headlam group plc

Annual Report and Accounts
for the year ended 31 December 2015

Our actions are the ground we walk on

www.headlam.com
Stock code: Head

Europe's leading floorcovering distributor

Our Purpose

The group's operations are focused on providing customers, principally independent floorcovering retailers and contractors, with a comprehensive and up to date range of competitively priced floorcovering products supported by a next day delivery service.

The approach provides Headlam's suppliers with an opportunity to achieve extensive and, in some territories, unparalleled market access backed by cost effective distribution.

In order to offer this level of service to its customers and suppliers, Headlam has developed a diverse and autonomous operating structure that includes 56 businesses across the UK and a further five in continental Europe.

The autonomous operating structure is a key contributor to the group's success, presenting experienced management teams with an opportunity to develop the individual identity, market presence and profitability of the business for which they are responsible.

Each business is supported by the group's continuing commitment to investment in people, product, operating facilities and IT. This commitment has underpinned the group's overall development and enabled Headlam to establish itself as Europe's leading floorcovering distributor.

Visit us online at
www.headlam.com

About us

Headlam is involved with the marketing, supply and distribution of an extensive range of floorcovering products. The group's activities and facilities are located throughout the UK, France, Switzerland and the Netherlands.

Read more about Headlam Corporate on page 21

Our values

Headlam's business model and strategy are underpinned by its corporate values, which cover a commitment to manage the business and behave responsibly across the three key areas of Health & Safety, People and the Environment.

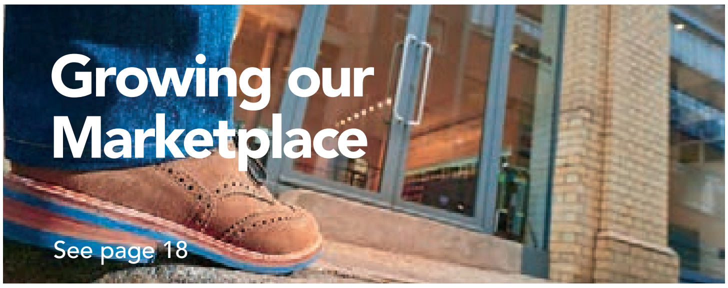
Read more about our Corporate Responsibilities on pages 22 to 27

Visit our corporate website for more information plus an online version of this report, which is fully responsive across your computer, tablet and mobile device

Welcome to our 2015 Annual Report

Strategic Enablers

See pages 8 to 15



Growing our Marketplace

See page 18

Managing our Risks

See pages 38 to 39

Our Performance in 2015

See pages 28 to 39

Our 2015 report

STRATEGIC REPORT

2 Highlights
4 Chairman's Statement
6 Chief Executive's Review
8 How our Strategic Enablers Drive our Success:
– Product Range
– Knowledge and Expertise
– Operational Excellence
– Technology
16 Business Model
18 What our Marketplace Looks Like
26 Corporate Responsibility
30 Financial Review
35 Viability Statement
36 Key Performance Indicators
38 Managing our Risks

GOVERNANCE

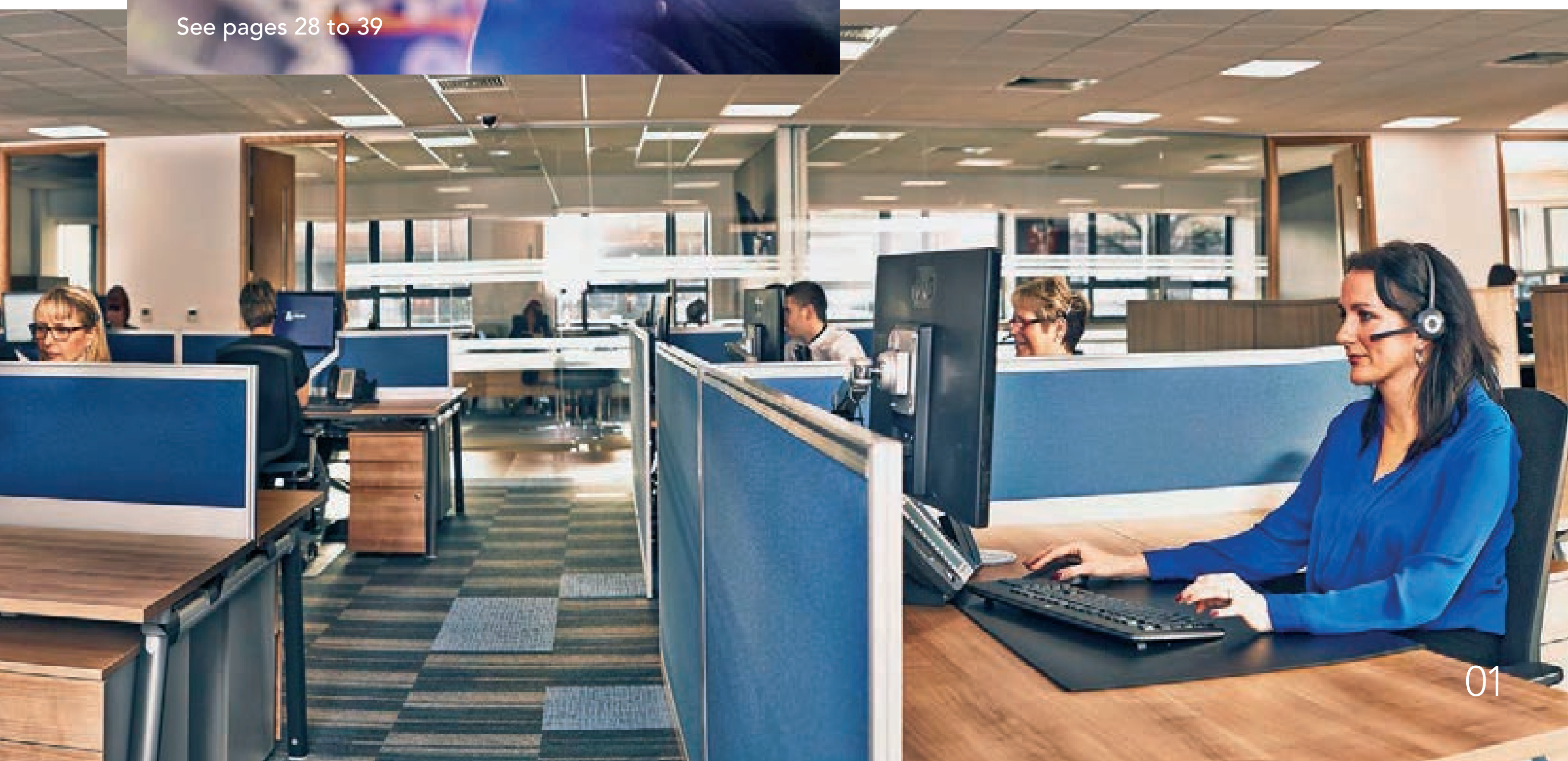
41 Chairman's Message on Corporate Governance
42 Board of Directors
44 Senior Executive Management
45 Corporate Governance Report
52 Audit Committee Report
58 Directors' Remuneration Report
75 Nominations Committee Report
77 Other Statutory Disclosures
83 Statement of Directors' Responsibilities

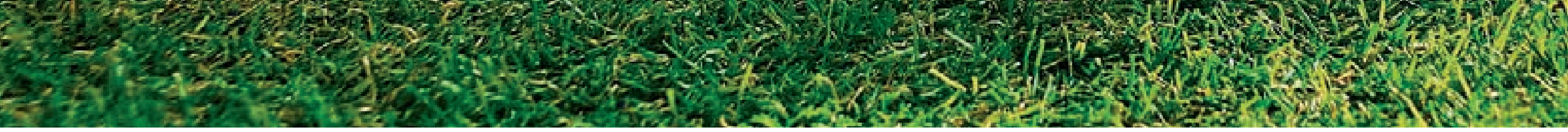
FINANCIAL STATEMENTS

86 Independent Auditor's Report
89 Consolidated Income Statement
90 Consolidated Statement of Comprehensive Income
91 Statements of Financial Position
92 Statement of Changes in Equity – Group
93 Statement of Changes in Equity – Company
94 Cash Flow Statements
95 Notes to the Financial Statements
141 Group Subsidiaries
142 Financial Record

SHAREHOLDER INFORMATION

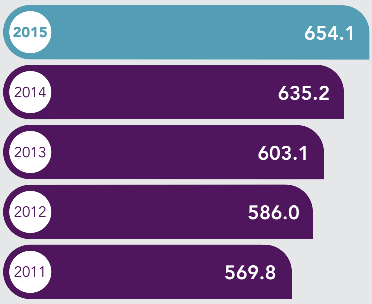
143 Notice of Annual General Meeting
145 Explanatory Notes to the Proposed Resolutions
148 Explanatory Notes to the Notice of Meeting
151 Shareholder Information
153 Advisers
153 Financial Calendar



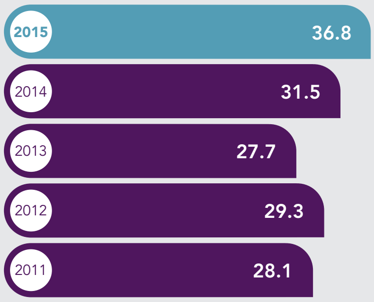


Highlights

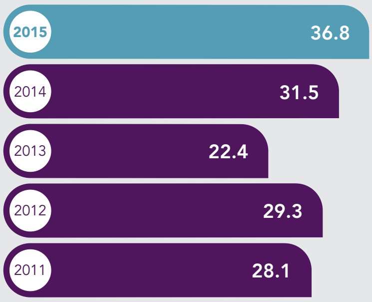
FINANCIAL HIGHLIGHTS



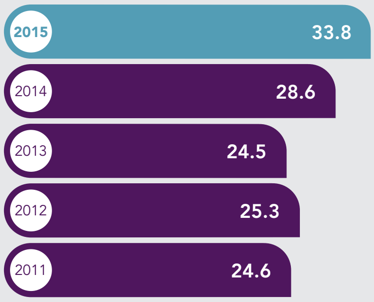
Revenue £million



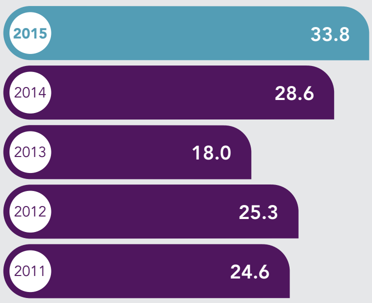
***Underlying Operating Profit** £million



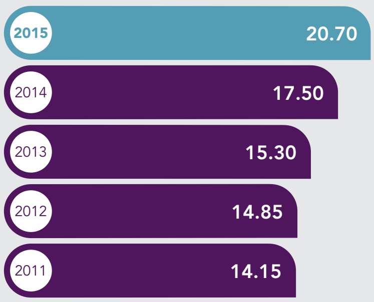
Operating Profit £million



***Underlying Earnings Per Share** pence



Earnings Per Share pence



Dividends Paid and Proposed pence

Revenue £million
£654.1 +3.0%
2014: £635.2

Operating Profit £million
£36.8 +16.8%
2014: £31.5

Earnings Per Share pence
33.8p +18.2%
2014: 28.6p

Dividends paid and proposed pence
20.70p +18.3%
2014: 17.50p

* There are no non-underlying items in 2015 or 2014. The non-underlying items in 2013 relate to the impairment of intangible and tangible fixed assets, totalling £5.4 million. The underlying measures have been used to provide a better understanding of the business performance.

OPERATIONAL HIGHLIGHTS

- The board has declared a special dividend of 6.0 pence to be paid on 25 April 2016
- Further gains achieved in UK market share, with like-for-like revenues increasing by 3.9% and total UK revenues increasing by 4.9%, exceeding the 2015 forecast market growth of 3.4% (Source: AMA Research Limited)
- Acquisition of Matty's Wholesale Carpets in January 2015 for £2.0 million, bringing the total number of UK businesses to 56
- London showroom opened in Clerkenwell to support Headlam Corporate, a new business unit targeting specified commercial flooring

Fletcher is super on

Chairman's Statement

I am pleased to report that 2015 was another year of good progress at Headlam. It was a year that delivered good growth in revenues and profitability, reflecting positive trends in the group's marketplace in the UK along with further progress in the delivery of the group's strategy.

A particular feature of these results is the significant increase in year-end cash balances, demonstrating the ability of our business to benefit from previous capital expenditure and generate significant cash flow. As the current capital expenditure programme is now largely complete, it has been decided to return some of the group's surplus cash to shareholders as a special dividend.

Overview

Group revenues in the year were up 3.0% at £654.1 million. In the UK, which represented 88% of group sales in the year, revenues were up 4.9% at £575.3 million, reflecting organic and acquisitive growth.

On a like for like basis, UK revenues were up 3.9% at £570.0 million. The growth in the second half was less than the first half increase of 5.4%, reflecting in part strong second half comparatives in 2014. The group has again delivered organic growth in excess of the UK floorcoverings market, which for 2015 is forecast to be 3.4% (Source: AMA Research Limited).

Revenues from the Continental European businesses were down 3.8% in constant currency at £83.6 million. The second half decrease of 2.7% was less than the first half decrease of 4.8%, indicating that trading had begun to stabilise and improve. On translation to sterling, Continental European revenues were down 9.3% at £78.7 million. Whilst European markets remain challenging for the group, they represent a decreasing proportion of group revenues, at just 12.0% during 2015 (2014: 13.7%). Since the year end, the aggregate revenue performance from the three Continental territories, France, Switzerland and the Netherlands, in constant currency, has improved by 1.5%.

One bolt-on acquisition was completed during the year, Matty's Wholesale Carpets, a Midlands-based distributor of residential floorcoverings to independent flooring retailers. The acquisition, completed on 30 January 2015, has been earnings enhancing. The group continues to evaluate potential bolt-on acquisitions in line with its growth strategy. The group also continued to invest in the development of its operations, including the opening of a showroom in Clerkenwell, London, as a marketing base for Headlam Corporate, a new business unit targeting specifiers of commercial flooring. The group also added to its network of service centres, opening a new service centre in Cheltenham in July 2015. During March 2016, two additional service centres are expected to open in Croydon and Hull which would bring the total to 31.

Earnings and dividend

Basic earnings per share for the year increased by 18.2% to 33.8 pence (2014: 28.6 pence), reflecting an increase of 17.6% in the group's profit before tax to £35.6 million.

The board is proposing to increase the final ordinary dividend by 19.5% from 12.30 pence to 14.70 pence resulting in a total ordinary dividend for the year of 20.70p, which represents an increase on 2014 of 18.3%. The final dividend, if approved by shareholders at the group's Annual General Meeting ("AGM"), will be paid on 1 July 2016 to shareholders on the register at close of business on 3 June 2016.

Special dividend

Throughout the downturn in the UK floorcoverings market between 2008 and 2011, the group continued to invest in its infrastructure, particularly in its distribution centre network. This capital expenditure programme, which has positioned the group to benefit from operational gearing as markets improve, is now largely complete. The final significant investment currently intended as previously announced, is a major distribution centre in Ipswich with an estimated project cost of £13.5 million. Construction of this project has been delayed as a result of the planning process but work is now expected to begin in the latter half of this year.

The revised timing for the construction of the Ipswich facility, and its effect on the amount of capital expenditure this year, has created the opportunity to pay a special dividend, which the board believes is the best way to return surplus capital to shareholders. The board has therefore declared that a special dividend of 6.0 pence per ordinary share shall be paid on 25 April 2016 to shareholders on the register at 8 April 2016.

Governance and board

We continue to promote a culture of openness and transparency and encourage participation and contribution from all our board members. The board recognises the value derived from good governance and the setting of high standards, not least in the confidence it brings to our shareholders, management, employees, suppliers and customers.

On 31 May 2015, after serving over nine years as a non-executive director, Mike O'Leary resigned from the board. On behalf of the board, I would like to thank Mike for his commitment and participation and we wish him well for the future. Philip Lawrence was appointed to the board with effect from 1 June 2015, at which time he was appointed as a member of the Remuneration and Nominations Committees and Chairman of the Audit Committee. Also, with effect from 1 June 2015, Andrew Eastgate stepped down as Chairman of the Audit Committee and was appointed Chairman of the Remuneration and Nominations Committees and Senior Independent Director.

Following a competitive tender process and a recommendation from the Audit Committee, the board has invited PricewaterhouseCoopers LLP ("PwC") to accept appointment as auditor in respect of the group's accounts for the year ended 31 December 2016. The appointment is in line with guidance in the 2014 Corporate Governance Code. The board would like to thank KPMG for their services to the group since 1992 and look forward to working with PwC in the future.

Employees and shareholders

Once again, our employees' commitment and determination has been pivotal to the continued success of the group. Thank you to all our employees across the group for their dedication and hard work and our shareholders for their continuing support.

Dick Peters
Chairman
3 March 2016

Chief Executive's Review
Our Strategy

The group continues to follow a strategy focused on developing its floorcovering distribution business in the UK and Continental Europe and improving the all-round service offering it provides to customers.

The group's size and structure provides a unique competitive advantage allowing it to deliver a range of benefits, including continuous product development, wide and diverse product portfolio, extensive marketing support and next day distribution services, all of which are aimed at supporting and enhancing its customers' market position.

Development of the group's overall business is achieved by operating each of the group's 56 businesses on an autonomous basis and encouraging the managers of each individual business to develop their own unique trading style, albeit within a well-developed and consistently applied framework of operational and financial control.

This diverse business structure, particularly in the UK, covering the retail and commercial sectors, gives the group substantial reach across floorcovering markets and provides suppliers with a flexible channel for the sales, marketing and distribution of their products.

In addition, the structure has allowed the group to be active with a wide and diverse product portfolio across a significant proportion of the floorcovering market and will, to a degree, help insulate the business from the downside risk arising from static or contracting markets.

In the UK, the business operates with 56 businesses (2014: 55) served from four national distribution hubs (2014: 4), 14 distribution centres (2014: 14) and 29 service centres (2014: 27).

Each individual business is supported by the group's commitment to continued investment in people, product, marketing, distribution facilities, service centres and IT. This structural investment, in conjunction with the development of the identity of each individual business, has enabled us to bring together the benefits of a market facing culture delivering the latest selling, marketing and product initiatives with a comprehensive and sophisticated logistics operation.

Ultimately, the total investment has underpinned the growth and performance of each business thus enabling the group to establish itself as Europe's leading floorcovering distributor.

Performance

One of the group's key performance objectives is aimed at achieving growth in market share. We drive this growth by setting each of our individual businesses, in conjunction with the management teams, an annual growth parameter, which is collectively set to outperform the anticipated underlying growth in the market.

Once again, it is pleasing to record that the group's growth in UK revenue during 2015, as has consistently been the case for a number of years, outperformed growth in the UK floorcovering market with the like for like growth of 3.9% exceeding the estimated market growth in 2015 of 3.4%. The increase in like for like revenue reflected slightly stronger growth in residential, up 4.1%, compared with commercial up 3.5%.

The revenue mix between residential and commercial floorcoverings in the UK has remained broadly at the same level for a number of years, and 2015 maintained the balance at 69% and 31% respectively.

