plant and equipment for £44,000 (*2010: £nil*). This commitment is expected to be settled in the following financial year.

26 RELATED PARTIES

Group and Company
Identity of related parties
The group has a related party relationship with its subsidiaries and with its directors and executive officers.

Transactions with key personnel
The group's key personnel are the executive and non-executive directors and senior executive management as identified on page 24.

As at 31 December 2011, directors of the company and their immediate relatives controlled 1.6% of the voting shares of the company (*2010: 1.5%*).

Non-executive directors receive a fee for their services to the board.

Other than disclosed in the Remuneration Report, there were no other transactions with personnel in either the current or preceding year. The cost charged to administrative expenses relating to share plans of key personnel amounted to £199,000 (*2010: £39,000*).

Company only
In addition to the transactions with key personnel the company has the following transactions:

Transactions with other group companies

	Highest during the year £000	Balance at 31 December 2011 £000	Highest during the year £000	Balance at 31 December 2010 £000
Amounts due from subsidiaries	25,829	14,712	27,282	27,282
Amounts due to subsidiaries	(33,671)	(30,773)	(33,058)	(33,058)

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 but during 2011, payments were received and paid against the outstanding amounts reducing the balance at 31 December 2011.

Notes to the Financial Statements
continued

26 RELATED PARTIES continued

Related party transactions reported in the income statement

	For year ended 31 December 2011 £000	For year ended 31 December 2010 £000
Rental income	**6,451**	6,291
Dividends received	**4,221**	14,526
Recharge of operating expenses	**2,206**	2,294
Interest income	**240**	242
Pension recharge	**200**	239

27 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 matter described below.

On 8 March 2012 the group refinanced the terms of its banking facilities. The refinancing increased the availability of committed facilities and extended the availability of committed facilities to March 2015 with an option, in the lenders favour, to extend to March 2016. Uncommitted facilities were maintained at £35 million, renewable on an annual basis. The lending parties were also extended from one to two. There was no change to the financial covenant restrictions associated with the facilities.

Arrangement fees of £290,000 were incurred on the committed facility refinancing. This refinancing has not been accounted for in these Financial Statements and will be reflected in the Financial Statements for the year ending 31 December 2012.

Principal Trading Subsidiaries

	Place of incorporation
* HFD Limited	Great Britain
* MCD Group Limited	Great Britain
Headlam BV	Netherlands
LMS SA	France
* Belcolor AG	Switzerland

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.

* These subsidiaries are owned directly by Headlam Group plc. The investment in subsidiaries comprises ordinary share capital.

Financial Record

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Trading results					
Revenue	569,795	535,690	533,793	557,296	544,718
Gross profit	175,739	164,959	162,260	174,626	168,728
Overheads	(147,687)	(138,893)	(137,502)	(132,904)	(122,715)
Operating profit	28,052	26,066	24,758	41,722	46,013
Profit before net financing costs	28,052	26,066	24,758	41,722	46,013
Net financing costs	(464)	(1,060)	(2,694)	(1,602)	(841)
Profit on ordinary activities before tax	27,588	25,006	22,064	40,120	45,172
Taxation	(7,184)	(7,127)	(6,168)	(11,433)	(13,534)
Profit on ordinary activities after taxation	20,404	17,879	15,896	28,687	31,638
Shareholder value					
Paid dividend per share	12.40p	11.00p	19.70p	23.10p	20.15p
Proposed dividend per share	14.15p	12.40p	11.00p	19.70p	23.10p
Earnings per share	24.6p	21.5p	19.1p	34.5p	37.1p
Net assets					
Non-current assets					
Property, plant and equipment	94,201	97,215	96,530	99,741	92,097
Intangible assets	13,210	13,210	13,210	13,210	13,210
Deferred tax assets	962	896	4,731	1,516	2,106
	108,373	111,321	114,471	114,467	107,413
Current assets					
Inventories	114,196	105,694	99,637	107,597	101,491
Trade and other receivables	111,656	102,240	101,149	105,942	100,830
Cash and cash equivalents	41,494	44,758	45,737	35,193	16,805
Assets held for sale	362	362	2,275	–	–
	267,708	253,054	248,798	248,732	219,126
Total assets	376,081	364,375	363,269	363,199	326,539
Current liabilities					
Bank overdraft	–	–	(758)	–	(103)
Other interest–bearing loans and borrowings	(30,219)	(225)	(900)	(4,506)	–
Trade and other payables	(154,490)	(149,476)	(143,216)	(143,369)	(154,320)
Employee benefits	(2,669)	(2,586)	(2,506)	(2,428)	(1,491)
Income tax payable	(6,678)	(4,201)	(8,615)	(9,546)	(10,747)
	(194,056)	(156,488)	(155,995)	(159,849)	(166,661)
Non–current liabilities					
Other interest–bearing loans and borrowings	(3,691)	(34,011)	(34,392)	(30,000)	–
Employee benefits	(11,789)	(10,138)	(20,253)	(12,216)	(9,837)
	(15,480)	(44,149)	(54,645)	(42,216)	(9,837)
Total liabilities	(209,536)	(200,637)	(210,640)	(202,065)	(176,498)
Net assets	166,545	163,738	152,629	161,134	150,041

Notice of AGM

Notice is hereby given that the sixty fourth Annual General Meeting of Headlam Group plc will be held at the group's distribution facility located at Gorsey Lane, Coleshill, Birmingham, B46 1LW on Friday 15 June 2012 at 10.00 a.m. for the following purposes.

As ordinary business

1. To receive, consider and adopt the Annual Report and Accounts, the Directors' Report and the Independent Auditor's Report for the year ended 31 December 2011.

2. To declare a final dividend for the year ended 31 December 2011 of 9.85 pence per ordinary share.

3. To re-elect as a director Steve Wilson who is retiring by rotation in accordance with the company's articles.

4. To re-elect as a director Mike O'Leary who is retiring by rotation in accordance with the company's articles.

5. To re-appoint KPMG Audit Plc as Independent Auditor of the company from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders.

6. To authorise the directors to determine the Independent Auditor's remuneration.

7. To approve the director's Remuneration Report for the year ended 31 December 2011.

As special business

To consider and, if thought fit, pass the following resolutions of which resolutions 8, 12 and 13 will be proposed as ordinary resolutions and resolutions 9 to 11 will be proposed as special resolutions:

8. Authority to allot shares
   (a) that the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to allot shares in the company, and to grant rights to subscribe for or to convert any security into shares in the company, up to an aggregate nominal amount of £620,000 for a period expiring (unless previously renewed, varied or revoked by the company in general meeting) at the end of the 2013 AGM (or, if earlier, at the close of business on 30 June 2013), and save that the company may before such expiry make an offer or agreement which would or might require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after expiry of this authority and the directors may allot shares and grant rights in pursuance of any such offer or agreement as if this authority had not expired;

   (b) that, subject to paragraph (c), all existing authorities given to the directors pursuant to section 551 of the Act be revoked by this resolution; and

   (c) that paragraph (b) shall be without prejudice to the continuing authority of the directors to allot shares or grant rights to subscribe for or convert any security into shares pursuant to an offer or agreement made by the company before the expiry of the authority pursuant to which such offer or agreement was made.

9. Dis-application of pre-emption rights
   that, subject to the passing of resolution 8 in this Notice and in place of all existing powers to allot securities given to the directors, the directors be generally empowered pursuant to section 570 and section 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash, pursuant to the authority conferred by resolution 8 in this Notice, as if section 561 of the Act did not apply to the allotment. This power:

   (a) expires (unless previously renewed, varied or revoked by the company in general meeting) at the end of the 2013 AGM if passed (or, if earlier, at the close of business on 30 June 2013), save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired; and

(b) shall be limited to:
  (i) the allotment of equity securities in connection with an issue to holders of ordinary shares of 5 pence in the capital of the company in proportion (as nearly as may be practicable) to their existing holdings and to people who hold other equity securities, if this is required by the rights of those securities or, if the directors consider it necessary, as permitted by the rights of those securities and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

  (ii) the allotment of equity securities for cash otherwise than pursuant to paragraph 12(b)(i) up to an aggregate nominal amount of £213,000.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(3) of the Act as if, in the first paragraph of this resolution, the words "pursuant to the authority conferred by resolution 8 in this Notice were omitted.

10. Authority to purchase own shares

that the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 5 pence in the capital of the company, subject to the following conditions:

(a) the maximum number of ordinary shares which may be purchased is 8,536,000;

(b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is 5 pence;

(c) the maximum price (exclusive of expenses) which may be paid for each ordinary share is the higher of: (i) an amount equal to 105% of the average of the middle market quotations of an ordinary share of the company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System; and

(d) the authority conferred by this resolution shall expire at the conclusion of the 2013 AGM or, if earlier, at the close of business on 30 June 2013 (except in relation to the purchase of shares the contract for which was made before the expiry of this authority and which might be concluded wholly or partly after such expiry).