The resilience of residential sales is in part because a typical purchase by a residential end-user is of one piece of carpet at an average size of 4m by 5m. It is well-established that people in the UK tend to replace carpets one room at a time, helping with the affordability of the purchase. The trend towards grey coloured carpeting has continued and, of the new best-selling carpet products launched during the year, grey carpet accounted for about 40% of the content of each range in the middle to higher price points.

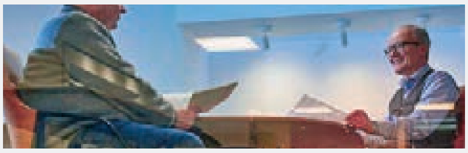
All of the group's principal product groups showed growth on the corresponding period. Sales of the Lifestyle Floors brand increased by 28% as a result of further investment in sampling, an improving product profile and increased market penetration.

On the Continent, economic headwinds continue to influence performance and the overall trading result has registered a further decline during the year. It is encouraging that the rate of decline slowed in the second half with the markets showing signs of stabilisation. We continue to believe that there are opportunities to develop each individual business irrespective of the market conditions in each individual territory. Gross margins continue to be protected and costs managed diligently. As ever, additional revenue volume would transform the operating performance of these businesses.

OUR STRATEGIC ENABLERS

Product and Range

See pages 8 to 9



Knowledge and Expertise

See pages 10 to 11

Operational Excellence

See pages 12 to 13

Technology

See pages 14 to 15

During the year, we have maintained our investment in people, marketing, infrastructure and the promotion and development of each of our individual business identities. We continue to provide extensive marketing support to our customers and, through our well trained and knowledgeable sales teams, seek to gain an increasing share of their business opportunities. In addition, our teams are also focused on prospecting for new customers and business opportunities.

Developments in the year included a new buyers app for use on an iPad to promote group-wide best practice and an iPhone based driver delivery app to further improve customer service.

Investments

Over the six year period from 2010 to 2015, we have used the group's balance sheet strength, allied with its positive cash flow, to invest £39.1 million in property, plant and equipment, with a further £19.7 million expenditure forecast for 2016 and 2017. This level of capital expenditure has been running, on average, at a rate of 1.5 times depreciation.

Expenditure on property, plant and equipment during 2015 was £2.9 million, with the investment being focused on maintenance covering items such as forklift trucks and racking. Expenditure for 2016 was previously forecast to be £18.0 million, a significant portion of which was earmarked for the new 160,000 square foot distribution facility in Ipswich for Faithfull's Floorcovering, one of the group's regional multi-product businesses. Owing to delays to the start of construction at Ipswich, which is now expected in the latter half of 2016, projected expenditure is expected to be £13.5 million over the course of 2016 and 2017.

Once the Ipswich distribution facility is fully operational, the group will have a well invested portfolio of four national distribution hubs and 14 regional distribution centres in the UK as well as four distribution centres on the Continent. These facilities should be able to satisfy the group's capacity requirements and growth expectations for a number of years and there should be no requirement for further investment in additional or replacement distribution facilities in this time frame.

During recent years, we have supplemented our distribution network in the UK with a number of service centres with the aim of improving customer service by making product more readily available. This type of investment is particularly helpful for customers who prefer to collect their product needs as opposed to relying on our delivery service.

During the year, we continued to expand the number of service centres we operate across the UK and at the end of the year they numbered 29. The provision of trade counters is also offered within our distribution centres thereby bringing the number of collection points in the UK to 44. There are still some locations that would benefit from the opening of a service centre and we anticipate expanding our coverage in the future, subject to the availability of suitable sites. The opening of two new service centres in Croydon and Hull is imminent

Acquisitions

We intend to continue to utilise our capital resource to augment the group's growth with further acquisitions. We have a history of quickly and successfully integrating small bolt-on acquisitions into our existing infrastructure, achieving overhead synergies and an earnings enhancing performance.

During the year, we acquired Matty's Wholesale Carpets, and integrated its operations into our distribution facility in Coleshill. The acquisition has been immediately earnings enhancing and the group has also benefited in 2015 from acquisitions completed in the prior year.

Prospects

Trading in the current year has started well, with like for like growth in the UK of 6.3% during the first eight weeks of the year. We are confident that the group will continue to perform well during the year ahead.

Tony Brewer
Group Chief Executive
3 March 2016

How our Strategic Enablers drive our success...

Product Range

...to imagine on

New Products Launched in the UK
2011 — 3,501
2012 — 2,855
2013 — 3,016
2014 — 3,263
2015
3,675

Number of Orders from UK customers
2011 — 3,877,835
2012 — 3,973,251
2013 — 4,331,886
2014 — 4,701,662
2015
4,954,660

Active Customer Accounts in the UK
2011 — 43,347
2012 — 44,086
2013 — 45,720
2014 — 50,355
2015
51,793

Continued investment in our **product range...**

...to play on

...to dance on

...Camille dreams on

How our Strategic Enablers drive our success...

Knowledge &Expertise

Management Training Hours in the UK
5,436

Sales Team Training Hours in the UK
12,576

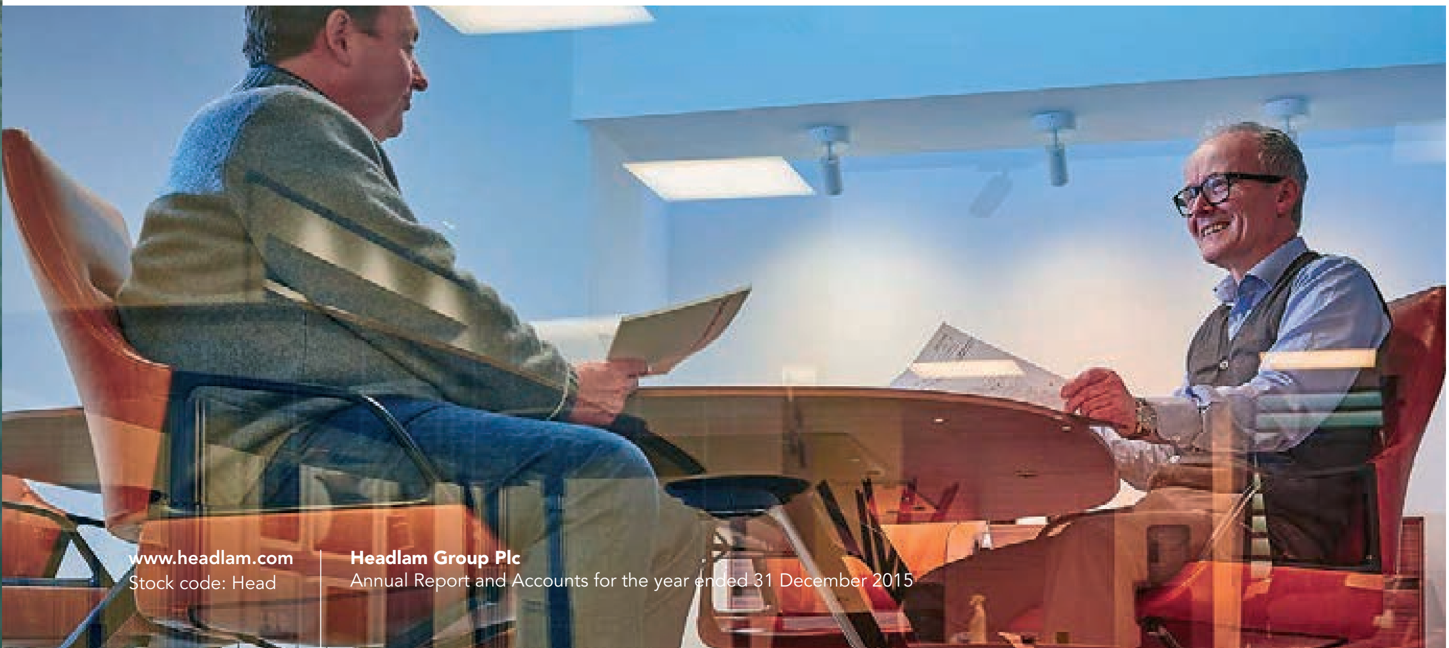
Driver CPC Training Hours in the UK
3,283

Continued investment in our people for the future...

With the support of third party training providers, the group continued with its programmes for senior managers, sales managers and representatives throughout the year and expanded the number of courses with the introduction of additional training opportunities for our sales office and distribution managers.

In addition, the induction training offered to all our new sales representatives was reviewed and improved. The enhanced programme, which includes supplier led training to provide better product knowledge, has proven to be both rewarding and beneficial.

The group has also looked to widen its appeal and a recruitment process aimed at attracting graduates by developing a set programme which allows the individuals to gain a thorough knowledge and understanding of all aspects of the business. Past experience has taught us that our best talent is home grown so by attracting and recruiting able young people at the start of their career, we have an improved potential to develop future managers to take the business forward.



How our Strategic Enablers drive our success...

Operational Excellence

Distribution hub

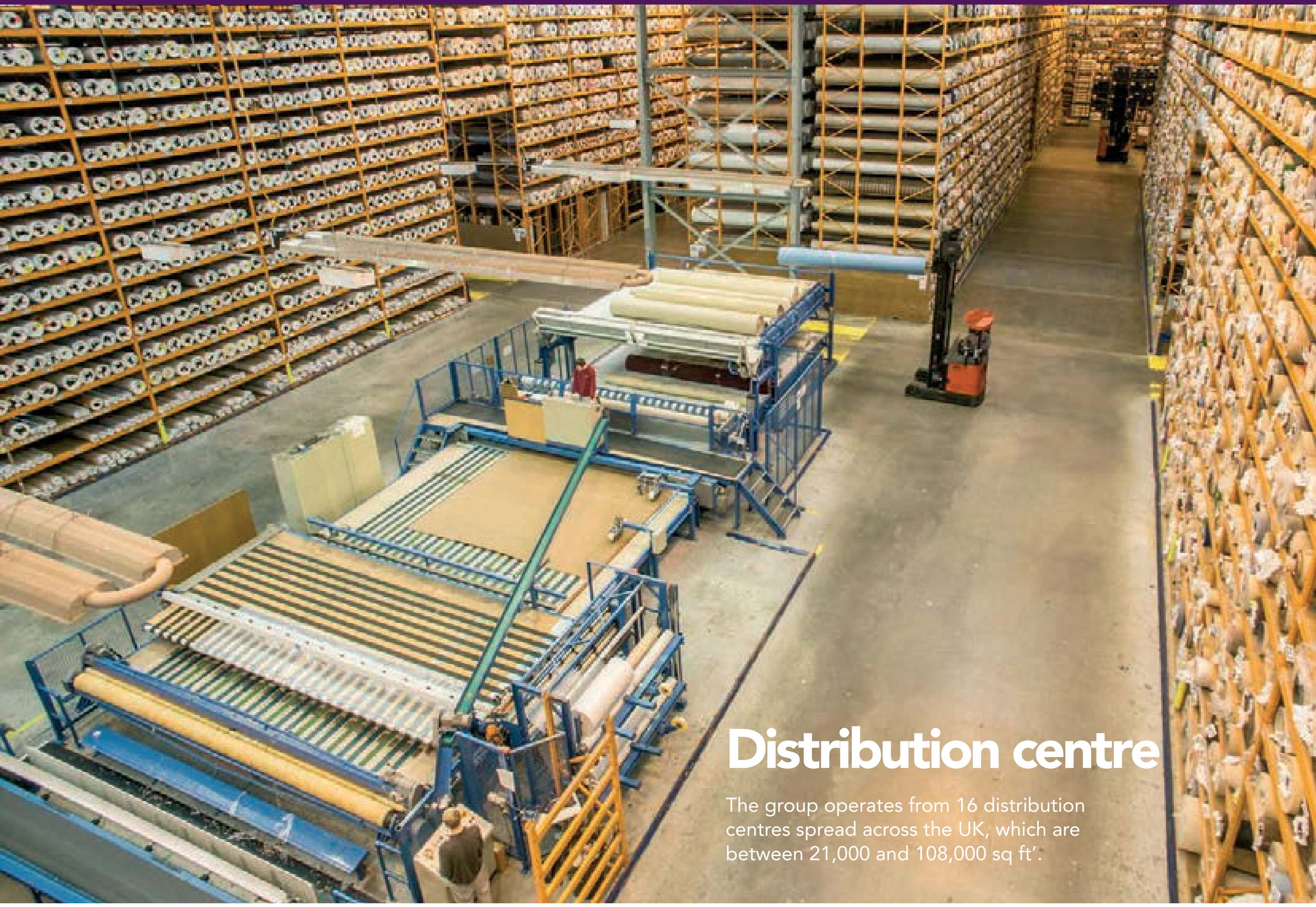
There are four distribution hubs in central locations down the UK, warehousing a large selection of products; these range from 110,000 to 301,000 sq ft.

Service centre

There are 29 service centres covering the UK which are easily accessible for our customers, they range from 2,000 to 28,000 sq ft'.

Continued investment in our **infrastructure...**

Our £13.5 million investment for Faithfull's Floorcoverings new 160,000 sq.ft. purpose built distribution centre should commence during the second half of 2016.



Distribution centre

The group operates from 16 distribution centres spread across the UK, which are between 21,000 and 108,000 sq ft'.

How our Strategic Enablers drive our success...

Technology

Continued investment in IT and digital presence...

Supplier App

During the year, we introduced a supplier app to promote and share best practice amongst our buying managers with the purpose of enabling our managers to record and share information gathered during their supplier meetings with appropriate colleagues elsewhere around the group.

The app will allow our managers to function more efficiently in their meetings with suppliers and in many ways provides a mirror image of the CRM app used by our sales representatives with their customers.

The functionality of the app allows meeting notes to be taken, images of product to be recorded and attached to text and a planning facility and diary reference for the quick and easy scheduling of meetings and visits with suppliers.

In addition to posts, a manager can also request his/her supplier reports to be downloaded and viewed within the app. Previously these were viewed via email. The apps built in calendar enables the manager to customise the various options. For example, the manager can request a date and time for information and a suite of reports relating to the supplier meeting to be generated in a timely manner so that they contain the most up to date information prior to attending their meeting. They can also state the duration of the meeting and make note of the expected attendees as well as send the appointment as an invite to other managers or the suppliers themselves

When in use, the app invites the manager to follow a process both before and after the supplier meeting; the manager will now create meeting plans which highlight the meeting objectives. Once the meeting is concluded, the manager will complete their meeting notes and any follow up actions. The notes of the meeting can then be shared with other relevant managers.

Driver App

The new driver app has been designed for use on the iPhone 6 plus and provides our drivers and customers with a comprehensive suite of information that enhances the service we are able to provide.

The app gives the driver a vehicle check facility that all our drivers must complete before leaving the distribution facility to ensure the vehicle is fit for purpose; a schedule of the deliveries loaded on the vehicle; and the ability to generate electronic proof of delivery and subsequent invoice.

Satellite navigation is included within the package and importantly, it allows the driver to notify the customers when he estimates arriving at their premises.

Supported by our clear Business Model

We have a clear and straightforward business model which is aimed at delivering to our customer an enhanced service based on wide product choice and immediate availability and providing our suppliers with market reach and a wide customer base.

Supporting our supply chain and managing our relationships

Headlam distributes a wide range of products, sourced from a variety of floorcovering suppliers located around the globe, to its customer base who, in the main, are independent floorcovering retailers and contractors. Essential to the group's ongoing success are its strong relationships with suppliers, which have developed over many years, at both senior level and within each of our operating businesses. The collaborative effort that exists between our senior and individual management teams and suppliers is aimed at ensuring that our businesses remain at the forefront of all new products introduced into our particular markets.

How we differentiate ourselves to deliver competitive advantages

Diverse Business Portfolio

Headlam operates through a number of individual and diverse businesses located in the UK, France, Switzerland and the Netherlands. Each business has its own trading identity and is operated on an autonomous basis by local management teams. The autonomous operations are a key contributor to the group's success, providing opportunity for experienced management teams to develop their individual identity, market presence and profitability of the business for which they are responsible.

Headlam forms an essential link that enables suppliers of floorcovering products to gain extensive access to markets located in Western Europe.

1. Ordering
2. Selection
3. Processing
4. Deliveries

Key Resources

Headlam's collection of businesses, assembled over many years, has allowed the group to continually outperform the floorcovering market through various economic cycles. This has been very evident in recent years when conditions have proved to be particularly demanding and during which time the group has consistently maintained its ability to achieve an increased market share. Our continued investment in our people, processes and infrastructure continues to give us a strong position in the marketplace.

Delivering long-term shareholder value

This structure permits broad access to floorcovering markets, allows the group to react swiftly to emerging opportunities and assists with managing downside risks when trading environments are challenging. Whilst each business is encouraged to adopt an entrepreneurial style, they are operated within a well developed and consistently applied framework of operational and financial control.

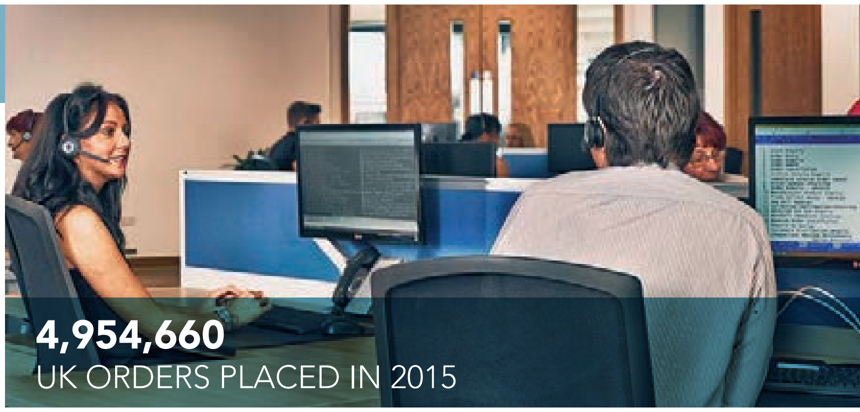
Consistent UK Like-for-like Revenue Growth
3.9%

Return on Capital Employed
23.6%

Progressive Dividend Policy
20.70p

1 Ordering

Each of the businesses utilises an internal sales team who form the initial contact point for customers wanting to place their orders. The internal sales team ensures that our customers' requirements are immediately input into the Operating System.



2 Selection

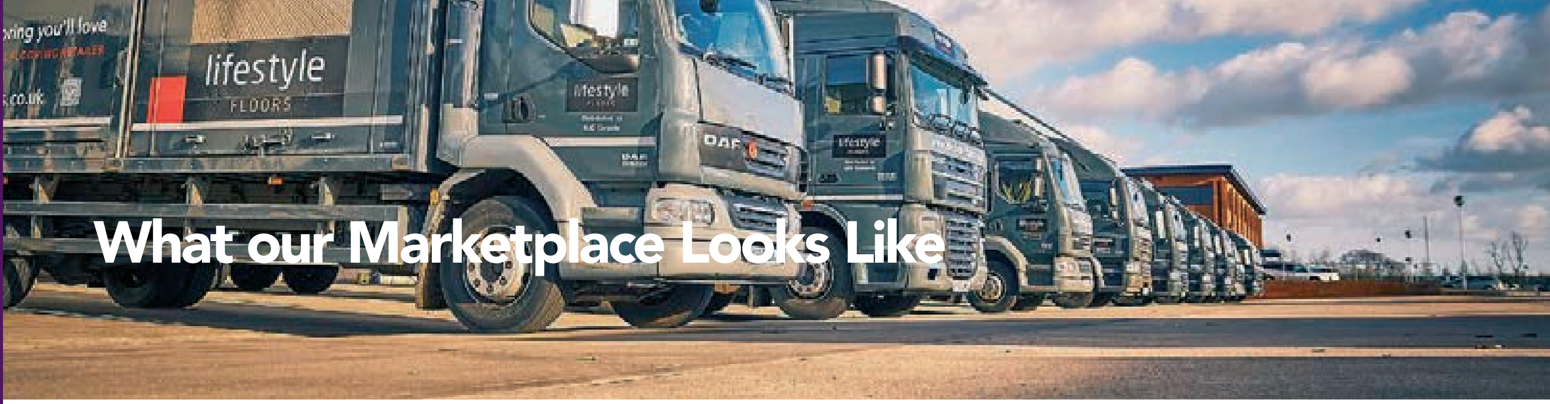
The distribution centres maintain substantial investment in products to ensure that customers' orders are swiftly processed and their delivery expectations fully satisfied.