11. Shareholder rights directive

that the company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 days' clear notice from the date of the passing of this resolution, provided that the authority shall expire at the conclusion of the AGM of the company to be held in 2013 or 30 June 2013, whichever is the earlier.

Notice of AGM
continued

12. Headlam Group Sharesave Scheme 2012
that the directors be and are hereby authorised to establish the Headlam Group Sharesave Scheme 2012 (the "Sharesave Scheme"), a copy of the draft rules of which has been produced to the meeting and initialled by the Chairman of the meeting (for the purposes of identification only) and a summary of the main provisions of which is set out in the Notice of Meeting to shareholders dated 9 March 2012 and to do all such acts and things as may be necessary or expedient to give effect to the Sharesave Scheme, including amending the rules of the Sharesave Scheme in such manner as may be necessary to ensure that the Sharesave Scheme is approved by HMRC.

13. Sharesave for Employees Resident or Working Outside of the United Kingdom
that the directors be and are hereby authorised to exercise the powers of the company to establish schedules to the Sharesave Scheme or other share plans for employees resident or working outside of the United Kingdom, based on the Sharesave Scheme but modified to take account of local tax, exchange control and securities laws provided that such schedules or plans shall confer benefits and contain limits so as to ensure, so far as the directors consider practicable, substantial equality of treatment with employees participating under the main body of the Sharesave Scheme, and that any shares issued or which might be issued under such other plans are treated as counted against any limits on individual or overall participation set out in the main body of the Sharesave Scheme.

By order of the board

Geoff Duggan
Company Secretary

9 March 2012
Headlam Group plc
Registered No. 460129, England
Registered office:
Gorsey Lane, Coleshill
Birmingham, B46 1LW

Explanatory Notes to the Notice of Meeting

Notes 1 to 16 below give further explanation as to the proxy, voting and attendance procedures at the AGM.

1. Entitlement to appoint proxies.

A member entitled to attend and vote at the meeting is also entitled to appoint a proxy or proxies to attend, speak and vote instead of him. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the company. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting. To appoint more than one proxy, a member must complete a photocopy of the enclosed proxy card or obtain additional forms from Capita Registrars, telephone 0871 664 0300 (calls cost 10p per minute plus network charges). Lines are open 8.30am – 5.30pm Monday to Friday. Please also indicate by ticking the relevant box if the proxy appointment is one of multiple appointments being made. Multiple proxy appointments should be returned together in the same envelope. Enter in the box provided the number of shares in relation to which your proxy is authorised or leave the box blank to authorise your proxy to act in relation to your full voting entitlement.

2. Appointing proxies

To be effective, the instrument appointing a proxy and any power of attorney or other authority under which it is executed (or a notarially certified copy of such power or authority) must reach Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed with this Notice.

3. Electronic proxy appointment through Crest

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euro-clear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear UK & Ireland") specifications and must contain the information required for such instructions, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for the receipt of proxy appointments specified in note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK and Ireland does not make available special procedures in CREST for any particular message. Normal system timing and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST systems and timing.

The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertified Securities Regulations 2001.

4. Joint holders

In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names of the holders stand in the register of members in respect of the joint holding.

5. Entitlement to attend and vote

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the AGM is 6.00 p.m. on 13 June 2012 or, if the meeting is adjourned, 6.00 p.m. on the date two days before the date for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

Explanatory Notes to the Notice of Meeting
continued

6. Nominated person
If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy nomination rights (a "Nominated Person") you may, under an agreement between you and the member of the company who has nominated you, have a right to be appointed (or have someone else appointed) as a proxy for the meeting. If you do not have such a proxy appointment right, or you do but do not wish to exercise it, you may have a right to give instructions to the member who has appointed you as to the exercise of voting rights. If you are a Nominated Person, the statement of the rights of members in relation to the appointment of proxies above does not apply. Such rights can only be exercised by a registered member of the company.

7. Issued share capital
As at 9 March 2012 the company's issued share capital, including treasury shares, consisted of 85,363,743 ordinary shares of 5p ("shares"). Of these 2,241,197 shares were held in treasury, the voting rights and entitlement to dividend of which were automatically suspended. Accordingly the total number of voting rights in the company as at that date was 83,122,546.

8. Right to ask questions
A shareholder attending the meeting has the right to ask questions relating to the business being dealt with at the meeting in accordance with section 319A of the Act. In certain circumstances prescribed by section 319A of the Act, the company need not answer a question.

9. Shareholder requests under section 527 of the Act
Under section 527 Companies Act 2006, members of the company representing at least 5% of the total voting rights of the company or at least 100 members who have a right to vote and hold shares in the company on which there has been paid up an average sum per member of at least £100, may require the company to publish on its website a statement setting out any matter relating to the audit of the company's accounts or any circumstances connected with KPMG Audit Plc ceasing to hold office since the last AGM that the members propose to raise at the meeting. Where the company is required to publish such a statement on its website, it may not require the members making the request to pay its expenses in complying with the request. The company must forward the statement to the company's auditor not later than the time when it makes the statement available on its website. The business of the meeting includes any such statement that the company has been required to publish on its website.

10. Non-shareholder attendance
Persons who are not shareholders in the company will not be admitted to the meeting unless prior arrangements are made with the company.

11. Access arrangements
Should any shareholder with special needs wish to attend the meeting, please contact the company so that appropriate arrangements can be made.

12. Communicating with the company in relation to the AGM
Except as provided above, members who wish to communicate with the company in relation to the AGM should do so using the following means:

(a) by writing to the Company Secretary at the company's registered office address at Gorsey Lane, Coleshill, Birmingham, B46 1LW;
or
(b) by writing to: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

No other methods of communication will be accepted. In particular, you may not use any electronic address provided either in this Notice or in any related documents (including, without limitation, the Annual Report and Accounts 2011 and the form(s) of proxy) to communicate with the company for any purpose other than those expressly stated in this Notice or in such other related documents.

13. Inspection of documents

Copies of the directors' service contracts and, where appropriate, letters of appointment, a summary of the directors' transactions in the company's shares during the year and the written terms of reference for each of the Remuneration, Audit and Nomination committees will be available for inspection at the registered office of the company during normal business hours on any weekday (Saturday, Sundays and public holidays excluded) from the date of this Notice until the close of business on the business day preceding the AGM and will also be available for inspection for at least 15 minutes prior to the meeting and throughout the meeting. There are no service agreements between any director and any subsidiary of the company.

14. Voting results

The results of the voting at the AGM will be announced through a Regulatory Information Service and will appear on our website www.headlam.com.

15. Website

A copy of this Notice, and other information required by section 311A of the Act, can be found at www.headlam.com.

16. Data protection statement

Your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the company). The company determines the purposes for which and the manner in which your personal data is to be processed. The company and any third party to which it discloses the data (including the company's Registrars) may process your personal data for the purposes of compiling and updating the company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

Explanatory Notes to the Proposed Resolutions

This year's AGM will be held at the group's distribution facility in Coleshill, Birmingham on Friday 15 June 2012 at 10.00 a.m.

A description of the resolutions that will be proposed at the meeting is set out below.

Resolutions 1 to 8 inclusive, together with resolutions 12 and 13 are proposed as ordinary resolutions which means that, for each of these resolutions to be passed, more than half the votes cast must be cast in favour of the resolution. Resolutions 9 to 11 inclusive are proposed as special resolutions, which means, that for each of those resolutions to be passed, at least three quarters of the votes cast must be cast in favour of the resolution.

Resolution 1 – Annual Report and Accounts

The company is required by law to present to shareholders at the AGM its audited accounts and the directors and independent auditors' reports for the financial year ended 31 December 2011. Shareholders are invited to vote to receive and adopt the Annual Report and Accounts for the year ended 31 December 2011.

Resolution 2 – Declaration of dividend

The directors recommend the payment of a final dividend of 9.85p on each of the ordinary shares entitled thereto, which together with the interim dividend of 4.30p, gives a total dividend of 14.15p for the year ended 31 December 2011. Subject to approval of the declaration of the final dividend at the AGM, the final dividend will be paid on 2 July 2012 to the holders of ordinary shares whose names are recorded on the register of members at the close of business on 1 June 2012.

Resolution 3 – Re-election of Steve Wilson as a director

Steve Wilson is retiring by rotation in accordance with the company's articles and is offering himself for re-election by shareholders. Under the articles, directors are required to retire every three years. Steve was appointed an executive director in December 1991 at which time he became Group Finance Director. The board believes that Steve Wilson should be re-elected and makes such a recommendation to shareholders.