3 Processing

We would not be able to achieve the high levels of service if we did not employ reliable and accurate tracking systems. These systems facilitate the location and retrieval of individual product lines on an efficient and consistent basis.

4 Deliveries

Our deliveries to customers are made on group vehicles. The fleet is completely updated over a five-year period in order to maintain a constant improvement in operating efficiency and reduced operating costs and vehicle emissions.



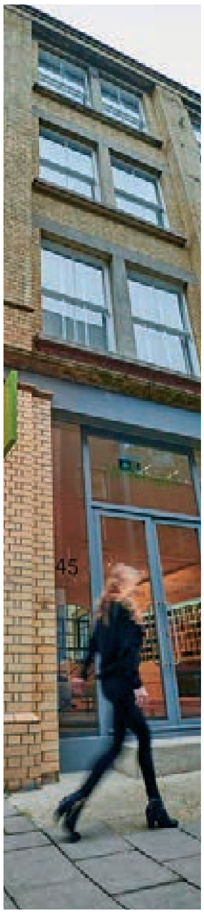
What our Marketplace Looks Like

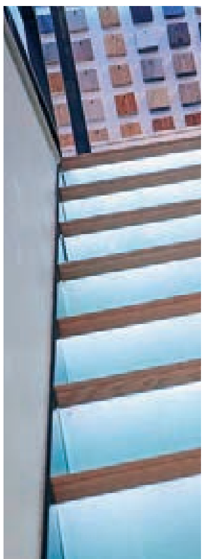
The principal characteristic of the floorcovering market is its maturity and as such, a vast majority of transactions relate to refurbishment.

Overview

The principal characteristic of the floorcovering market is its maturity and as such, a vast majority of transactions relate to refurbishment. Market size tends to be dictated by factors relating to consumer and business confidence and tend to be underpinned by a healthy residential housing market and a buoyant economy.

Due to the well documented events which occurred during 2008 and the subsequent contraction in the UK economy, the UK floorcovering market contracted by 20.7% during 2008 to 2011, with a modest recovery during 2012 of 1.5%, broadly flat during 2013, an estimated further growth of 2.4% during 2014 and 3.4% for 2015.





How we service the market

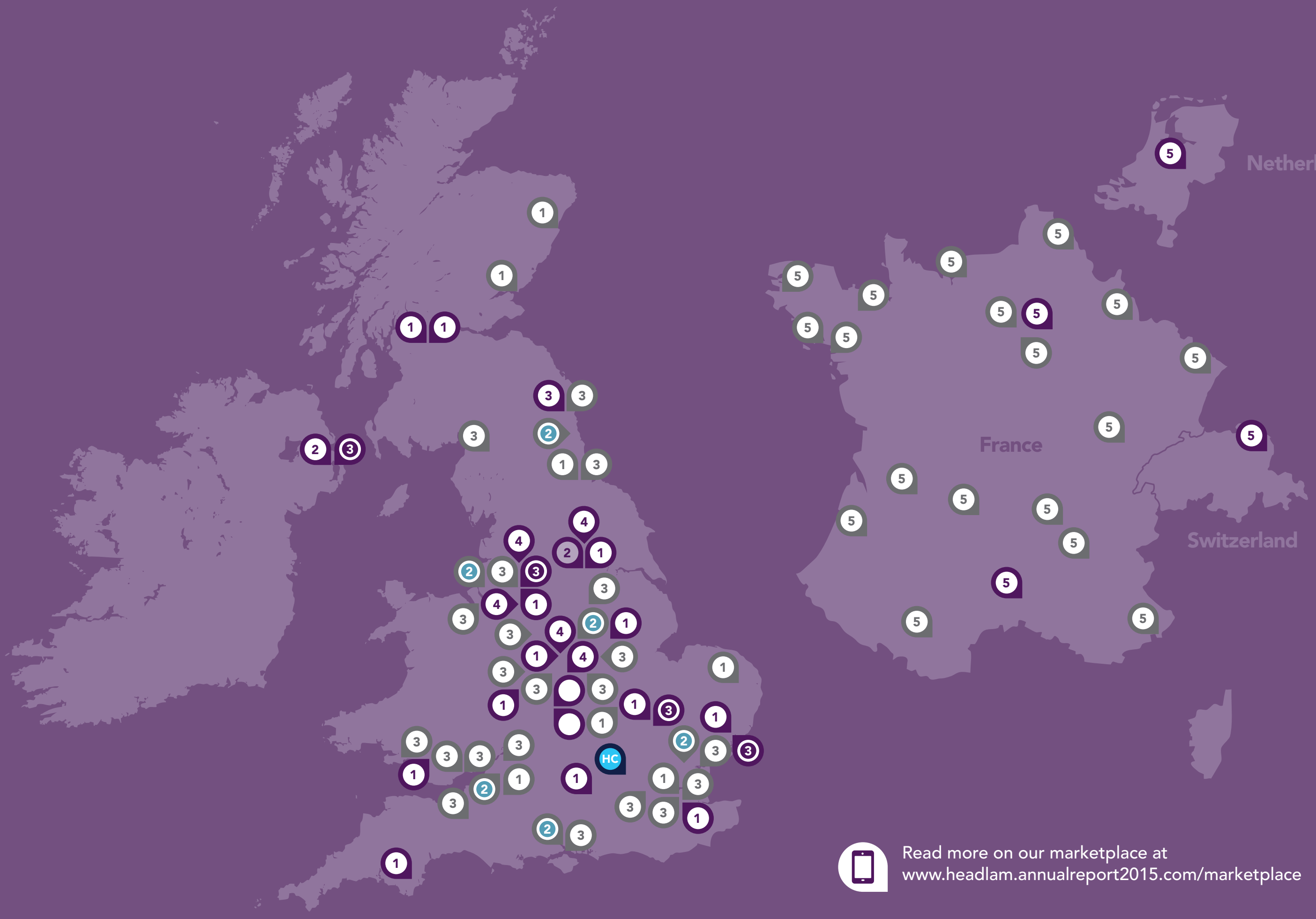
The UK operating structure is based on five business sectors each aimed at maximising market penetration and supporting different aspects of the floorcovering market.

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 18 service centres, whereas 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.



Read more on our marketplace at
www.headlam.annualreport2015.com/marketplace

OPERATING STRUCTURE	1	2	3	4	5
Distribution Centre	11	1	1	1	4
Service Centre	10	—	19	—	18
Distribution Hub	—	1	—	3	—
Trans-shipping Location	—	6	—	—	—
Shared Distribution Centre	2	—	4	1	—

KEY

Distribution Centre

Service Centre

Distribution Hub

Watch our videos online at:
www.headlam.annualreport2015.com/marketplace

1 Regional Multi-product Distribution

These 23 businesses, operating in both the residential and commercial markets, collectively provide a comprehensive national coverage.

2 National Multi-product Distribution

Operating principally under the Mercado trade brand, these businesses offer a national service for residential and commercial floorcovering throughout England, Wales and Northern Ireland.

3 Regional Commercial Distribution

Our Regional Commercial Distribution currently includes 24 operations based in five distribution and 19 service centres.

4 National Residential Specialist Products

These 12 businesses operate principally in the middle to premium quality carpet market.

National Commercial Specialist Products

These two businesses operate throughout the commercial markets but have a primary focus in the healthcare and education sectors.

5 European Multi-product Distribution

Our Continental European operations incorporate five businesses. In the Netherlands our three businesses are located in one distribution centre. In France our single business operates from two distribution centres and 18 service centres, and our business in Switzerland operates from one distribution centre.

headlam
corporate

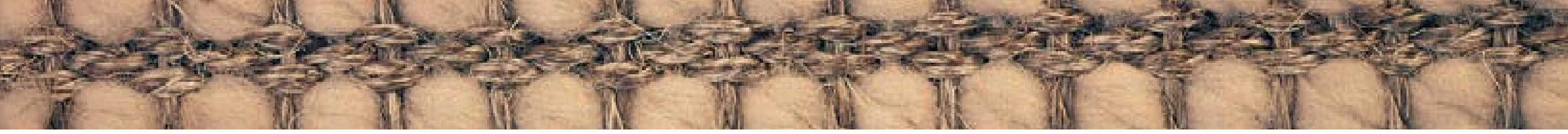
Headlam Group plc's corporate business offers a unique service with a wide choice of products designed for almost every application.

Through Headlam Corporate and its new London showroom, located in Clerkenwell, the group aims to work alongside specifiers, architects, end users, contractors and retailers to provide an unequalled level of customer support and choice. Headlam Corporate's sales team can advise on floorcoverings for specialist applications and can produce flooring products designed exactly to meet customer requirements.

At Headlam Corporate's showroom the group provides a varied product selection from extensive ranges of carpet, carpet tiles, wood and vinyl.

Read more about Headlam Corporate at www.headlamcorporate.com

Our actions are the ground we walk on



Corporate Responsibility
Living our values

We are committed to managing the business in a socially responsible way, recognising that the proper management of such matters makes good business sense and can result in strategic, commercial and reputational benefits. We aim to consistently improve the social, environmental and economic issues within our control or influence throughout the business and our supply network.

Policy

We periodically review our policy towards Corporate Social Responsibility ("CSR") to ensure that it continues to meet the needs of the markets and communities in which we operate. In recognising the importance of CSR issues, we seek to encourage and facilitate positive management behaviour in alignment with the group's business strategy. This includes the morale and welfare of our employees, the satisfaction of our customers and our impact on the environment.

Through the individual businesses and at a group level, we consider social and environmental factors, managing relationships with stakeholders and communicating with them through a variety of channels. These include the AGM, annual and interim reporting and announcements through a regulatory news service for matters relating to trading and the development of the business, all of which are available on our website at www.headlam.com. Additionally, in order to assist with their understanding of the business and to ensure that the board is aware of their views and concerns, meetings are held with our major institutional shareholders.

People

Equal opportunities

Our policy is that all employees should have access to employment opportunities, irrespective of age, gender, ethnic origin, religion or disability. 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. Where practicable, subject to the nature of our activities, employees who develop a disability during employment are given the opportunity to retrain for alternative employment. Our recruitment, training and development processes are designed to ensure that we have suitably skilled and qualified employees to meet the operational needs of the business. We also participate in work experience placement schemes. We are committed to developing the potential of our people, offering opportunities for employees to develop and grow and periodically reviewing succession planning processes. Employee turnover remains relatively low resulting in a stable employee base.

Communications

The continued success of our business relies on good relations and communications with employees and on the provision of a safe and environmentally sound workplace, which complies with applicable laws and regulations, providing 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. We expect employees to respect confidential information, company time and assets, and believe in open and honest communication, fair treatment and equal opportunities, all of which support the fundamental principles of good governance.

We encourage the involvement and participation of employees in matters that affect their interests through formal and informal meetings, and value their communication with management, both senior and at the business unit.

Employees continue to be informed on matters affecting them and on the various factors influencing the performance of the group. Eligible employees are able to benefit from the group's performance through participation in share schemes, including a savings-related share option scheme.

Considering it important for our 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.

Training

Employees are encouraged to take advantage of our training and development opportunities, which are an important part of our strategy for success. Training is delivered through internal resources, a significant proportion of which is on a one-to-one basis, and external providers. In 2016 we have continued the bespoke training programme for our managers and sales representatives.

We require our employees to act ethically and responsibly in accordance with the policies and procedures within our employment handbook, which covers our policies on ethics, bribery, fraud and whistleblowing. Utilising the services of an external trainer, continuing professional competence training for commercial vehicle drivers was undertaken during the year with further training scheduled during 2016.

Our externally sourced driver training team continues to deliver the driver Certificate of Professional Competence ("CPC") to all of our commercial drivers to ensure that the statutory requirement of 35 hours' CPC training for every driver over a five year period is achieved, a total of 469 drivers each receiving seven hours' training in 2015. Training is facilitated using our distribution facilities, with course material in 2015 including customer service, health and safety, hazard perception, city safe and highway code. The 2016 training programme is following a similar approach to that in 2015 albeit with different subject matter, including manual handling, lifting accessories, load restraint mechanisms and hazard awareness. We continue to offer the opportunity for class 2 driver training to drivers where changes in business need require a heavy goods vehicle to be used.

Corporate Responsibility
Living our values

Health and safety

The health and safety of employees and individuals likely to be affected by our business, including contractors, customers, staff and members of the public where appropriate, is treated with the utmost importance. We are committed to developing and maintaining a positive and effective health and safety culture. It is our policy to seek 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.

Our health and safety policy, which is endorsed by the board, is tailored to each of our business operations and the circumstances in which they operate. It is amended to reflect changes in procedures and processes and any modifications to our control and inspection procedures. The board receives a detailed presentation on health and safety issues, covering each trading location, on an annual basis, with interim updates as considered necessary. These include comments on improvements following inspections of the UK businesses undertaken by our advisers. At least once a year, each of the UK businesses receives an updated bespoke comprehensive health and safety manual for use as a source of information, guidance and training together with a set of compliance documentation. Each of our businesses has a Health and Safety Committee comprising representatives from the various business departments. These meet on a periodic basis and are co-ordinated by the on-site health and safety manager. Management teams are encouraged to create a supportive health and safety culture and recognise the value of employee participation.

The report to the board includes our businesses in Europe, which operate in accordance with the health and safety legislation and inspection practices in their respective countries. Inspections undertaken by our third party adviser form the basis on which we determine our standards and are continually reviewed and improved. 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.

Health and safety is an important part of employee induction, at which time we ensure that all employees are aware of our policies and of the commitment that is expected of them towards their safety. Managers, to whom the day-to-day responsibility for health and safety is delegated and who are best placed to monitor and control safety, are guided and supported by our third-party advisers in risk assessment techniques. Job-specific training, including periodic refresher training, is supported by good practice guides which set out the important features associated with many aspects of the roles and duties undertaken by employees. Good practice guides are reviewed not less than annually to ensure they remain relevant to the business and include an awareness of impending changes in relevant legislation and other specialist subjects. They are also reviewed, as appropriate, following any accident or incident. The local business managers with responsibility for health and safety have completed the Institute of Occupational Safety and Health "Managing Safely" course.

Our businesses maintain good relationships with health and safety and environmental health regulators with positive and prompt responses to any findings or observations following compliance inspections. In 2015 there were 15 reportable incidents, compared to nine in 2014, none of which had resulted in a serious injury or fatality. 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.

Containment and inspection regimes in higher risk areas, such as fuel and lubrication stores, compressors and forklift truck battery charging areas, are kept under review. Fire risk protection continues to be improved, training and awareness increased and special containers are sited at least five metres from the main buildings for the storage of flammable products and combustible waste. Bespoke provision for such aspects of the business is incorporated within the design of the new distribution facilities.

Environmental

Product sourcing

As an importer of wood products from outside the EU, we have a procedure in place to comply with the requirements of the European Union Timber Regulations which came into force in March 2013. The procedure culminates in a documented trail confirming that the wood products are sourced from authorised and renewable supplies. As part of this procedure, we also make enquiries to ensure that the manufacturers we deal with do not use child labour or exploit children and treat their workforce fairly.

Further procedures are being finalised to meet the requirements of the 2015 Modern Slavery Act which includes verification that those manufacturers from which we source products treat their employees fairly and do not use child labour.

Utilities

As a wholesale distributor of floorcoverings operating from distribution facilities in the UK, France, Switzerland and the Netherlands, we are not a significant consumer of water, electricity or gas. Electricity and gas supplies are purchased on a group contract basis.

Water

Water consumption arises predominantly in respect of employee welfare and commercial vehicle washing. The majority of our water charges are in respect of water supplied and used. We encourage our drivers to keep the commercial vehicles clean and tidy. To assist them, we have a combination of jet wash machines and, at four of the distribution facilities from which a significant number of commercial vehicles operate, specialist truck washes. Each truck wash utilises 100% recycled water, helping with conservation, and environmentally friendly washing detergents.

We seek to reduce charges by analysing invoices received in respect of water, through the installation of water meters and by reducing consumption through repair, renewal or installation of equipment to improve efficiency.

Our water consumption in 2015 was consistent with the 32,660 cubic metres consumed in 2014 and 2013.

Electricity

Electricity consumption is predominantly in respect of forklift 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.

Water Consumption 2015

32,660m^3

consistent with 2014 & 2013

Electricity Consumption 2015

46,000kWh

consistent with 2014 & 2013

Tonnes per £1 million revenue 2015

43 CO_2 tonnes

consistent with 2014 & 2013

Corporate Responsibility
Living our values

Modern and energy efficient construction techniques and products are incorporated when we invest in new facilities or undertake refurbishment or repair works, which are more efficient, automatically switching off during periods of inactivity. Photovoltaic panels, installed on the roof of the Coleshill facility in 2014, are operational and generating an estimated 46,000 kWh of electricity. Consideration will be given to further similar installations following a period of evaluation. Future construction projects will similarly incorporate intelligent lighting systems and, where practical, renewable energy solutions. During the year we used the improved information arising following the installation of automated meters to seek reductions in consumption. We also installed more energy efficient LED units when undertaking lighting repairs and replacement.

The actual cost of electricity and gas in 2015 at 0.2% of revenue was consistent with prior year.

Gas

Gas is consumed predominantly in respect of office heating and very limited localised radiant heating above work stations on the cutting tables located within the distribution centre. The installation of a sophisticated heating control system in the recently constructed Coleshill facility has resulted in lower consumption. A similar control system has also been installed in the Tamworth facility, resulting in savings in consumption of electricity and gas. Consideration will be given to installing such control systems in other premises if considered viable.

Owing 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.

Carbon reporting

We are required to report on all the measured emissions sources under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Data has been collected in accordance with the Carbon Reduction Commitment Energy Efficiency Scheme. Conversion factors for electricity, gas and fuel are those published by the Carbon Trust and Defra in 2013.

Fuel type	2015 CO_2/ tonnes	2014 CO_2/ tonnes
Electricity	**4,348**	4,455
Gas	**1,010**	951
Commercial vehicle fuel	**18,153**	17,569
Car fuel	**4,603**	4,762
Total	**28,114**	27,737
Tonnes per £1 million revenue	**43**	44

The increase in respect of commercial vehicle fuel was a result of an increase in the number of deliveries made in the year as reflected in the uplift in revenue.