Resolution 4 – Re-election of Mike O'Leary as a director

Mike O'Leary is retiring by rotation in accordance with the company's articles and is offering himself for re-election by shareholders. Under the articles, directors are required to retire every three years. Mike was appointed a non-executive director in March 2006 at which time he was appointed as senior non-executive director and joined the Nominations, Audit and Remuneration committees, becoming Chairman of the Remuneration committee. The board believes that Mike O'Leary should be re-elected and makes such a recommendation to shareholders.

Resolution 5 – Re-appointment of Auditor

The company is required to appoint an auditor at each general meeting at which accounts are laid before the company, to hold office until the end of the next such meeting. This resolution proposes the appointment of an auditor. KPMG has expressed its willingness to continue in office.

Resolution 6 – Agreement of Auditor remuneration

In addition to the company's requirement to appoint an auditor, shareholder authority is sought for the directors to determine the remuneration to be paid to the auditor for the period of appointment.

Resolution 7 – Directors' Remuneration Report

Shareholders are being asked to approve the 2011 director's Remuneration Report, which is set out on pages 38 to 48 of the company's Annual Report and Accounts. Whilst the payment of remuneration to the directors is not dependent on the passing of the resolution, the board will take the vote into account when considering the future development and operation of the company's remuneration policy and practice.

Special Business – Resolutions 8 to 13

Resolution 8 – Authority to allot shares

Shareholders are being asked to pass the necessary resolution to grant to the directors a general authority, for the purpose of section 551 of the Companies Act 2006, to allot relevant securities. On this occasion, having due regard to the ABI guidelines and to comments received from shareholders, the proposed general authority is to allot up to an aggregate nominal amount of £620,000 representing 12,400,000 ordinary shares (15% of the company's ordinary share capital (excluding treasury shares) in issue at 9 March 2012 (the latest practical date prior to the publication of this report)). In determining the level of authority being sought this year, the directors had due regard to the ABI guidelines, which suggest that a resolution requesting authority to allot a further 33% of the company's issued share capital is considered routine, and comments received from shareholders regarding what they considered to be a reasonable level. The authority sought this year representing 15% of the issued share capital is significantly reduced from the 27% sought and approved last year. As at 9 March 2012, the company held 2,241,197 treasury shares, which represented approximately 2.70% of the company's issued share capital (excluding treasury shares), which the company can cancel or hold for sale or use to meet the obligations under the company's employee share schemes.

This authority will lapse at the conclusion of the AGM to be held in 2013, or, if earlier, on 30 June 2013. Your directors have no current intention of exercising this authority except in connection with the company's employee share schemes.

Resolution 9 – Dis-application of pre-emption rights

Shareholders are being asked to pass a resolution to empower the directors to allot equity securities, or sell treasury shares, for cash as if section 561 of the Companies Act 2006 (which gives shareholders certain pre-emption rights on the issue of shares or rights to subscribe for or convert securities into shares) did not apply to any such allotment. The resolution allows the issue or sale of shares of up to an aggregate nominal amount of £620,000 representing 12,400,000 ordinary shares in respect of rights issues and other issues pro-rata to existing entitlements, and also allows issues or sales for cash (other than in relation to a rights issue) limited to shares having an aggregate nominal amount of £213,000 (5% of the company's ordinary share capital in issue at 9 March 2012). The authority will lapse at the conclusion of the AGM to be held in 2013 or, if earlier, on 30 June 2013.

The directors confirm that they have no present intention of exercising this authority.

In accordance with The Pre-Emption Group's Statement of Principles available at www.pre-emptiongroup.org.uk, the directors also confirm their intention that no more than 7.5% of the issued share capital of the company (excluding treasury shares) will be issued for cash on a non pre-emptive basis during any rolling three-year period.

Resolution 10 – Purchase of own shares

The directors believe that it is in the interests of the company and its members to continue to have the flexibility to purchase its own shares and this resolution seeks authority from members to do so. The directors intend only to exercise this authority where, after considering market conditions prevailing at the time, they believe that the effect of such exercise would be to increase the earnings per share and be in the best interests of shareholders generally. The effect of such purchases would either be to cancel the number of shares in issue or the directors may elect to hold them in treasury pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the Regulations"), which came into force on 1 December 2003. The Regulations enable certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by a company in accordance with the Companies Act 2006. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under a company's employee share scheme. Once held in treasury, a company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the company's assets may be made to the company in respect of the treasury shares.