Following the opening of the trans-shipping facility in Aberdeen in late March 2014, further improvements in service levels and efficiency in deliveries to the north east of Scotland have been achieved resulting in reduced fuel costs.

Commercial and motor vehicles are replaced respectively on a five-and three-year basis, in doing so improving operational efficiencies and reducing operating costs and vehicle emissions. All of our commercial vehicles comply with Euro 5 emission standards which, when introduced, further reduced the levels of carbon monoxide, hydrocarbon, nitrogen oxide and particulate emissions. New commercial and motor vehicles delivered to us since October 2014 have been compliant with Euro 6 emission standards which were binding for the registration of new commercial and motor vehicles from September 2015. Euro 6 more than halves the amount of nitrogen oxides that a diesel car can emit with a cap of 80mg/km. We periodically review our fleet requirements to ensure the optimum design to maximise capacity and improve aerodynamics.

ESOS

The Energy Savings Opportunity Scheme ("ESOS") is a mandatory energy assessment scheme for large organisations in the UK. An ESOS assessment was carried out by an external assessor in the latter part of the year ensuring compliance by the deadline of 5 December 2015. Due to the mix of energy, with the majority related to transport fuel, the assessment comprised an audit of the energy used by our transport activities, there being no requirement to audit the energy consumed in respect of buildings and industrial processes. The assessment identified a number of potential cost–effective energy saving measures, the practicality of implementing them being assessed.

FORS

During the year, several of our businesses supplying goods into and around London sought and achieved a mix of bronze and silver accreditation with the Fleet Operator Recognition Scheme ("FORS"). FORS is a voluntary scheme that helps improve operators' performance in respect of all aspects of safety, fuel efficiency, economical operations and vehicle emissions. For vehicle operators, it confirms that they are meeting their legislative requirements, as well as helping to increase efficiency, reduce costs and secure work. Increasingly contractors insist upon a minimum of FORS bronze accreditation before accepting deliveries to premises in and around the London area, rejecting deliveries from non–accredited suppliers. As part of the accreditation process, additional signs and mirrors are fitted to vehicles in order to reduce cycling and motorcycling accidents.

Waste

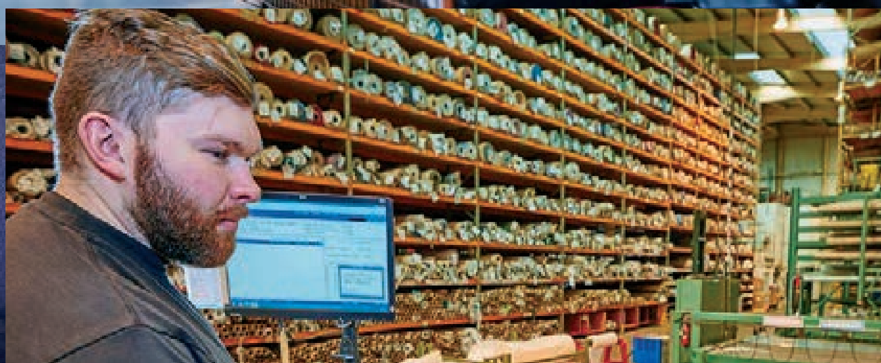
The waste arising from our operations is predominantly protective plastic packaging, cardboard poles and boxes and wooden pallets. The cardboard poles from the centre of full rolls, part rolls and cut lengths of carpet and vinyl delivered to our customers are later collected and re–used until no longer fit for purpose.

We continue to increase the percentage that we recycle, baling plastics and cardboard, and stacking unwanted pallets for dispatch to specialist reprocessing agents, when it is economic to do so. This has further reduced the quantity 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 using a high proportion of recycled materials.

We participate in initiatives to reduce the amount of waste going to landfill and increase that going into recycling both local to our businesses and on a national basis, in recent years receiving recognition for our proactive approach. According to Carpet Recycling UK, of which we are a member, 81,000 tonnes of carpet were recovered for energy and 44,000 tonnes recycled in 2015, 125,000 tonnes in total, equivalent to a landfill diversion rate of 31%, an 11% increase on the 2014 diversion total of 113,000 tonnes. During the year, we have extended initiatives to recover and recycle trimmings of carpet, vinyl and underlay arising during installation by our customers through the provision of on site dedicated containers.

Our approach to recycling is of environmental and financial benefit, the bales of plastic and cardboard and the broken and unwanted wooden pallets either generating income or being collected for minimal charge.

Our Performance in detail



Financial Review

UK organic growth of 3.9% once more outperformed the annual market growth, which for 2015 was forecast to be 3.4%.

Revenue

During the year, group revenue increased by £18.9 million from £635.2 million to £654.1 million.

As highlighted in the table below, the group's UK organic growth of 3.9% once more outperformed the annual market growth, which for 2015 was forecast to be 3.4% (Source: AMA Research Limited). The contribution from the UK acquisitions completed during 2014 in addition to the acquisition of Matty's Wholesale Carpets, completed during 2015, amounted to £5.4 million bringing the total revenue increase in the UK to 4.9%, an improvement of £26.9 million on the previous year.

The combined revenue performance from the Continental European businesses showed further contraction during the year, declining by 3.8% on a like for like basis which, once translated into sterling, showed a reduction of 9.3% for the year.

	£000	%	£000	%
Revenue for the year ended 31 December 2014:				
UK	548,393	86.3		
Continental Europe	86,849	13.7		
			635,242	100.0
Movement:				
UK organic growth	**21,571**	**3.9**		
UK acquisitions	5,376	–		
			26,948	4.9
Contraction in Continental Europe	(3,265)	(3.8)		
Translation effect	(4,847)	–		
			(8,112)	(9.3)
Total movement			18,836	3.0
Revenue for the year ended 31 December 2015:				
UK	575,341	88.0		
Continental Europe	78,737	12.0		
			654,078	100.0

As a result of the increase in UK revenues and a contraction on the Continent during 2015, the proportion of group revenue from the UK increased from 86.3% to 88.0%.

Gross Margin

The group's gross margin increased during the year from 30.0% to 30.7%, with three factors contributing to the 0.7% improvement. Firstly a reduction in the cost of goods purchased provided a gain of 17 basis points; secondly, an improvement in volume related purchase rebates generated an improvement of 22 basis points; and thirdly, one-off benefits, which are unlikely to repeat during 2016 and beyond, amounting to 31 basis points and totalling £2.0 million, were secured during the year, principally in connection with the appreciation of sterling against the euro.

Expenses

During the year, distribution and administrative expenses increased by £4.6 million, up 2.9% from £159.1 million to £163.7 million. The mix of distribution to administration cost remained broadly unchanged, finishing the year at 73.3%:26.7%. People cost in isolation was the largest increase, amounting to 48.4% of the gross cost increase before currency translation. Just over a third of the increase in people cost was offset by the gains arising from the reduction in fuel cost of £1.0 million.

	Total £000	Distribution %	Administration £000	%	£000	%
2014 expenses	159,078		117,458	73.8	41,620	26.2
Significant movements:						
People cost	2,979	48.4	3,251	86.4	(272)	(11.3)
Fuel	(1,011)	(16.4)	(974)	(25.9)	(37)	(1.5)
Sampling investment	747	12.1	747	19.9	–	–
Bad debts	483	7.8	483	12.8	–	–
IT	1,289	20.9	–	–	1,289	53.8
Occupancy	673	10.9	–	–	673	28.1
Share costs	408	6.6	–	–	408	17.0
Intangibles	375	6.1	–	–	375	15.6
Other	218	3.5	256	6.8	(38)	(1.6)
	6,161	100.0	3,763	100.0	2,398	100.0
Currency translation	(1,506)		(1,151)		(355)	
2015 expenses	163,733		120,070	73.3	43,663	26.7

Elsewhere, the continued investment in sampling, IT and the expansion of the service centre infrastructure generated combined cost increases of £2.7 million. The need to impair receivables, an increase in the cost of share based payments, and the intangible cost relating to the acquisition of Matty's Wholesale Carpets created an additional increase of £1.3 million. The currency effect of translating the overseas businesses reduced the gross cost increase by £1.5 million.

Financial Review

Operating profit

	£000
Operating profit 2014	31,462
Gross margin improvement:	
Volume benefit	5,650
Pricing benefit	4,320
	9,970
Expenses increase:	
Distribution	(2,612)
Administration	(2,043)
Total increase	(4,655)
Operating profit 2015	36,777
Drop through rate as a percentage of incremental revenue	28.2%
EBITDA 2014	36,362
EBITDA 2015	41,956
Increase	15.4%

Operating profit during 2015 increased by 16.9% compared with 2014 with the operating margin improving from 5.0% to 5.6%, reflecting the increase in gross margin and operational gearing generated on the higher revenue base. The operating margin generated by the incremental year on year revenue improvement amounted to 28.2%.

Tax

The effective underlying rate of taxation reduced to 20.25% during the year, reflecting the decrease in UK headline corporation tax rate and also the further future reductions, already enacted, that impact upon deferred taxation. The anticipated effective underlying rate for 2016 is expected to reduce to 20% due to further UK rate reductions which have been enacted.

During the period, the board approved a tax strategy which is aligned to the group's overall strategic aims and values. The strategy sets out the group's approach to tax, including the tax governance framework, attitude to tax risk and its relationship with tax authorities.

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

The group does not undertake any form of artificial tax planning but does seek to maximise tax reliefs available, for example by making capital allowance claims on fixed asset expenditure.

Earnings and dividend

Ordinary dividends

The board's existing ordinary dividend policy is aimed at improving dividends annually, such that the total of the interim and final dividends for any particular year increases in line with the basic earnings per ordinary share for that year.

When declaring the interim and recommending the final dividend, the board considers the group's cash resource and adequacy of distributable reserves.

Over the last five years, the group's total dividends and basic earnings per ordinary share have grown at a compound average growth rate of 9.4% and 10.5% respectively.

Year ending 31 December	Basic EPS Pence	Dividend Pence	Cover ratio
2011	24.60	14.15	1.74
2012	25.80	14.85	1.74
2013	24.50	15.30	1.60
2014	28.60	17.50	1.63
2015	33.80	20.70	1.63

Basic earnings per share for the year amounted to 33.8p, an improvement of 18.2% on the basic earnings of 28.6p for 2014. Total ordinary dividends paid and proposed for 2015 have increased by 18.3% from 17.5p to 20.70p.

The relationship between ordinary dividends and basic earnings can also be expressed as a cover ratio which over the last five years has averaged 1.67 but in the last two years has been lowered to a ratio of 1.63.

The board believes that whilst there is a continuing underlying risk relating to potential volatility around future growth in European floorcovering markets and, as a consequence, a lack of predictability around future earnings, it is nonetheless of the view that the current policy will continue during the medium term. Additionally, and subject to the nature and term of any adverse movement in earnings, financial strength, cash resource and the assessment of future trading, the board has the option to allow a temporary fall in the cover ratio in order to maintain the dividend.

In implementing the policy, the board ensures the parent company has sufficient distributable reserves available from which to make the distribution. The table below illustrates the reserves position for the last five years and the ability of the parent to fund the dividend payment as measured by the number of years cover. On average, over the last five years', the parent has maintained reserves sufficient to cover 4.8 years of dividend. Details of current year distributable reserves are shown in the retained earnings column in the Statement of Changes in Equity on page 92.

	Distributable reserves		Proposed	
Year ending 31 December	parent £000	group £000	dividends £000	Years' Cover
2011	59,679	115,778	11,663	5.1
2012	58,435	121,361	12,300	4.8
2013	71,220	124,465	12,689	5.6
2014	57,241	126,018	14,655	3.9
2015	81,082	140,924	17,416	4.7

Special dividends

For a number of years, the group has undertaken an expansionary investment programme to improve and increase the capacity and reach of its infrastructure in the UK. The final significant element in the current programme will be the construction of a new distribution facility in Ipswich.

Once this project is completed, the group's commitment to expansionary capital expenditure will largely cease and, subject to ongoing levels of cash generation being maintained, should lead to a position whereby the group will carry a level of funding in excess of that which would be required to maintain its asset base.

This development, therefore, paves the way for a return of surplus funds to shareholders and the board is of the opinion that this can be best achieved through the payment of special dividends.

Whilst the timing of the Ipswich construction has been delayed over the last few years, the prospect of initiating the project during the latter half of 2016 now appears likely. This timetable is still behind the schedule previously advised to shareholders and therefore, given that capital expenditure will not be at the levels previously advised, the board is declaring the payment of a special dividend during April 2016.

Once the cash effect of the capital outlay on the Ipswich development has been fully assessed following its completion, the board will give further consideration to the distribution of surplus capital by the use of special dividend payments.

The conditions that will apply to any special dividend payments are: firstly, the group's forecast average net debt in the year in which the special dividend is paid should be approximately equal to or less than 0.5 of EBITDA; secondly, the cover ratio of the aggregated ordinary and special dividends when expressed in terms of dividend cover will not be less than one; and thirdly, the payment must be made from available distributable reserves.

The board believes this approach provides a flexible mechanism for managing the maintenance and expansion of the group's asset base.

Year ending 31 December	Cash from operations £000	Net capital expenditure £000	Dividends proposed £000
2011	20,856	1,925	11,663
2012	37,195	6,469	12,300
2013	34,849	12,788	12,689
2014	38,023	5,576	14,655
2015	41,557	2,760	17,416

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

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

Employee benefits

The liability attaching to employee benefits is as follows:

	2015 £000	2014 £000
Current liabilities	**2,171**	2,933
Non-current liabilities	**16,843**	18,803
Total	**19,014**	21,736

The year on year decrease in the deficit amounts to £2.7 million. Whilst the liability relates to both the UK and Swiss defined benefit pension plans, its composition is dominated by the UK plan. Relative to the equivalent period last year, average bond yields in the UK have increased, and therefore the discount rate assumption has increased by 0.3% per annum from 3.4% to 3.7% (causing a reduction in the value placed on the Scheme's liabilities). However, the market implied level of price inflation has edged up slightly, increasing from 3.2% to 3.3% (which, other things being equal, would lead to an increase in the Scheme's liabilities). The net effect of these two factors is positive in the sense of reducing the Scheme's deficit compared to the prior year. With regard to life expectancy assumptions, mortality has been based on the CMI 2013 tables and not the more recent CMI 2015 tables, which predict an improvement in mortality. The later tables have not been adopted in order to avoid potential movements in the liability as a result of a volatility arising from potential short term trends.

Cash flow

Net cash flow from operating activities

During the year, net cash flow from operating activities increased by £9.3 million from £27.2 million to £36.5 million. The components of the movement are shown in the table below.

Financial Review

	£000
2014 net cash flow from operating activities	27,193
Operating profit	5,324
Depreciation and amortisation	279
Profit on asset disposals	(1)
Share based payments	408
Working capital	2,920
Interest paid	200
Taxation	112
Additional pension contributions	71
2015 net cash flow from operating activities	**36,506**

As with previous years, the two key contributors to the year on year movement were the operating profit increase of £5.3 million and the net working capital release of £2.9 million driven by a substantial increase in payables of £7.3 million.

The additional contributions funding the UK defined benefit pension plan deficit amounted to £3.0 million but, following the triennial actuarial valuation of the UK plan at 31 March 2014, the additional contributions for 2016 will fall to £2.1 million. The next triennial valuation will take place on 31 March 2017. Subject to the outcome, contributions for 2017 are expected to be £2.2 million.

Cash flows from investing and financing activities

The table below summarises the cash flow movements during the year arising from investing and financing activities. The overall cash outflow from the two activities was down by £6.6 million, with the four main factors being a reduction in net capital expenditure of £3.0 million, the incremental investment as a result of the Matty's Wholesale Carpets acquisition, a substantial reduction in cash outflows directed at reducing borrowings and an increase in the dividend payment.

	£000
2014 cash flows from investing activity	(5,061)
2014 cash flows from financing activity	(21,871)
	(26,932)
Movement in investing activity:	
Net reduction in capital expenditure	2,997
Interest received	(120)
Acquisitions	(1,646)
	1,231
Movement in financing activity:	
Treasury share issues	(23)
Repayment of borrowings	7,393
Dividends paid	(1,966)
	5,404
Net movement	6,635
2015 cash flows from investing activity	(3,830)
2015 cash flows from financing activity	(16,467)
	(20,297)

Net debt

As detailed in the table below, group net funds at the end of the year increased by £19.4 million from £24.6 million to £43.9 million.

Group	At 1 January 2015 £000	Cash flows £000	Translation differences £000	At 31 December 2015 £000
Cash at bank and in hand	47,589	16,209	134	63,932
Debt due within one year	(204)	190	14	–
Debt due after one year	(22,818)	2,627	191	(20,000)
	24,567	19,026	339	43,932

Funding and going concern

The group maintains sufficient banking facilities to fund its operations and investments and, as at 31 December 2015, the group's total facilities were 75.5% undrawn as shown below.

	Drawn £000	Undrawn £000	Total facility £000
Less than one year	–	41,706	41,706
Over one year and less than five years	20,000	20,000	40,000
	20,000	61,706	81,706

Having reviewed the group's resources and a range of likely outcomes, the board believes there are reasonable grounds for stating that the group has adequate resources to continue in operational existence for a period no shorter than twelve months from the date of this report and it is appropriate to adopt the going concern basis in preparing the group's financial accounts.

Steve Wilson
Group Finance Director
3 March 2016

Viability Statement

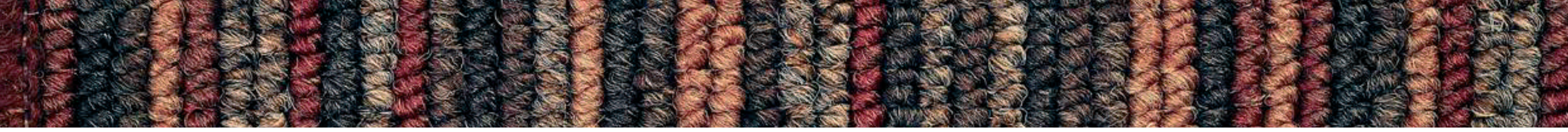
In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the board has assessed the prospects of the group over a period in excess of the twelve months required by the 'Going Concern' provision, selecting instead a three year period which takes into account the group's current position and the potential impact of the principal risks and uncertainties as set out on pages 38 to 39. Based on this assessment, the board confirms it has a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 December 2018.

The board has determined that three years constitutes an appropriate period over which to provide its viability statement. This is the period focussed on by the board during the strategic planning process. Whilst the board have no reason to believe the group will not be viable over a longer period, given the inherent uncertainty involved we believe this presents users of the Annual Report with a reasonable degree of confidence while still providing a medium term perspective.

In making this statement, the board carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance and solvency or liquidity.

The board considers annually, and on a rolling basis, a three year strategic plan. The output of this plan is used to perform an analysis of central debt, the ability of the group to raise finance and the headroom requirement needed to run its operations. The board's evaluation also includes a review of the group's exposure and sensitivity to operational business risks with an emphasis on trading performance, taking into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

The review considers the principal risks identified by the group and whilst it does not consider all of the risks the group may face, in the circumstances, the board considers that this basis of assessment of the group's prospects is reasonable.



Key Performance Indicators

The following measures are used to assess the group's progress towards its medium term strategic objectives.

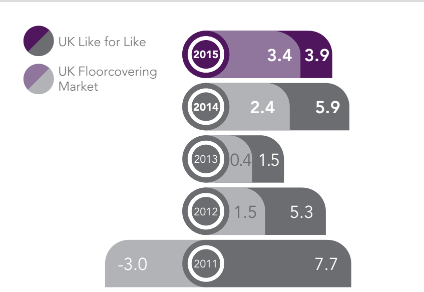
1 UK Like For Like Revenue Growth

MEASUREMENT

Like for like revenue growth measures changes in revenue in the current year compared with the previous year. The measure excludes the effects of acquisitions and movement in working days and currency.

WHY THIS IS IMPORTANT

The group's medium term growth objective is to achieve an increase in like for like revenue which exceeds the growth in the floorcovering market in the territories in which it operates, thereby maintaining growth in market share.



UK Like For Like Revenue Growth % **3.9** 2014: 5.9

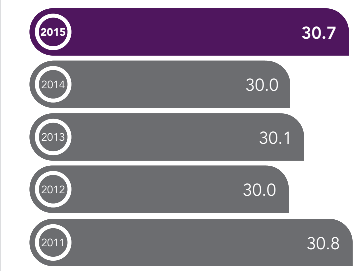
2 Gross Profit Margin

MEASUREMENT

The ratio of gross profit to revenue.

WHY THIS IS IMPORTANT

Gross profit margin is a primary indicator of business performance and market competitiveness. A movement in gross margin generally reflects a change in the business product mix or market pricing or a combination of both.



Gross Profit Margin % **30.7** 2014: 30.0

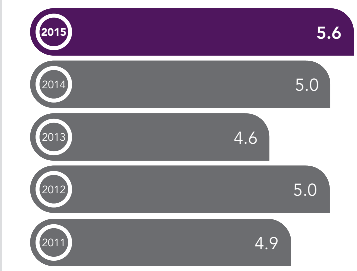
3 Underlying* Operating Profit Margin

MEASUREMENT

Underlying operating profit margin is determined by adding back finance income and expense and non-underlying items to profit before tax and then measuring as a percentage of revenue.

WHY THIS IS IMPORTANT

The majority of the group's operating costs are fixed and therefore changes in operating profit margin provide a measure of operating efficiency and the effects of incremental profitability arising from an increase in revenues.



Underlying Operating Profit Margin % **5.6** 2014: 5.0

4 Underlying* Earnings Per Share (R)

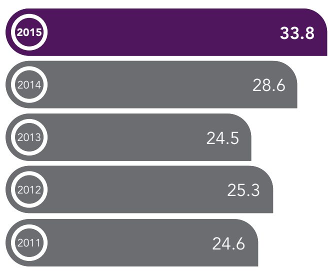
MEASUREMENT

Earnings per share ("EPS") is calculated by reference to post tax profit divided by the weighted average number of issued shares during the year.

Underlying EPS is calculated by adjusting for non-underlying items.

WHY THIS IS IMPORTANT

EPS and EPS growth are widely used measures of company performance. EPS growth forms the basis of the group's current dividend policy since the board anticipates dividend growth to be broadly in line with the growth in EPS.



Underlying Earnings Per Share p **33.8**
2014: 28.6

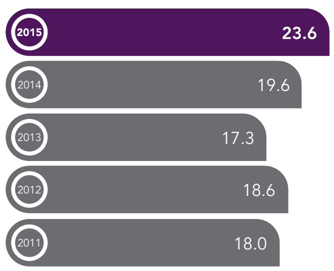
5 Return on Capital Employed

MEASUREMENT

Return on capital employed is derived from underlying operating profit divided by the simple average of the net assets after adjusting for cash and borrowings at the start and end of the year.

WHY THIS IS IMPORTANT

Return on capital employed provides an indication on whether the group's activities are creating value for its shareholders.



Return on Capital Employed % **23.6**
2014: 19.6

* There are no non-underlying items in 2015 or 2014. The non-underlying items in 2013 relate to the impairment of intangible and tangible fixed assets, totalling £5.4 million. The underlying measures have been used to provide a better understanding of the business performance.

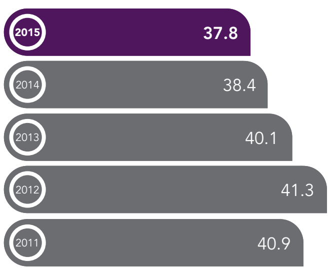
6 Credit Taken by UK Customers and Receivables Impairment Loss Percentage

MEASUREMENT

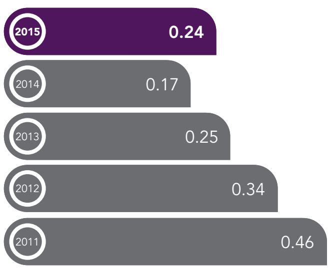
Credit taken is calculated by reference to trade receivables net of impairment provisions expressed as a proportion of current and prior months' revenue inclusive of VAT. The receivables impairment loss percentage is calculated by expressing the annual impairment loss as a percentage of revenue.

WHY THIS IS IMPORTANT

These two indicators provide a regular check on the financial health of independent customers.



UK Credit Taken days **37.8**
2014: 38.4



Receivables Impairment Loss % **0.24**
2014: 0.17

Managing our Risks

During the year the board carried out a robust assessment of the financial risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.

The group's business, results and financial condition are influenced by a range of risks and uncertainties, a number of which remain beyond the control of the board.

The board reviews key risks and controls and, whilst the following highlights some of the key risks that have or could affect the business, it is not an exhaustive analysis of the threats that may affect or influence the conduct of the business.

Area of risk	Description	Potential impact	Mitigation
Market demand	A significant proportion of the group's revenue arises from trade with independent retailers and flooring contractors. The activity levels within this customer base are determined by consumer demand created through residential property refurbishment or moves, new residential housing developments and a wide range of commercial refurbishment and building projects.	Periods of economic recession that create reduced consumer confidence or contraction in the construction industry and changes in trends and preferences all have the potential to affect market activity and demand for products supplied by the group. This risk has been a feature of the floorcovering markets since 2008 in the territories where the group has traded. Each of these markets has contracted significantly and is either exhibiting continuing contraction or, in the case of the UK, signs of a modest recovery.	Market activity is monitored daily in each individual business and collectively at group level. This visibility allows prompt response to factors adversely affecting trading. Furthermore, since the group's principal activities are supply and distribution, the group has the ability to react quickly to market changes. In addition, the development of a range of regional, national and specialist businesses provides the group with broad market penetration and the capability to manage the downside risk arising from a market contraction.
Competitor risk	The group operates across four geographical markets, each of which has a number of similar trading characteristics. Within each market, the group competes directly with a variety of regional and national distributors and manufacturers selling directly to its customer base and indirectly with multiple retail chains.	The emergence of a competitor with a strong business model could undermine the group's growth objectives.	The group seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base. Substantial and continued investment in management and facilities, an extensive product offering, a knowledgeable selling resource, product availability, IT, efficient material handling and logistics enables the group to continue to improve its market position.
Technology	The software platform is a vital component of the group's operating strategy, underpinning the delivery of operational objectives and providing the framework for the maintenance of financial control.	Given its importance, any prolonged system failure has the potential to adversely affect business performance.	Each business has its own dedicated hardware and failure in one will not interrupt another. Furthermore, the group operates well defined backup procedures and has contingency plans in place to enable swift recovery from a failure of this nature.
Link to Strategy	Product Range	Operational Excellence	Technology

Area of risk	Description	Potential impact	Mitigation
People	The group's ability to deliver continued success is very dependent upon its people.	An inadequate pool of suitably qualified and talented people can disrupt business development and undermine the group's ability to deliver sustainable growth.	Recruitment, training and development are aimed at ensuring the group has suitably skilled and qualified people to meet the current and future operational needs of its businesses. Furthermore, the group is committed to creating opportunities for individuals to progress their careers.
Employee benefits	The costs associated with funding the group's defined benefit plans continue to be affected by the volatility in investment returns, bond yields, inflation and an improving mortality trend.	The group operates defined benefit plans in the UK and Switzerland. As at 31 December 2015, the UK plan deficit of £16.2 million represented 85% of the total group deficit. An increase in the plan deficit could require the group to increase the deficit reduction contributions.	The group's most recent triennial valuation of the UK plan was assessed as at 31 March 2014. The trustees commissioned an annual update valuation as of 31 March 2015; as a result of this valuation, it was agreed to decrease the deficit reduction contribution during 2016 to circa £2.1 million. From 1 January 2017, the annual deficit reduction contribution will be increased by 3.3% each subsequent 1 January, with a view to eliminating the shortfall by 30 April 2019. The next triennial valuation will take place at 31 March 2017. The reduction in the annual UK contribution has been agreed by the company and trustee because the trustee is content with setting a deficit reduction programme over a longer time frame given the underlying financial strength of the company.
Legislation and regulation	The group's operations are regulated by a variety of laws and regulations, the principal ones relating to health and safety, the environment, employment, commerce, corporate, financial reporting and taxation.	Failure to comply could cause reputational harm and lead to serious civil or criminal proceedings, causing disruption to the group's operations and leading to financial loss.	The group manages its obligations through a framework of set policies and procedures and, where appropriate, engages the services of competent third–party advisers.
Link to Strategy	Knowledge & Expertise	Knowledge & Expertise	Operational Excellence

Governance

41 Chairman's Message on Corporate Governance
42 Board of Directors
44 Senior Executive Management
45 Corporate Governance Report
52 Audit Committee Report
58 Directors' Remuneration Report
75 Nominations Committee Report
77 Other Statutory Disclosures
83 Statement of Directors' Responsibilities

Selection

57.8 million ft^3
UK WAREHOUSE CAPACITY

Chairman's message on Corporate Governance

We remain committed to high standards of corporate governance, which we consider to be essential to support sustainable growth and to protect shareholder value.

The stewardship and governance of your company is the responsibility of the board of directors, part of which includes the setting of the company's strategic aims and values. Additionally it oversees the executive management, who carry out the operational running of the business, and report to shareholders on the company's performance in compliance with the revised requirements of the 2014 UK Corporate Governance Code (the "Code") to make the Annual Report fair, balanced and understandable and provide the information necessary for shareholders to assess the group's position and performance, business model and strategy.

We continue to believe that our board has the diversity and mix of skills, experience, independence and knowledge required in order for the company to be able to discharge its responsibilities successfully.

We seek by way of this report to explain how, through the membership and work of the board and its committees, the approach to ensuring board members have an appropriate understanding of the business and how the board considers its effectiveness, your company is directed and controlled. The report also explains the executive direction and control and our corporate governance structures and procedures which continue to change in response to changes in the rules that are in place at any point in time to ensure that they continue to be robust. We remain committed to high standards of corporate governance, which we consider to be essential to support sustainable growth and to protect shareholder value.

In this report we set out how the principles of the Code are applied, report on the company's compliance with the Code's provisions and provide an explanation where the provisions have not been complied with. 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.

As applicable to the company, the board considers that it has complied with the provisions of the Code throughout the year ended 31 December 2015 and up to the date of this report. The Code is available on the Financial Reporting Council's website (www.frc.org.uk).

The basis on which the group generates and preserves value over the longer term and the strategy for delivering the objectives of the group are to be found in the Strategic Report on pages 2 to 39.

Dick Peters
Chairman
3 March 2016

Board of Directors

R W Peters
Non-executive Chairman

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. He was appointed Chairman of Headlam Group plc on 1 September 2013 following the resignation of Graham Waldron, at which time he resigned as Chairman of the Audit Committee.

Committees – Audit, Nominations, Remuneration

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 38 years' experience in the floorcovering industry.

Committees – Nominations

S G Wilson
Group Finance Director

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

A K Eastgate

Senior Independent Director

Andrew was appointed a non-executive director in May 2010 at which time he was appointed a member of the Audit, Remuneration and Nominations Committees. He is the Chairman of the Remuneration and Nominations Committees and Senior Independent Director. He was formerly a Partner in Pinsents, including being head of Pinsents' corporate practice in Birmingham.

Andrew has broad experience of advising quoted companies, particularly in connection with transactions and compliance issues, and is Chairman of Epwin Group plc.

Committees – Audit, Nominations (Chairman), Remuneration (Chairman)

P J Lawrence

Non-executive Director

Philip was appointed a non-executive director in June 2015 at which time he was appointed a member of the Remuneration and Nominations Committees and Chairman of the Audit Committee. Philip is the Chief Executive of the Coal Authority, prior to which he held significant roles with Marconi plc and Deloitte & Touche having trained as a Chartered accountant after attaining a BSc in Mathematics.

Committees – Audit (Chairman), Nominations, Remuneration

Changes to the board

On 31 May 2015, due to other business commitments, Mike O'Leary resigned from the board after serving over 9 years as a non-executive director.

Philip Lawrence was appointed to the board with effect from 1 June 2015, at which time he was appointed as a member of the Remuneration and Nominations Committees and Chairman of the Audit Committee, succeeding Andrew Eastgate.

Also with effect from 1 June 2015, Andrew Eastgate was appointed Chairman of the Remuneration and Nominations Committees and Senior Independent Director.

Senior Executive Management

G M Duggan
Company Secretary
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.

K R Yates
Managing Director, Mercado
Keith joined Mercado in April 1983 and was subsequently appointed its Managing Director in 1996, a role he holds to the current day. In addition, in 2012 he took on operational responsibility for the businesses in Scotland. Keith has 33 years' experience in the floorcovering industry.

A R Judge
Commercial Director, Coleshill and Tamworth businesses
Tony joined the company in May 1992 as the Managing Director of Florco, becoming the commercial director for the European businesses in 2000 – 2001, and in 2001 the commercial director of the Coleshill businesses. In 2005, in addition to Coleshill, he was appointed Managing Director of the Tamworth businesses and took operational responsibility for the Thatcham and Stockport businesses in 2012 and Gildersome in 2015. Tony has 35 years' experience in the floorcovering industry.

D A Price
Commercial Director, selected UK Operations
Darryl joined the company in February 1994 and was appointed to the senior executive management in November 2015, succeeding Mike McMaster with operational responsibility for 12 of the UK businesses. Darryl has 21 years' experience in the floorcovering industry. He commenced employment in Thatcham as sales office manager before progressing to operations director at Thatcham and, from January 2003 to November 2015, has been commercial director for the businesses in Coleshill.

Corporate Governance Report

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.

Board of directors

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 control which:

- enables risks to be assessed and managed;
- sets strategic aims;
- ensures that the necessary financial and human resources are in place to meet its objectives;
- reviews management performance;
- sets the group's values and standards; and
- ensures that its obligations to its shareholders and others are understood and met.

As at 31 December 2015 the board consisted of two executive directors, Tony Brewer, Group Chief Executive, and Steve Wilson, Group Finance Director, and three independent non-executive directors, Dick Peters, Chairman, Andrew Eastgate and Philip Lawrence.

The board is supported in its role by the Audit, Nominations and Remuneration Committees, all of which have written terms of reference, the details of which are set out below.

The directors' roles and membership of the committees are as set out on pages 42 and 43 in the directors' biographies.

The biographies also document each director's significant other commitments and any changes to these commitments that occurred during the year.

Directors' attendance during the year at board meetings is set out on page 47, and meetings of the Audit, Nominations and Remuneration Committees is given in the relevant committee report.

The board considers that it is beneficial for the executive directors to hold an external directorship to broaden their experience and normally this would be limited to one company. With effect from 31 January 2014, Steve Wilson was appointed a non-executive director of Conviviality Retail Plc.

The board considers 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 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. 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.

Corporate Governance Report

Through the Nominations Committee, the board ensures that plans are in place for the succession of the executive and non-executive directors.

The board maintains overall control of the group's affairs through a schedule of matters reserved for its decision which are periodically reviewed. These include, but are not limited to:

- setting group strategy;
- corporate governance;
- risk management;
- board composition;
- succession planning;
- committee terms of reference;
- changes to capital structure and dividend policy;
- approval of the business objectives and annual plan;
- financial reporting and controls;
- acquisitions and disposals;
- authority limits for capital and other expenditure;
- material treasury matters; and
- health and safety.

The directors bring strong judgement to the board's deliberations and the size, diversity and balance of skills and experience of the board are 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 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. Andrew Eastgate, who served as the Senior Independent Director following the resignation of Mike O'Leary at the end of May, 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.

In order to fulfil their duties, procedures are in place for directors to seek both independent advice and the advice and services of the Company Secretary, who is responsible for advising the board, through the Chairman, on all governance matters.

The non-executive directors periodically meet without the Chairman present, and also meet with the Chairman without management present.

All directors are subject to election by shareholders at the first AGM following their appointment by the board.

Under the articles of association 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 the forthcoming AGM are given to shareholders in the Notice of AGM.

Board information, induction, training and professional development

The board has a rolling agenda which is regularly updated in respect of specific topics that affect the group, including:

- governance and best practice guidelines;
- risk management;
- finance and operational performance;
- business development initiatives;
- health, safety and environmental matters; and
- legal and regulatory developments.

The board reviews the key activities of the business, receiving papers and presentations from executives and senior 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, 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.

This enables the directors to promote the success of the company for the benefit of its shareholders as a whole, while having regard to, among other matters, the interests of employees, the fostering of business relationships with customers, suppliers and others, and the impact of the company's operations on the communities and environment in which the business operates.

Board meetings and attendance

The board usually meets nine times a year at times that ensure the latest operating information is available for review and sufficient focus can be given to matters under consideration. During the year there is ample opportunity 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 directors' attendance at board meetings held during the year is set out below and committee meeting attendance is given in the relevant committee report.

Tony Brewer	9/9
Steve Wilson	9/9
Dick Peters	9/9
Andrew Eastgate	9/9
Mike O'Leary*	4/4
Philip Lawrence**	5/5

* Resigned 31 May 2015
** Appointed 1 June 2015

In addition to the nine principal board meetings held during 2015, there were two meetings which approved the 2015 Interim and 2014 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 of association. This provision extends to include the directors of Headlam Group Pension Trustees Limited, 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 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.

Corporate Governance Report

Directors' conflicts of interest

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

Induction and training

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. 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.

Performance evaluation 2015

Last year, for the first time, the annual evaluation of the effectiveness of the board and its committees, as required by the Code, was externally facilitated by KPMG, the board determining that at least every third year the evaluation would be externally facilitated.

During the year, an evaluation of the board's effectiveness, including the effectiveness of the board committees, was undertaken internally. This included consideration on how well the board measured against boardroom best practice, enhancing the effectiveness of the board, an evaluation of the performance of the board throughout the year and how the board perceived it had performed. It also included risk management and succession planning. In respect of the committees, the evaluation considered the performance of the respective committees throughout the year whether agendas covered the remits of the committees and the appropriateness of the respective committees' remit.

It concluded that the board and its committees continued to operate effectively, meeting the requirements and spirit of the Code. The Nominations Committee has access to the performance evaluation process and the Chairman has confirmed that Tony Brewer and Philip Lawrence, the two directors standing for re-election at this year's AGM, continue to perform effectively and demonstrate commitment to their roles. The board will continue to review its performance and that of its committees and individual directors on an annual basis and for 2016 the process will again include internal evaluation with externally facilitated evaluation in 2017.