This resolution renews the authority given at the AGM held on 17 June 2011. The authority is in respect of 10% of the company's issued ordinary share capital as at 9 March 2012 and will lapse at the conclusion of the AGM to be held in 2013 or, if earlier, on 30 June 2013. The resolution specifies the maximum and minimum prices at which the shares may be bought. If the company buys any of its shares under the authority proposed by resolution 10, the board will decide at the time whether to cancel them immediately or hold them in treasury. The purchase of shares will be dependent on market conditions and will also take into account the cash generated in the business and other investment opportunities that may arise over time. During the year the company made no purchases of its own shares.

Details of share options outstanding and treasury share movements including details of own shares acquired by the company are shown respectively in notes 21 and 22 to the Financial Statements.

Resolution 11 – Shareholder rights directive

This will be proposed as a special resolution to approve the holding of general meetings, other than AGMs, on 14 days' notice. Although the company's articles currently permit this, the Shareholder Rights Directive requires a shareholder resolution to be passed to authorise general meetings to be held on 14 days' notice. Without the passing of resolution 11, the minimum notice period under the regulations would be 21 days. If resolution 11 is passed by the shareholders, the regulations would only allow the company to call a general meeting on 14 days' notice if it were to make a system of electronic voting available to its shareholders in respect of the meeting in question. The directors consider it to be in the best interest of shareholders to pass resolution 11, which is a repeat of the same resolution passed at last year's AGM, in order to prevent being constrained by the regulations implementing the directive. It will be necessary for a similar resolution to be put to shareholders at each subsequent AGM. It is intended that this flexibility will only be used for non-routine business and where merited in the interests of shareholders as a whole.

Explanatory Notes to the Proposed Resolutions

continued

Resolution 12 – New Sharesave Scheme

The company currently operates the Headlam Group Sharesave Scheme 2002 (the "2002 Scheme"). The 2002 Scheme expires on 19 June 2012 and authority is sought to replace the 2002 Scheme on the terms set out in the proposed Headlam Group Sharesave Scheme 2012 (the "Sharesave Scheme").

Under the proposed Sharesave Scheme, an eligible employee who enters into an approved savings contract for a period of three or five years will be granted an option to acquire ordinary shares in the company at the end of that period using the proceeds of his savings contract, and, if applicable, any bonus or interest payable in relation to the savings contract. The exercise price of an option is fixed at the time the invitation to apply for an option is issued and will not be less than 80% of the market value of a share at that time.

The Sharesave Scheme has been provisionally approved by HMRC and is an all-employee plan under which all participants are eligible to participate on the same basis. The directors are keen to retain the ability to grant tax efficient awards to employees at the levels permitted by relevant tax legislation. The Sharesave Scheme will continue to operate within the 10% dilution limit which applies to the 2002 Scheme and the company will manage its remaining capacity within this limit carefully and may use new issue shares, treasury shares and shares purchased in the market to satisfy options.

The Sharesave Scheme is substantially similar to the 2002 Scheme. The main provisions of the Sharesave Scheme are summarised below.

A copy of the rules of the Sharesave Scheme is available for inspection at the registered office of the company at PO Box 1, Gorsey Lane, Coleshill, Birmingham B46 1LW and also at the offices of Pinsent Masons LLP, 30 Crown Place, London EC2A 4ES during business hours on any weekday from the date of this Notice of Meeting until the close of the meeting. The rules will also be available for inspection at the AGM venue for 15 minutes prior to and until the end of the AGM.

Resolution 13 – Sharesave for Employees Resident or Working Outside of the United Kingdom

Shareholder authority is sought to enable the directors to add schedules to the Sharesave Scheme or adopt share plans based on the Sharesave Scheme to enable the grant of options to employees outside of the UK, taking account of local tax, exchange and securities laws issues in the relevant jurisdiction.

Summary of the main provisions of the Headlam Group Sharesave Scheme 2012 (the "Sharesave Scheme")

1. General
The Sharesave Scheme is an HMRC approved scheme under Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003 ("Schedule 3"). Application for formal approval of the Sharesave Scheme will be sought from HMRC following the approval of the Sharesave Scheme by shareholders at the AGM.

Options granted under the Sharesave Scheme ("Options") are not transferable (except on death) and are not pensionable benefits.