Fair, balanced and understandable assessment

In accordance with the Code's requirement that the board should consider whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, reviews are undertaken by the finance team as part of the year–end process.

The board receives drafts of the Annual Report and Accounts to allow sufficient time to review and provide an opportunity for challenge and discussion, ahead of approving the final documents. In addition, the external auditor reviews the consistency between the narrative reporting and financial disclosures.

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 twice a year, when its half year and full year results are announced and respectively an interim and annual report is issued to shareholders. Additionally as necessary, the company issues a trading update in advance of the interim and final results announcements. 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. 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, the Chairman attending meetings with the representatives of the largest shareholders in the year. In February 2015, Buchanan was appointed financial and investor relations adviser with the objective of improving communication with stakeholders.

Board committees

The board has established Audit, Nominations and Remuneration Committees to oversee and debate important issues of policy and assist in attending to its responsibilities, 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 or on the company's website. The roles of the established Audit, Nominations and Remuneration Committees, whose membership is comprised of the three independent non-executive directors, with the Group Chief Executive additionally serving on the Nominations Committee, are set out below.

Audit Committee

The Audit Committee is comprised of the three non-executive directors and was chaired by Philip Lawrence. The Company Secretary acts as secretary to the committee. Philip Lawrence trained as a chartered accountant and, for the purposes of the Code, is considered by the board to be independent and to have recent and relevant financial experience.

Further information on the activities of the committee is given in the Audit Committee Report on pages 52 to 57 which should be read in conjunction with this report.

Remuneration Committee

The Remuneration Committee is comprised of the three non-executive directors and was chaired during the year by Andrew Eastgate. It establishes, on behalf of the board, the remuneration policy, approves specific arrangements for the Chairman and the executive directors, and reviews and comments upon the proposed arrangements for senior 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 58 to 74 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 managers' remuneration, benefits, share scheme entitlements and pension arrangements. 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 twice in the year, the three members each attending all meetings, during which it discharged its responsibilities as set out in its terms of reference and schedule of business for the year. The Chief Executive may, by invitation, attend Remuneration Committee meetings, except when his own remuneration is discussed. 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 Directors' Remuneration Report will be proposed at the AGM.

Corporate Governance Report

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 Andrew Eastgate.

The committee leads the process for identifying, and makes recommendations to the board on, candidates for appointment as directors and 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, experience and independence of the non-executive directors, and makes recommendations to the board with regard to any changes.

The committee meets when required and met twice in the year, with all members in attendance. Only members of the committee are entitled to be present at meetings but other directors may be invited by the committee to attend. The board has agreed the procedures to be followed by the 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 reappointment or re-election.

New directors are appointed by the board and, in accordance with the company's articles of association, they must be elected at the next AGM to continue in office. Existing directors retire by rotation in accordance with article 89 of the articles of association which require them to retire from office and, if eligible for reappointment, stand again at the third AGM after which they were appointed or last reappointed.

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 elect Philip Lawrence and re-elect Tony Brewer 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. Appointments to the committee are made by the board.

Risk management and internal controls

The board recognises that the management of risk through the application of a consistent process is essential to ensuring a robust system of internal control. The principal risks and uncertainties facing the company have been identified in the Managing our Risk report on pages 38 and 39.

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;
- provides a safe and healthy workplace;
- develops environmentally aware processes;
- minimises the cost and consumption of increasingly scarce resources; 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 business 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 and 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. 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.

Audit Committee Report

On behalf of the Audit Committee ("committee"), for the first time since my appointment as Chairman, I am pleased to present the committee's report for the year ended 31 December 2015.

The three committee members, each considered to be independent, bring considerable experience to the matters considered, challenged and debated by the committee to effectively assess the external audit of the company and the internal control and risk management systems. Dick Peters and I are considered by the board to meet the requirements of the Code as having recent and relevant financial experience.

The new requirements of the 2014 Code have been a significant focus for the committee this year, particularly the process by which the directors are able to confirm they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity and consideration of the period over which the viability statement will apply.

To ensure that it remains appropriate and provides a robust assessment of the principal risks, the committee has reviewed the risk management framework and the assurance process, further details of which are set out below.

The committee also conducted an external audit tender, KPMG having been the company's external auditor since 1992. The process met the recommendations in the associated guidance to conduct a fair and open process. Following the tender PricewaterhouseCoopers LLP have been recommended to the board to be appointed auditor with effect for the 2016 financial year. Their proposed appointment as external auditor will be tabled to shareholders at the forthcoming AGM. Further information is set out below.

P Lawrence

Philip Lawrence
Chairman of the Audit Committee
3 March 2016

This report describes the work of the committee, its responsibilities and key tasks as well as its major areas of activity and key considerations for the financial year.

Audit committee

The members of the committee and its Chairman are as follows:

	From	To
Philip Lawrence (Chairman)*	1 June 2015	To date
Dick Peters	10 March 2006	To date
Andrew Eastgate	17 May 2010	To date
Mike O'Leary **	1 December 2005	31 May 2015

* Philip Lawrence succeeded Andrew Eastgate as Chairman on 1 June 2015 following Andrew Eastgate's appointment as Chairman of the Remuneration Committee on 1 June 2015

** M K O'Leary retired from the board and its committees on 31 May 2015

The Company Secretary acts as secretary to the committee. The committee has authority to investigate any matters within its terms of reference, access resources, call for information and obtain external professional advice.

Committee meetings

The committee has an agenda linked to events in the group's financial calendar, normally meeting at least twice a year before the annual and interim results announcements. The committee met three times in the year, the three members attending all meetings, during which it discharged its responsibilities as set out in the terms of reference and schedule of business for the year. Whilst only members of the committee are entitled to be present at meetings, the external auditor, Group Chief Executive and Group Finance Director may attend by invitation. The committee has authority to investigate any matters within its terms of reference, access resources, call for information and obtain external professional advice at the cost of the company.

Role of the committee

The committee is responsible for monitoring and reviewing:

- the effectiveness of the group's systems of internal control and risk management and control over financial reporting;
- 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 therein;
- the effectiveness of the external audit process;
- the external auditor's plan for the audit of the group's accounts, confirmation of the external auditor's independence and of the individuals carrying out the audit, confirmation of the proposed audit fee, approving the audit terms of engagement, the company's relationship with the external auditor 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;
- the appointment, reappointment or dismissal of the external auditor;
- non-audit services and fees;
- 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 appropriateness of an internal audit function; and
- the group's overall approach to securing compliance with laws, regulations, governance and company policies in areas of risk arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting and other matters including the group's policies and practices concerning business conduct and ethics.

The full terms of reference of the committee, which were reviewed during the year, can be found in the investors section of the company's website, www.headlam.com.

Audit Committee Report

Key activities of the committee during the year

In addition to matters relating specifically to its terms of reference, agendas incorporate matters arising and topical items on which the committee has chosen to focus.

The work of the committee during the year principally fell under three main areas and is summarised in the table below.

Internal controls and risk	External auditor	Accounting, tax and financial reporting
Considered reports from the external auditor on their assessment of the control environment.	Considered and approved the audit approach and scope of the audit work to be undertaken by the external auditor and the fees for the same.	Reviewed the half year and annual financial statements and the significant financial reporting judgements.
Assessed the effectiveness of the group's internal control environment.	Reviewed reports on audit findings.	Considered the liquidity risk and the basis for preparing the group half yearly and full year accounts on a going concern basis and reviewed the related disclosures in the annual report and accounts.
Assessed the need for an internal audit function.	Considered the independence of the external auditor and their effectiveness.	Reviewed reporting disclosures in relation to internal controls, risk management, principal risks and uncertainties and the work of the committee.
Reviewed matters reported in accordance with the whistleblowing policy.	Conducted an external audit tender following which PricewaterhouseCoopers LLP were recommended to the board to be appointed auditor with effect for the 2016 financial year.	Reviewed and considered whether the annual report and accounts is balanced, fair and understandable, and provides information necessary for shareholders to assess the company's performance, business model and strategy.
	Considered the implications of the new requirements introduced in the 2014 Code.	
	Drafting a viability statement that assesses the prospects of the group over an appropriate period. The committee considered that the group's existing three year financial planning view makes that time period the most appropriate.	

Significant issues considered by the committee

After discussion with both management and the external auditor, the committee determined that the key risks of misstatement of the group's financial statements, consistent with prior year, related to:

- impairment of goodwill;
- impairment of property; and
- inventory valuation.

These issues were discussed with management during the year and with the external auditor at the time the committee reviewed and agreed the external auditor's group audit plan and also at the conclusion of the audit of the financial statements.

Impairment of goodwill

As more fully explained in note 1 to the financial statements, the group's principal non-financial assets are grouped into cash generating units ("CGUs") for the purpose of assessing the recoverable amount.

The group's CGUs represent individual operating businesses, either in the UK or in Continental Europe. As set out in note 11 to the financial statements, all CGUs to which goodwill is allocated, in accordance with the requirements of IFRS, are tested for impairment on an annual basis.

This year, the impairment reviews for the CGUs to which goodwill is allocated did not result in an impairment loss.

In performing their impairment tests, management determined the recoverable amount of each CGU and compared this to the carrying amount. Management reported to the committee the results of its impairment assessment, noting to the committee that future cash flows for each CGU had been estimated based on the most up to date business forecasts or actual financial results and discounted using discount rates that reflected current market assessments of the time value of money and risks specific to the assets. Management highlighted to the committee how they arrived at the key assumptions to estimate future cash flows for the CGUs, specifically future growth rates and discount rates.

Management also brought to the attention of the committee the sensitivity analysis to be disclosed in note 11 to the financial statements with regard to the recoverable amount of the CGUs' goodwill.

The committee interrogated management's key assumptions to understand their impact on the CGUs' recoverable amounts. The committee was satisfied that the significant assumptions used for determining the recoverable amount of CGUs to which goodwill is allocated had been appropriately scrutinised and challenged and were sufficiently robust.

Impairment of property

As set out in note 10 to the financial statements, the carrying value of freehold and long leasehold property in the group's statement of financial position as at 31 December 2015 amounted to £91.6 million.

As set out in note 1 to the financial statements, the group has a policy of formally assessing the market value of the UK property portfolio every three years using independent, external valuation experts. The valuation performed in 2013 indicated that the carrying value of the entire portfolio exceeded the market value by £15.2 million. Market value equates to fair value as defined by the Valuation – Professional Standards 2014 published by the Royal Institute of Chartered Surveyors.

Across the portfolio there were circumstances where the market values of individual properties were higher or lower than the carrying value, dependent on the condition and location of each individual property. Where the carrying value of a property exceeded the market value, management considered this to represent an indicator of impairment and accordingly performed an impairment review for each CGU to which those properties belonged. The outcome of the impairment reviews indicated that the carrying value of those CGUs was supported by their ongoing value in use, and accordingly, no impairment adjustment was required.

In performing their impairment tests, management determined the recoverable amount of each CGU and compared this to the carrying amount. Management reported the results of its impairment assessment to the committee, noting that future cash flows for each CGU had been estimated based on the most up to date business forecasts or actual financial results and discounted using discount rates that reflected current market assessments of the time value of money and risks specific to the assets. Management highlighted to the committee how they arrived at the key assumptions to estimate future cash flows for the CGUs, specifically future growth rates and discount rates.

The committee interrogated management's key assumptions to understand their impact on the CGUs' recoverable amounts. The committee was satisfied that the significant assumptions used for determining the recoverable amount of the relevant CGUs had been appropriately scrutinised and challenged and were sufficiently robust.

Inventory valuation

As set out in the statement of financial position, inventory amounts to £119.1 million and represents the group's second largest asset class. Inventory is held across a broad and diverse product range which is subject to a risk that changes in consumer tastes and demand result in some inventory lines becoming slow-moving or obsolete, such that the recoverable amount is less than the carrying value.

The committee discussed the group's management of its inventory position and gave careful consideration to the gross carrying value and related provisions. Management explained to the committee that the process of determining the appropriate valuation of inventory entailed close monitoring of inventory levels, review of the ageing profile and consideration of inventory sold for less than its carrying value. These three measures are reported to senior management on a monthly basis by individual businesses. Management uses this information to determine the provisions to be made against inventory.

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

Other matters considered by the committee

Valuation of employee benefit liabilities

In the UK, the group operates a defined benefit pension plan, further details of which are set out in note 19 to the financial statements. At 31 December 2015, the scheme had assets of £86.6 million and liabilities, measured on an IAS 19 basis, of £102.8 million, with a net deficit of £16.2 million.

As set out in note 1 to the financial statements, the plan liabilities are calculated by estimating the amount of benefit that employees have earned for their service in current and future periods. This estimation requires making certain assumptions, notably in relation to inflation rates, mortality rates and the discount rate to apply to determine present value. The selection of these assumptions is subjective and small changes in these assumptions can materially impact the net IAS 19 deficit reported in the statement of financial position. The assumptions adopted by management are set out in note 19 to the financial statements.

In selecting the assumptions, management took advice from the group's external actuary and considered the appropriateness of this advice in light of the specific circumstances of the UK plan. Management highlighted to the committee how they arrived at the key assumptions.

The committee reviewed management's assumptions and were satisfied that they had been appropriately scrutinised and challenged and were robust. They also reviewed the sensitivity analysis set out in note 19 to the financial statements and consider it to be appropriate.

The committee considered the views and procedures of the external auditor, which entailed a benchmarking of management's assumptions with the external auditor's expectations.

Misstatements

Management reported to the committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The external auditor reported to the committee the misstatements that they had found in the course of their work and no material amounts remain unadjusted. The committee confirmed that it was satisfied that the external auditor had fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting, where necessary, with the external auditor, the committee was satisfied that the financial statements appropriately addressed the critical judgements and key estimates, both in respect to the amounts reported and the disclosures. The committee was also satisfied that the significant assumptions used for determining the value of assets and liabilities had been appropriately scrutinised and challenged and were sufficiently robust.

Internal audit

In accordance with the Code, the committee has undertaken an assessment of the need for a group internal audit function. The committee considers that the group's control systems and associated procedures are adequate for the business and therefore does not currently propose to introduce a group internal audit function. The committee will continue to keep the matter under review.

External audit

The committee reviews annually the appointment and performance of the external auditor and considers their independence and objectivity taking into account all appropriate guidelines. Following a review of KPMG's performance and independence in 2015, including compliance with rules on non-audit services, the committee was satisfied with the external auditor's effectiveness and independence.

The committee assessed the ongoing effectiveness of the external auditor and audit process on the basis of meetings with executive directors. In reviewing the independence of the external auditor, the committee considered a number of factors which included the standing, experience and tenure of the external audit partner, the nature and level of services provided by the external auditor and confirmation from the external auditor that it had complied with relevant regulatory requirements.

The committee has the specific task of keeping the nature and extent of non-audit services provided by the external auditor under review in order to ensure that objectivity and independence are maintained. The external auditor has processes in place to ensure independence is maintained when providing non-audit services and has written to the committee confirming that, in its opinion, they remain independent within the meaning of the regulation on this matter and their professional standards.

In addition, the fees and objectivity of the external auditor were considered by the committee. The committee recognises that there are occasions when it is advantageous to use the external auditor to undertake non-audit services, where they are best placed to do so. The policy states that non-audit fees paid to the 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 audit and non-audit fees is provided in note 3 to the financial statements.

The committee has independent access to the external auditor and the external auditor has direct access to the Chairman of the committee outside formal committee meetings. At each meeting there is an opportunity for the external auditor to discuss matters with the committee without executive management being present.

Audit tender

KPMG has been the company's external auditor since 1992 with the lead audit partner changing every five years. Following the requirement to put the external audit contract out to tender at least every ten years in accordance with the 2012 edition of the Code, recent EU directives on auditor rotation and the length of their tenure, the committee decided to undertake an audit tender during 2015 and, due to their length of tenure, without inviting KPMG. A process commenced in September 2015, with two firms shortlisted ahead of a final selection meeting with the committee in October 2015. In assessing the firms, consideration was given to their international strengths and capabilities relevant to our business and the markets within which we operate, the technical specialists that would be dedicated to the audit and the uniqueness of the audit approach and audit coverage of the group. The process met the recommendations in the associated guidance to conduct an open and fair process and, following the tender, PricewaterhouseCoopers LLP ("PwC") has been recommended to the board to be appointed auditor with effect for the 2016 financial year. The committee recommends that shareholders appoint PwC as the group's external 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.

Summary

The committee has concluded, as a result of its work during the year, that it has acted in accordance with its terms of reference and fulfilled its responsibilities. The committee Chairman will be available at the AGM to answer any questions on the work of the committee.

Directors' Remuneration Report

THE CHAIRMAN'S ANNUAL STATEMENT

Dear shareholder

On behalf of the board, I am pleased to present, for the year ended 31 December 2015, my first Directors' Remuneration Report, which is presented in two sections:

- The directors' remuneration policy, which was approved by shareholders and became effective at the conclusion of the Annual General Meeting (AGM) on 21 May 2014.
- The annual report on directors' remuneration, which sets out how the remuneration policy was applied during 2015. This report will be subject to an advisory vote at the AGM in 2016.

In 2013 the Remuneration Committee (the "committee") undertook a review of the company's remuneration arrangements which formed the basis of the remuneration policy as approved by shareholders in 2014. This year the committee concluded that the remuneration policy remained fit for purpose but that best practice developments required refinement of its operation of clawback provisions for performance based remuneration, as recommended by the recently revised UK Corporate Governance Code. With effect from 1 January 2015, the committee implemented a malus and clawback policy to enable the company to withhold and/or recover incentive payments in certain circumstances. Further details about malus and clawback are set out on page 63. The committee is satisfied that these refinements to the remuneration policy are in accordance with current best practice, do not exceed the authorised limits or payments permitted by the existing approved policy and overall are in the interests of shareholders.

Headlam's remuneration policy has been designed to incentivise performance through effective and appropriate reward. Levels of remuneration must allow the company to attract, retain and motivate high calibre executive managers and link their rewards to business performance, aligning their interests with those of shareholders. The committee recognises shareholders' concerns and expectations on executive pay and shareholders are consulted as the remuneration policy is reviewed and developed. The committee has considered the salaries of the executive directors. In determining an appropriate remuneration package, the committee considers each individual's experience and contribution in order to align reward with the future achievement of the business strategy.

The committee continues to exercise a responsible approach to executive pay, key decisions on executive pay – including increases to salary and bonus payments – being made after consideration of similar decisions affecting all employees. For 2016 the committee has agreed that the executive directors' base salary be increased by 2.5%, in line with the cost of living increase awarded to all UK employees. The executive directors did not receive the cost of living increase of 2.5% that was granted to UK employees in 2015 and no cost of living increase was made in 2014 to any employee.

The committee has also agreed to increase the executive directors' minimum shareholding requirement in line with market practice to broadly two times base salary, effective from 1 January 2015. The executive directors both currently have shareholdings that are significantly in excess of their increased minimum shareholding requirements.

After examination of current business strategy and guidelines for executive remuneration, the committee concluded that the existing framework remains appropriate. The long term incentive awards granted in 2012 for the 2012–2014 performance period have lapsed after confirmation that the performance conditions were not achieved. An award was made in the year to the executive directors under the co-investment plan, by reference to 25% of base salary.

Reflecting the trading performance in the year, which was above the financial target for the year, an award of 109% of base salary was made in respect of the annual performance related bonus scheme.

The committee remains satisfied that overall progress has continued to be delivered. An assessment of progress included a review of the 2015 financial statements and took into account the reporting of the auditor to the Audit Committee.

The committee will continue to monitor the appropriateness and effectiveness of its policy with particular regard to legislative changes, market developments and business strategy and performance.

The committee is committed to delivering clarity and transparency of reporting whilst continuing its independent role, bringing logic and challenge to the process of setting remuneration.

As its Chairman, I will be present at the AGM to answer any questions.

A K. Eastgate

Andrew Eastgate
Chairman of the Remuneration Committee
3 March 2016

Directors' Remuneration Report

Introduction

This report is on the activities of the committee for the year ended 31 December 2015. It sets out the company's remuneration policy and remuneration details for the executive and non-executive directors.

This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("Regulations"). It also meets the requirements of the UK Listing Authority's Listing Rules.

The report is split into three main areas, these being :

- a statement by the Chairman of the committee;
- a policy report; and
- an annual report on remuneration.

The policy report was subject to a binding shareholder vote at the 2014 AGM and, after receiving positive shareholder support, the policy took effect from the conclusion of the AGM. The annual report on remuneration provides details on remuneration in the year and includes other information required by the Regulations. It will be subject to an advisory shareholder vote at the 2016 AGM.

The Companies Act 2006 requires auditors to report to the shareholders on certain parts of the Directors' Remuneration Report and to state if, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The following parts of the remuneration report 2015, which are identified as such, are audited: the single total figure of remuneration for directors, including annual incentive and long term incentive outcomes for the financial year ended 31 December 2015; long term incentives awarded during 2015; and directors' shareholdings and share interests. The statement by the Chairman of the committee and the policy report are not subject to audit.

Policy report

This part of the report sets out the company's policies on directors' remuneration which were adopted by shareholders at the 2014 AGM, took effect from the conclusion of that AGM and have been applied in the current year. It will be subject to approval by shareholders by an ordinary resolution every three years, or sooner where the policy is revised.

This will be adhered to for the following year, the objectives of which continue to be to:

- ensure that the business strategy is supported by the remuneration structure;
- ensure that the remuneration structure motivates the executive directors to succeed and rewards them appropriately for their contribution to the attainment of the group's strategic objectives;
- maintain motivation for future achievement through reward schemes based on performance;
- facilitate the building and retention of a high calibre and focused team;
- align the executive directors' interests with those of shareholders by offering participation in schemes which provide opportunity to build meaningful shareholdings in the company; 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 directors' 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 2016, 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 are and will continue to be reviewed annually by the committee. When reviewing base salaries, the committee takes account of the current economic climate, challenges facing the business and pay environment for employees in general.

Directors' Remuneration Report

The committee is committed to open dialogue and receives periodic feedback from major shareholders and shareholder representatives which is considered as part of its annual review of remuneration policy and, if any material changes to the remuneration policy are contemplated, the committee would seek the views of major shareholders about these in advance.

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 with those of shareholders. During the year the committee did not consult directly with shareholders; however feedback was received on their views through investor meetings.

REMUNERATION POLICY

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	Purpose and link to strategy	Operation	Opportunity	Performance metrics, purpose and link to business strategy
Base salaries	Core fixed remuneration reflecting the responsibility and scope of the role. Competitive salaries help the group to recruit, retain and motivate the best talent.	Reviewed annually and usually fixed for 12 months commencing 1 January, although there is no entitlement to an increase. Influenced by role, experience, individual's contribution, overall performance and value to the business. Employees are not consulted when setting directors' remuneration.	Movements determined by reference to cost of living increases to the workforce, prevailing market conditions, similar roles in companies of a comparable size, complexity and risk and increases in individual's responsibility.	Any increase is only implemented after careful consideration of individual contribution and performance.
Annual performance bonus	Rewards performance against stretching annual group profit before tax target which is aligned with the group's strategic objectives.	Target is set annually and any payout is determined by the committee after the period end based on relative performance.	Maximum bonus opportunity is 125% of base salary.	No bonus award for performance below 90% of target. Bonus award of 10% of base salary if actual performance is 90% of the target. Bonus of 75% of base salary is attainable on achieving target. Maximum of 125% of base salary for achieving a performance of 18% or more above the target. No discretion to make bonus awards for further over or under performance.

Component	Purpose and link to strategy	Operation	Opportunity	Performance metrics, purpose and link to business strategy
Share related benefits – 2008 Co-Investment Plan ("CIP")	Incentivises delivery against company strategy over the medium term and aligns executives' interests with strategic objectives. Medium term performance targets and share-based remuneration support the creation of sustainable shareholder value and growth.	The committee intends to make any future long term incentive awards through the CIP. Under the CIP, nil cost option awards may be made with vesting dependent on the achievement of performance conditions, normally over a three-year period. Awards may vest early on a change of control or other relevant event subject to satisfaction of the performance conditions and prorating for time and may also vest early in "good leaver" circumstances, although the committee has discretion to increase the extent of vesting having due regard to performance over the period.	Maximum award of 75% of annual bonus in respect of any financial year with up to two for one matching.	Vesting is dependent on achievement of the performance targets with straight-line matching between median (30%) and upper quartile (100%) for the TSR condition and between RPI +3%p.a. (30%) and RPI+6%p.a. (100%) for the EPS condition. 80% of the award is subject to the EPS target and 20% to the TSR target. The committee reviews the performance conditions prior to making an award to ensure they are aligned to the group's strategy, remain challenging and are reflective of commercial expectations. Executive directors must retain shares vesting in respect of the CIP for a period of five years.
Other benefits	Ensure the overall package is competitive. Assist the group to recruit, retain and motivate.	The group provides a company car, or car allowance, medical insurance and life assurance cover to its executive directors.	Set at a level that the committee considers appropriate against the market and provides a sufficient level of benefit based on individual circumstances.	Not applicable.
Save as You Earn scheme	Participation in the Save as You Earn share option scheme (SAYE) promotes a sense of ownership and aligns interests with the group.	The SAYE is an HMRC approved monthly savings scheme facilitating the purchase of shares at a discount by eligible employees.	SAYE contribution as permitted in accordance with relevant tax legislation.	Not applicable.

Directors' Remuneration Report

Component	Purpose and link to strategy	Operation	Opportunity	Performance metrics, purpose and link to business strategy
Shareholding guideline	Provides alignment of executive directors' interests with shareholders and promotes share ownership.	In line with best practice, there are formal share ownership guidelines for executive directors. By the fifth anniversary of their appointment to the board, executive directors are required to have a holding of Headlam shares equivalent to not less than 200% of the value of their base salary.	Not applicable.	Not applicable.
Retirement benefits	The group has not provided pension benefits to the executive directors in the year. The group will not be making any future payments.	Not applicable.	Not applicable.	Not applicable.

The following table provides a summary of the key components of the remuneration package for non-executive directors.

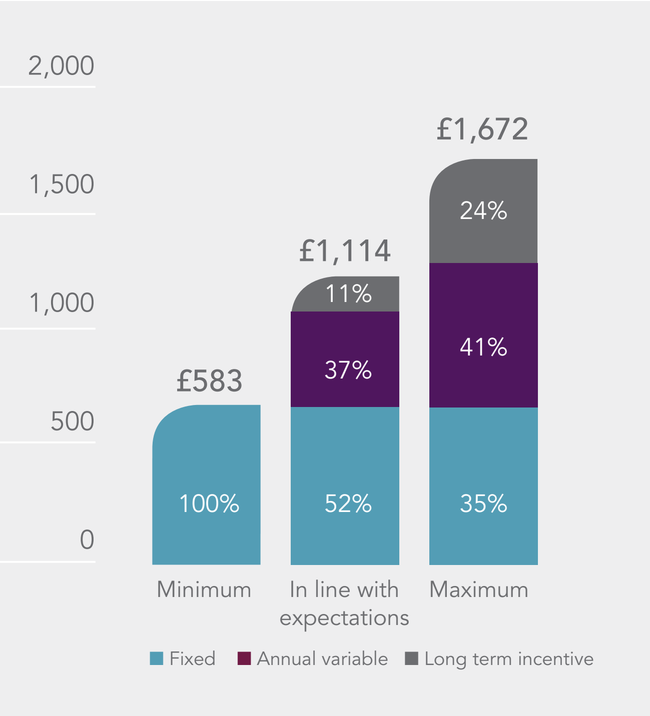
Component	Purpose and link to strategy	Operation	Opportunity	Performance metrics, purpose and link to business strategy
Fees	Sole element of non-executive directors' remuneration.	Reviewed by the board annually. Non-executive directors are not involved in any discussion or decision about their own remuneration. Non-executive directors do not participate in any of the company's share schemes, incentive plans or pension schemes. Non-executive directors do not receive any other benefits.	Reviewed 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. Consideration is given to the level of fees paid to non-executive directors serving on boards of similar sized UK listed companies and the time commitment and contribution expected for the role. Non-executive directors receive a basic fee and an additional fee for further duties, such as chairmanship of committees.	Not applicable.

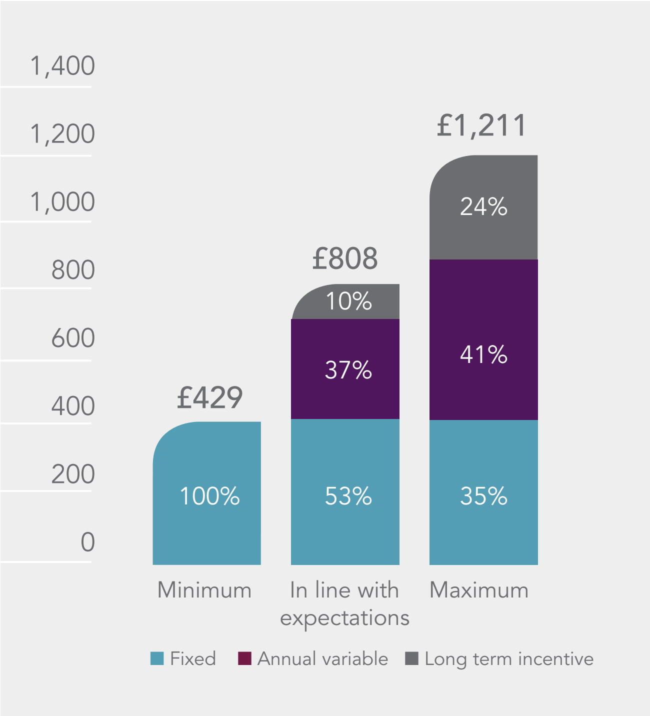
Malus and clawback

The Remuneration Committee approved amendments to the rules of the company's Co-investment Plan, inserting malus (withholding) and clawback (recovery) provisions to take account of changes to the UK Corporate Governance Code in effect for financial years beginning on or after 1 October 2014, market practice and corporate governance best practice. In accordance with the amendments, malus and clawback may be applied, at the Remuneration Committee's discretion, until the third anniversary of relevant award shares becoming vested matching shares, in circumstances where there has been a material misstatement of the Company's audited financial results, circumstances justifying the summary dismissal of an awardholder or where the Remuneration Committee in its reasonable opinion determines that any act or omission of the awardholder has caused or is reasonably expected to cause a material injury to the business interests or reputation of the Group, or that such action would be appropriate having regard to any other circumstances that involve the Group and/or the awardholder. Awards will be forfeited in accordance with remuneration policy in the event that a participant voluntarily terminates his employment and breaches restrictive covenants.

Illustration of application of remuneration policy

The charts below show the relative split of remuneration between fixed pay, comprising base salary and benefits, and variable pay, comprising annual bonus and CIP awards, for each executive director on the basis of minimum remuneration, remuneration receivable for performance in line with the company's expectations, and maximum remuneration, not allowing for any share price appreciation.





Directors' Remuneration Report

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

	Fixed pay	Annual bonus	CIP
Minimum performance	Fixed elements of remuneration are base salary and benefits.	No bonus	No CIP vesting
Performance in line with expectations	Base salary is the latest known salary effective from 1 January 2016 and the value of benefits has been assumed to be equivalent to that included in the single figure calculation on page 66.	75% of base salary awarded for achieving target performance.	30% of maximum award vesting for achieving threshold performance.
Maximum performance	Base salary is the latest known salary effective from 1 January 2016 and the value of benefits has been assumed to be equivalent to that included in the single figure calculation.	125% of salary awarded for delivering at or above the highest performance in respect of target.	100% of award vesting delivered for achieving the most stretching level of performance measures attached to the CIP awards.

Awards under the CIP are stated by reference to the share price at the 2015 year end.

No assumption as to share price growth is made in either the on-target or the maximum scenarios.

Approach to recruitment remuneration

The principles which the company would apply when agreeing the various components of a remuneration package for the appointment of a new director would typically be to use the policy detailed in the table above to determine the executive director's ongoing remuneration package. In determining appropriate remuneration, the committee will take into consideration all relevant factors including the quantum and nature of remuneration to ensure the arrangements are in the best interests of the company and its shareholders.

Service contracts and policy on payment for loss of office

Contracts in respect of the Group Chief Executive Officer and the Group Finance Director are on a rolling 12-month basis. These were entered into on 11 October 2005 and are terminable by either the director or the company subject to 12 months' written notice.

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. 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. All appointments and subsequent reappointments are subject to approval by shareholders.

The executive directors' contracts and non-executive directors' letters of appointment are available for inspection at the registered office of the company during normal business hours on each business day.

Non executive director	Date of appointment	Date of original letter of appointment	Effective date of current letter of appointment	Expiry of current term
Dick Peters	10 March 2006	1 December 2005	10 March 2015	9 March 2018
Andrew Eastgate	17 May 2010	27 April 2010	17 May 2014	16 May 2017
Philip Lawrence	1 June 2015	18 June 2015	1 June 2015	31 May 2018

The principles on which the determination of benefits on loss of office will be approached are summarised below.

Provision	Treatment on loss of office
Payment in lieu of notice	Payments to executive directors upon termination of their contracts will be equal to base salary plus the value of core benefits for the duration of the notional notice period. Benefits may include but are not limited to legal fees.
Annual bonus	Payments to current executive directors upon the company terminating their contracts, other than in bad leaver cases such as gross misconduct, dishonesty, bankruptcy or failure to perform duties, will be equal to the average performance related bonus calculated by reference to the two immediately preceding financial years. The committee will, though, take note of the circumstances of their departure and their contribution to the business during the period in question. Any bonus amounts paid, as estimated by the committee, will typically be prorated for time in service to termination and will, subject to performance, be paid at the usual time. Contracts for future appointees will not include bonus within the termination provisions.
CIP	Any award under the CIP would be determined based on the leaver provisions contained within the CIP rules. For good leavers, CIP awards will usually vest at the ordinary vesting point, be subject to performance conditions and be prorated for time. Good leavers are participants who leave as a result of retirement, fatality, ill health, injury or disability. In other circumstances CIP awards will lapse upon the cessation of employment. The committee retains the discretion to accelerate vesting and to waive prorating for time.
Change of control	Upon a change of control, incentive awards will usually vest and be subject to performance conditions and prorated for time. The committee reserves the discretion to waive prorating for time.
Mitigation	Payments upon the termination of executive directors' contracts will be equal to base salary and other benefits for the duration of the notice period together with the average performance related bonus calculated by reference to the immediately preceding financial years. It is the company's policy that any payments made to a director in the event of termination 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. Full compensation, due to being a long-standing employee of the company, may however be merited in the event of unilateral termination of employment.

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.

ANNUAL REPORT ON REMUNERATION

The remuneration policy is designed to ensure that executive directors are aligned to pursuing the company's medium term strategic objectives.

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

Directors' Remuneration Report

Single total figure of remuneration for each director

The table below reports the total remuneration receivable in respect of qualifying services by each of the executive directors for the years 2015 and 2014.

Executive directors' remuneration as a single figure – 2015 (audited)

Executive directors	Base salary and fees 2015 £000	Non-salary benefits 2015 £000	Annual performance bonus 2015 £000	Share-based incentive schemes 2015 £000	Pension related benefits 2015 £000	Total 2015 £000
Tony Brewer	544	39	592	–	–	1,175
Steve Wilson	393	36	428	–	–	857
	937	75	1,020	–	–	2,032

Executive directors' remuneration as a single figure – 2014 (audited)

Executive directors	Base salary and fees 2014 £000	Non-salary benefits 2014 £000	Annual performance bonus 2014 £000	Share-based incentive schemes 2014 £000	Pension related benefits 2014 £000	Total 2014 £000
Tony Brewer	544	36	554	–	–	1,134
Steve Wilson	393	37	400	–	–	830
	937	73	954	–	–	1,964

The table below reports the total remuneration receivable in respect of qualifying services by each of the non-executive directors for the years 2015 and 2014.

External appointments (unaudited)

The Board encourages executive directors to accept appropriate external commercial non-executive appointments provided the aggregate commitment is compatible with their duties as executive directors. The executive director concerned may retain fees paid for these services, which will be subject to approval by the Board.

Steve Wilson was appointed a non-executive director of Conviviality Retail plc on 31 January 2014 and received fees of £40,000 during the year.

Non-executive directors' remuneration as a single figure – 2015 (audited)

Non-executive directors	Base salary and fees 2015 £000	Non-salary benefits 2015 £000	Annual performance bonus 2015 £000	Share-based incentive schemes 2015 £000	Pension related benefits 2015 £000	Total 2015 £000
Andrew Eastgate	43	–	–	–	–	43
Philip Lawrence[ii]	25	–	–	–	–	25
Mike O'Leary[i]	18	–	–	–	–	18
Dick Peters	64	–	–	–	–	64
	150	–	–	–	–	150

[i] Mike O'Leary resigned as a director on 31 May 2015 and Philip Lawrence was appointed on 1 June 2015.

[ii] Fees in respect of Philip Lawrence are paid to the Coal Authority, which releases him to perform his duties as a non-executive director.

Non-executive directors' remuneration as a single figure – 2014 (audited)

Non-executive directors	Base salary and fees 2014 £000	Non-salary benefits 2014 £000	Annual performance bonus 2014 £000	Share-based incentive schemes 2014 £000	Pension related benefits 2014 £000	Total 2014 £000
Andrew Eastgate	42	–	–	–	–	42
Mike O'Leary	42	–	–	–	–	42
Dick Peters	63	–	–	–	–	63
	147	–	–	–	–	147

The figures in the single figure table are derived from the following:

Base salary and fees	The amount of salary/fees received in the period.
Non-salary benefits	The taxable value of benefits received in the period. These are car benefit, car fuel benefit, private medical insurance and other benefits deemed to be an employment benefit. Company car allowances were unchanged year on year and the related taxable benefits were amended in accordance with HM Revenue & Customs guidance. However, in the latter part of the year, a new scheme was introduced offering a cash allowance in lieu of a company car. The two executive directors chose to accept the alternative cash allowance and relinquished the company car benefit, accepting in its place an annual taxable cash allowance of £14,000. This was expected to remain unchanged for a period of three years, at which time the car would be replaced and the level of allowance reviewed. Private medical insurance premiums reduced marginally for all eligible members of the scheme including the executive directors. The company also provides travel, accommodation and meals while on company business. The policy allows the company to provide any other benefits that are deemed to be an employment benefit by the relevant tax authority, or in certain circumstances are considered appropriate and reasonable by the committee.
Performance related pay	The amount of performance related bonus received in the period.
Pension related benefits	There was no provision.
Share-based incentive schemes	The value of CIP awards that vest in respect of the financial period and the value of SAYE options granted in the financial period.