Options may be satisfied by newly issued shares, shares purchased in the market by an employees' trust or by the transfer of treasury shares.

Operation of the Sharesave Scheme is overseen by the directors or a duly authorised committee of the directors.

2. Eligibility
Any UK based employee (including any full-time director) of the company or other participating subsidiary who has been employed at a relevant grant date for a qualifying period of such length as the directors may determine from time to time (but not exceeding five years) and any other employee who is nominated by the directors is eligible to participate in the Sharesave Scheme.

3. Issue of invitations
Invitations to apply for Options will normally be issued within a period of 42 days beginning with the fourth dealing day following the announcement of the company's results for any period. Options may be granted at other times in circumstances considered by the directors to be exceptional. No Options may be granted after 15 June 2022.

4. Exercise price
The price per share at which ordinary shares in the company ("Ordinary Shares") may be acquired upon exercise of an Option is determined by the directors before Options are granted on any occasion. It must not be less than the higher of:
- 80 per cent of the market value of an Ordinary Share when invitations are issued to eligible employees; and
- in the case of Options to subscribe for new Ordinary Shares, the nominal value of an Ordinary Share.

5. Monthly savings
Any employee who applies for an Option must enter into an HMRC approved "save as you earn" contract (the "Savings Contract"). The employee agrees to enter a Savings Contract for a period of three or five years and to make monthly savings contributions of a fixed amount, currently of not less than £5 nor more than £250, over three or five years. Upon expiry of the Savings Contract, the participant may be entitled to receive a tax-free bonus in addition to repayment of the savings contributions. The participant may elect to apply the proceeds of the Savings Contract to exercise the Option and acquire Ordinary Shares. Alternatively, the participant may choose to withdraw the proceeds of the Savings Contract.

6. Exercise of options
Options will normally be exercisable only during the period of six months following the maturity of the related Savings Contract.

7. Leaving employment
Early exercise is permitted following death or cessation of employment by reason of injury, disability, redundancy, retirement on reaching age 65, or where the participant's employer ceases to be a part of the group.

In such cases, Options may be exercised within six months of leaving, to the extent that the funds then available in the participant's Savings Contract permit. In the case of death, personal representatives may exercise the deceased participant's Option within twelve months of the date of death.

In other circumstances, Options will lapse on cessation of employment.

If a participant reaches age 65 but remains employed within the group, he may exercise his Option within six months of reaching that age.

8. Corporate events
Early exercise of Options is permitted in the event of a takeover, amalgamation, reconstruction or voluntary winding-up of the company.

Alternatively, by agreement with the acquiring company, participants may, as specified in the rules of the Sharesave Scheme, release their Options in consideration of the grant of options over shares in the acquiring company.

Summary of the main provisions of the Headlam Group Sharesave Scheme 2012 (the "Sharesave Scheme")
continued

9. Dilution limit
The number of new Ordinary Shares issued or remaining capable of being issued pursuant to Options and other options or awards granted under the company's other employees' share schemes in any period of 10 years, will not exceed 10 per cent of the ordinary share capital of the company in issue from time to time.

If Options or other options or awards are to be satisfied by a transfer of existing Ordinary Shares, the percentage limit stated above will not apply. Insofar as it is necessary to ensure compliance with the guidelines issued from time to time by the Association of British Insurers, the percentage limit will apply to Options or other options and awards satisfied by the transfer of treasury shares. Ordinary Shares newly issued to the trustee of an employee's trust will count towards the limit.

10. Rights attaching to shares
Ordinary Shares allotted or transferred under the Sharesave Scheme will rank equally in all respects with all other Ordinary Shares then in issue, except for any rights attaching to Ordinary Shares by reference to a record date preceding the allotment or transfer of such Ordinary Shares. The company will apply to the UK Listing Authority for the listing of any newly issued Ordinary Shares.

11. Variation of share capital
If there is a variation in the ordinary share capital of the company, the directors may make such adjustments as they consider appropriate to the total number of Ordinary Shares subject to any Option and the exercise price payable upon the exercise of any Option. Except in the case of a sub-division, consolidation or a capitalisation issue, if the directors consider it appropriate, any adjustment must be confirmed in writing by independent advisers and no adjustments may take effect without the prior approval of HMRC.

12. Alteration of the Sharesave Scheme
The directors may amend the Sharesave Scheme in any respect. However, they may not make any alteration to the advantage of participants without the prior approval of shareholders in general meeting to the provisions relating to eligibility, overall and individual limitations on the number/monetary value of Ordinary Shares in respect of which Options may be granted or the basis for determining a participant's right to acquire Ordinary Shares and the adjustment of such rights in the event of a variation of share capital unless the alteration is necessary to comply with any change in legislation, to maintain HMRC approval, to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or any member of the group, or it is a minor amendment to benefit the administration of the Sharesave Scheme.

No amendment to a key feature of the Sharesave Scheme will take effect unless and until such amendment has been approved by HMRC.

This summary does not form part of the rules of the Sharesave Scheme and should not be taken as affecting the interpretation of its detailed terms and conditions. The directors reserve the right up to the time of the AGM to make such amendments and additions to the rules of the Sharesave Scheme as they consider necessary or appropriate provided that such amendments do not conflict in any material respect with this summary.

Shareholder Information

Shareholder helpline
The company's shareholder register is maintained by Capita Registrars ("Capita"), who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases or sales of company shares. If you have a question about your shareholding in the company you should contact: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent. BR3 4TU. email: ssd@capitaregistrars.com, telephone 0871 664 0300 (calls cost 10p plus network extras). Lines are open 8.30am – 5.30pm Monday to Friday.

Frequent shareholder enquiries
If you change your address
Please notify Capita in writing. If shares are held in joint names, the notification must be signed by all named shareholders.

If you change your name
Please notify Capita in writing and enclose a copy of any marriage certificate or change of name deed as evidence.

Lost share certificates
If your share certificate is lost or stolen, you should call Capita immediately. A letter of indemnity will be sent to you to sign. Capita will charge for this service.

Duplicate shareholder accounts
If you receive more than one copy of the company's communications you may have your shares registered inadvertently in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to consolidate such multiple accounts, write to Capita to request the accounts are consolidated.

Buying and selling shares in the UK
If you wish to trade in the company's shares, you can do so at Capita's website, www.capitadeal.com or alternatively use a stockbroker or high street bank which trades on the London Stock Exchange. There are many telephone and online services available. If you are selling, you will need to present your share certificate at the time of sale.

Transferring shares
Transferring shares to someone else requires the completion of a stock transfer form. This form, and details of the procedure you need to follow, is available from Capita's website www.capitaregistrars.com. Stamp duty is not normally payable if the transfer is to a relative or if there is no money being paid in exchange for the shares.

Share prices information
Shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For a real-time buying or selling price, you should contact a stockbroker. Additionally there is a link to the London Stock Exchange on the company's website.

The company's website
The company's website at www.headlam.com provides news, details of activities, and information on the share price. The investor information section of the website contains up to date information for shareholders including the company's latest results and key dates such as dividend payment dates.

ShareGift
ShareGift, the charity share donation scheme, is a free service for shareholders wishing to give shares to charitable causes. It may be especially useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be obtained at www.sharegift.org.

The Unclaimed Assets Register
The Unclaimed Assets Register is a unique search service that helps individuals to find their lost assets and re-establish contact with financial institutions. It has a database of unclaimed life policies, pensions, unit trust holdings, and share dividends drawn from many companies and can search for lost assets and entitlements. The Unclaimed Assets Register charges a small fixed fee for each search, 10% of which goes to charity. For further information, visit www.uar.co.uk.

Shareholder Information
continued

Warning to shareholders – boiler room scams

We have been made aware of our shareholders receiving unsolicited telephone calls from companies offering to buy Headlam shares at a substantial premium to the prevailing market price for a large shareholder intending to make a takeover bid. These callers, who can be extremely persuasive and persistent, are usually based overseas and are commonly known as "boiler room scams". Shareholders are advised to be wary of any unsolicited investment advice or approach to buy or sell shares… if it sounds too good to be true, it probably is.

If you receive an unsolicited investment approach, you should:

- Confirm the name of the person calling and the organisation they represent
- Check that they are registered with the Financial Services Authority (FSA) by calling 0845 606 1234 or by visiting www.fsa.gov.uk/register/ and contact the firm using the details on the register
- Report the matter to the FSA by calling 0845 606 1234 or by visiting www.fsa.gov.uk/pages/consumerinformation

Please note that if you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. Further information on this or similar activity can be found on the FSA website www.moneymadeclear.fsa.gov.uk. If you have any queries, please contact the Company Secretary.

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