Individual elements of remuneration

Base salaries and fees

Base salaries for individual executive directors are reviewed annually by the committee and are set with reference to individual performance, experience and responsibilities as well as with reference to similar roles in comparable companies. For 2015, there was no increase in executive directors' base salaries, which was at variance with the average 2.5% cost of living salary increase awarded across the group.

For 2016, the committee determined that it was appropriate for the executive directors to receive a cost of living increase to their base salary in line with the 2.5% average salary increase across the group.

	2015 £000	2014 £000	Increase %
Tony Brewer	**544**	544	–
Steve Wilson	**393**	393	–

Directors' Remuneration Report

Non-executive directors' fees are reviewed annually and reflect the responsibilities and duties placed on them whilst also having regard to market practice. There was no increase in 2014, however there was an increase in 2015 reflecting a 2.5% increase in fees and a change in responsibilities and duties. Following a review in late 2015 of base salaries applying to non-executive directors in the FTSE SmallCap indices, the executive directors concluded that the base salaries of the non-executives were below the market rate. For 2016, the executive directors determined that the non-executive Chairman's salary should increase to £110,000 and for the base salary of the other two non-executive directors to increase to £40,000 with an additional sum of £5,000 for holding the office of Audit or Remuneration Committee Chairman and an additional amount of £10,000 payable for holding the role of Senior Independent Director.

The non-executive directors do not participate in any of the group's share incentive plans nor do they receive any benefits or pension contributions.

		2015 £000	2014 £000	Increase %
Base fee		**36**	35	2.5
Additional fee for	– Chairmanship of the company	**28**	28	–
	– Chairmanship of the Remuneration Committee	**7**	7	–
	– Chairmanship of the Audit Committee	**7**	7	–
	– Senior Independent Director	**–**	–	–

Performance related pay

Payments are calculated based upon achievement or exceeding a pre-set target for group profit before tax. For 2015, executive directors could earn a bonus equivalent to 75% of base salary on attainment of on-target performance which increased on a broadly linear basis up to a maximum of 125% of base salary for achieving a performance of 18% or more above the target. If actual performance is 90% of the financial target, a bonus of 10% of base salary will be awarded, however a bonus is not awarded for performance below 90% of target. Performance targets are set at the challenging levels of previous years with performance based upon group profit. The committee considers that the performance targets are commercially sensitive as they are linked to annual projections for 2016 and should therefore remain confidential to the company, otherwise providing an unfair advantage to the company's competitors.

The group achieved a profit before tax in 2015 of £35.6 million, which exceeded the financial target of £32.1 million and resulted in the executive directors being entitled to a performance related bonus of 109% of base salary, as disclosed in the directors' remuneration table on page 66.

Share-based incentive schemes

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 the following share-based incentive schemes:

- Headlam Group Sharesave Scheme 2012
- Headlam Group Approved Executive Share Option Scheme 2008
- Headlam Group Unapproved Executive Share Option Scheme 2008 ("ESOS")
- Headlam Group Performance Share Plan 2008 ("PSP")
- Headlam Group Co-investment Plan 2008 ("CIP")

The committee intends to use the CIP as the principal incentive vehicle for executive directors, with awards being made on an annual basis. Whilst awards have been made under the CIP, the committee has not yet implemented either the PSP or the ESOS and does not intend to do so during 2016. Details of the schemes will be disclosed in the event of an award being made under these schemes or plans.

Headlam Group Sharesave Scheme 2012

Employee share ownership is encouraged and, 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 currently being a minimum of £5 and a maximum of £500. Options may be granted at a price which represents a discount to market price at the date of grant of up to 20%. On 5 May 2015, options were granted over 617,026 shares to 401 employees, including the executive directors, for savings terms of either three or five years at an option price of 340p per share, representing a 20% discount to the average market price of the three days immediately preceding the award.

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 37.5% 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.

Participants are granted awards in the form of matching shares. 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, with 80% of the award determined by EPS growth targets and 20% by TSR targets as measured by reference to the FTSE SmallCap Index, of which the company is a constituent member.

CIP awards made to the executive directors on 1 May 2015 were subject to growth in performance conditions over a three year period, 80% in respect of EPS and 20% in respect of TSR. Awards vest on a sliding scale. If EPS growth is less than 3%, none of the EPS tranche shall vest, with 50% becoming exercisable if EPS growth over the three-year period is equal to 3%; and for 100% of an award to vest, EPS growth must be equal to or exceed 6%, with straight-line vesting between 50% and 100%.

With respect to TSR, vesting is determined by reference to the company's relative position to the FTSE SmallCap indices. None of the TSR tranche shall vest if the company is ranked below the median level, with 50% vesting if the company is ranked at or immediately above the median level and 100% vesting if the company is ranked within the top quartile, with straight-line vesting between 50% and 100%.

In October 2015, the committee reviewed the performance criteria attaching to the CIP awards granted in October 2012, concluding that as the criteria had not been attained, awards were to lapse.

No share-based awards were made to the non-executive directors in the year.

The Remuneration Committee approved amendments to the rules of the company's Co-investment Plan, inserting malus (withholding) and clawback (recovery) provisions to take account of changes to the UK Corporate Governance Code in effect for financial years beginning on or after 1 October 2014, market practice and corporate governance best practice. In accordance with the amendments, malus and clawback may be applied, at the Remuneration Committee's discretion, until the third anniversary of relevant award shares becoming vested matching shares, in circumstances where there has been a material misstatement of the Company's audited financial results, circumstances justifying the summary dismissal of an awardholder or where the Remuneration Committee in its reasonable opinion determines that any act or omission of the awardholder has caused or is reasonably expected to cause a material injury to the business interests or reputation of the group, or that such action would be appropriate having regard to any other circumstances that involve the group and/or the awardholder. Awards will be forfeited in accordance with remuneration policy in the event that a participant voluntarily terminates his employment and breaches restrictive covenants.

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 ten-year period to 10% of the issued share capital under all employee schemes and 5% under the discretionary share plans.

As at the date of this report, the company's usage of shares against the limits detailed above in respect of the all employee schemes was 2% of the issued share capital and in respect of grants under discretionary plans was 0.4% of issued capital. It is the committee's intention that options exercised under the SAYE scheme will be satisfied by shares held in treasury. With regard to the CIP, the committee will instigate market purchases of shares, through a trust, taking account of the likelihood of performance targets being met and also potential lapsing of awards because of leavers.

Further information on share-based payments is set out in note 20 to the financial statements.

Pension related benefits

No executive director has received any pension benefit during the current or prior year.

Payments to past directors

No payments were made to past directors in the current or prior year other than Mike O'Leary who received non-executive director fees earned up until the date of his retirement.

Payments for loss of office

No executive directors left the company during the year and therefore no payments were made to directors for compensation of loss of office in the current or prior year.

Statement of directors' shareholding and share interests (audited)

In order to align their interests with the company's shareholders, the committee is keen to encourage executive directors to increase their shareholdings in the company. An executive director is required to have a beneficial, including family, interest in the shares of the company excluding matching share awards granted in respect of the CIP equivalent in value to two times their annual base salary. Newly appointed directors are expected to build their interest over a five-year period. Executive directors' shareholdings throughout the year complied with the shareholding requirement holding in excess of 200% of base salary.

Details of executive directors' share interests are set out below, a description of which, together with relevant performance conditions, is given on pages 68 to 69.

		Granted in the year			Exercised in the year					
	At 1 Jan 2015	Number	Option price (p)	Lapsed during the year	Number	Market price on exercise	At 31 Dec 2015	Exercise price pence	Earliest exercise date	Latest exercise date
Tony Brewer										
Owned										
Owned outright	606,072	–	–	–	7,142	469.00	613,214			
Vested and exercised										
1998 ESOS (i)	7,142	–	–	–	(7,142)	–	–	420.00	Aug 2008	Aug 2015
CIP (iii)	90,838	–	–	(90,838)	–	–	–	nil	Oct 2015	Oct 2022
Options not yet vested										
Sharesave (ii)	7,874	–	–	–	–	–	7,874	381.00	Jul 2019	Jan 2020
CIP (iii)	59,222	–	–	–	–	–	59,222	nil	Apr 2017	Apr 2024
CIP (iii)	–	61,085	–	–	–	–	61,085	nil	May 2018	May 2025
	771,148	61,085	–	(90,838)	–	–	741,395			
Steve Wilson										
Owned										
Owned outright	522,065	–	–	–	–	–	522,065			
Vested and exercised										
CIP (iii)	65,614	–	–	(65,614)	–	–	–	nil	Oct 2015	Oct 2022
Options not yet vested										
Sharesave (ii)	7,874	–	–	–	–	–	7,874	381.00	Jul 2019	Jan 2020
CIP (iii)	42,778	–	–	–	–	–	42,778	nil	Apr 2017	Apr 2024
CIP (iii)	–	44,124	–	–	–	–	44,124	nil	May 2018	May 2025
	638,331	44,124	–	(65,614)	–	–	616,841			

(i) Headlam Group Approved Executive Share Option Scheme 1998 (1998 ESOS), subject to performance conditions.
(ii) Headlam Group Sharesave Scheme 2009 (Sharesave), not subject to performance conditions.
(iii) Headlam Group Co-investment Plan 2008 (CIP), subject to performance conditions.

The mid-market closing price of a Headlam Group plc ordinary share on 30 December 2015, the last trading day of the financial year, was 499.25p and the price range during the year was 411.38p to 539.00p, with an average price of 472.60p. There were no changes in the shareholdings or share options held by the directors between 31 December 2015 and 3 March 2016. The company's register of directors' interests, which is open to inspection, contains full details of directors' share interests.

The text and table overleaf comprise information required by the UKLA Listing Rules 9.8.6 and 9.8.8 that is not found elsewhere in the remuneration report.

Details of executive directors' share-based awards which represent the maximum aggregate number of shares to which an individual could become entitled together with individual interests under the SAYE scheme are set out overleaf (audited).

Directors' Remuneration Report

	Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards at 31 Dec 2015	Option (p)	Market price at date of grant (p)	Maximum award £	Earliest vesting date	Expiry
Tony Brewer										
CIP (iii)	5 Oct 2012	90,838	–	(90,838)	–	nil	300	272,510	Oct 2015	Oct 2022
CIP (iii)	1 Apr 2014	59,222	–	–	59,222	nil	492	291,372	Apr 2017	Apr 2024
CIP (iii)	1 May 2015	61,085	–	–	61,085	Nil	466	284,656	May 2018	May 2025
1998 ESOS (i)	22 Aug 2005	7,142	(7,142)	–	–	420	424	286	Aug 2008	Aug 2015
SAYE (ii)	8 May 2014	7,874	–	–	7,874	381	476	7,480	July 2017	Jan 2018
Steve Wilson										
CIP (iii)	5 Oct 2012	65,614	–	(65,614)	–	nil	300	196,842	Oct 2015	Oct 2022
CIP (iii)	1 Apr 2014	42,778	–	–	42,778	nil	492	210,468	Apr 2017	Apr 2024
CIP (iii)	1 May 2015	44,124	–	–	44,124	nil	466	205,618	May 2018	May 2025
SAYE (ii)	8 May 2014	7,874	–	–	7,874	381	476	7,480	Jul 2017	Jan 2018

(i) Headlam Group Approved Executive Share Option Scheme 1998 (1998 ESOS).
(ii) Headlam Group Sharesave Scheme 2009 (Sharesave).
(iii) Headlam Group Co-investment Plan 2008 (CIP).

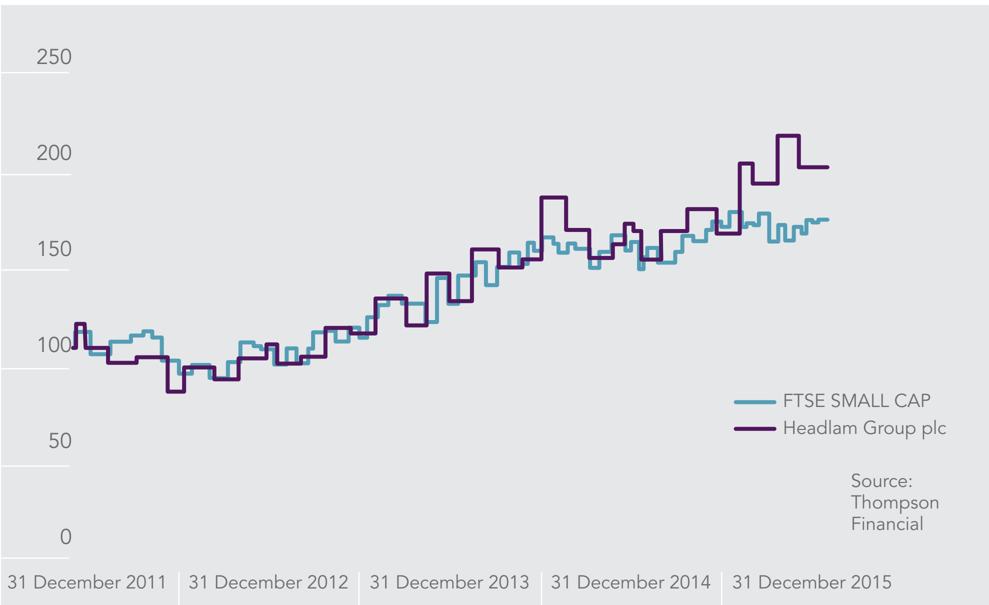
Gains made by directors (audited)

The aggregate amount of gains made by executive directors on the exercise of share options was £3,500 (2014: £587,176).

Performance graph

The graph below shows the value at 31 December 2015 of £100 invested in the company on 1 January 2010 compared to the value of £100 invested in the FTSE SmallCap index, making the assumption that dividends are reinvested to purchase additional equity.

The FTSE SmallCap index has been selected as a comparator due to the company being a constituent member within the household goods and home construction sector. This allows comparison of the company's performance against the performance of the index as a whole.



Chief Executive Officer remuneration table (audited)

The table below sets out the remuneration of the Chief Executive Officer for the previous five years.

Year	CEO single figure of total remuneration £000	Annual bonus (% of maximum opportunity)	Long term incentive vesting rates against maximum opportunity %
2011	1,095	66.5	n/a
2012	1,347	65.5	n/a
2013	927	42.7	n/a
2014	1,134	81.4	n/a
2015	**1,175**	**87.1**	**n/a**

Percentage change in Chief Executive Officer remuneration (audited)

The table below shows the percentage change in the Chief Executive Officer's remuneration and the company's employees as a whole between the year 2015 and 2014.

Percentage increase in remuneration in 2015 compared with 2014	CEO	Total employees
Salary and fees	0.0%	1.5%
All taxable benefits	8.3%	–
Annual bonuses	6.9%	14.7%

The average percentage change in taxable benefits in the table above comparing the Chief Executive's remuneration with employees generally does not produce a meaningful comparison.

Relative importance of spend on pay

The table below shows the overall expenditure on dividends and on pay as a whole across the group along with the percentage change between each.

	2015 £000	2014 £000	% change
Dividends	**14,655**	12,689	15.5
Overall expenditure on pay	**90,704**	87,139	4.1

Statement of implementation of remuneration policy in the following financial year

The remuneration policy that will be applied in practice in the current year is the same as the policy that has previously been approved. There are no significant changes proposed.

Consideration by the directors of matters relating to directors' remuneration

The board has approved the terms of reference delegating certain responsibilities to the committee. The terms of reference are reviewed periodically, most recently in October 2015, and are available on the company's website.

The committee comprises the three independent non-executive directors and met twice during the year, with all three members present at the meeting. By invitation, the Group Chief Executive and Group Finance Director may attend meetings. No one attending a committee meeting may participate in discussions relating to their own terms and conditions of service or remuneration.

The committee is responsible for selecting the framework and policy for executive directors' remuneration and determining the remuneration packages for the executive directors and Chairman. In doing so, it takes note of any major changes in employee benefit structures throughout the group and ensures that executive director remuneration practice is consistent with any such changes. It is also responsible for monitoring the level and structure of remuneration for senior executive management and approving bonus payments.

Directors' Remuneration Report

Remuneration Committee areas of focus 2015

Strategy and policy	Directors' remuneration report, implementation and governance, committee evaluation.
Executive directors	Salary reviews, personal performance objectives and achievement.
Annual incentives	Assess performance, consider achievement against targets for 2014 annual incentive and 2015 payments, agree measures and targets for annual incentive 2015. For deferred bonus plan, review of policy, grant of awards. Review of malus and clawback arrangements. Approval of formal annual performance plan rules.
Long term incentives	For LTIP, vesting of 2012 LTIP award, general parameters and measures and targets for 2015 LTIP awards, review of achievement to date against targets for 2014 LTIP and 2015 LTIP awards, amendments to incentive plan rules; and grant of awards/options.
Other items	Chairman's fees, review minimum shareholding requirements, termination arrangements and other general matters.

Committee members regularly attend specialist seminars and events on the subject of remuneration 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. No payments were made in the last fiscal year to external consultants for advice or data. The Company Secretary acts as secretary to the committee.

Statement of shareholders' votes

The following table sets out the results of the advisory vote on the directors' remuneration report at the company's AGM held on Thursday 21 May 2015.

	For %	Against %	Withheld %
Of issued share capital	69.3	11.1	0.0
Of votes cast	86.2	13.8	0.0

	Number	Number	Number
Number of votes cast	58,285,842	9,337,825	216

The issued share capital on the date of the AGM was 85,363,743.

At the proposed AGM on Friday 20 May 2016, shareholders will be asked to vote on the Directors' Remuneration Report, on an advisory basis.

The directors' remuneration policy was adopted following a binding shareholder vote at the 21 May 2014 AGM, since when there has been a change to reflect directors' shareholdings requirements increasing to a value of twice base salary and clarification that shares vesting following the exercise of CIP awards are to be held for a period of not less than five years.

Approval

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

A. K. Eastgate

Andrew Eastgate
Chairman of the Remuneration Committee
3 March 2016

Nominations Committee Report

Dear shareholder

As previously reported, this year saw a change to the board and committees. After nine years' service, on 31 May 2015, Mike O'Leary retired from the board.

I succeeded Mike as Senior Independent Director and Chairman of the Remuneration and Nominations Committees. I was succeeded as Chairman of the Audit Committee by Philip Lawrence, who joined the board as a non-executive director on 1 June 2015, at which time he also joined the Remuneration and Nominations Committees.

Composition

The members of the Nominations Committee ("committee") are the three non-executive directors, Dick Peters, Philip Lawrence and myself, and the Group Chief Executive, Tony Brewer.

Responsibilities

The committee leads the process for identifying, and makes recommendations to the board on, candidates for appointment as directors and 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 tenure, the balance of skills, knowledge, experience and independence of the non-executive directors, and makes recommendations to the board with regard to any changes.

Ahead of this year's internal evaluation process, the committee met to consider the most effective method for the review of the board, its committees and the individual contribution of each director.

The committee meets when required and met twice in the year, with all members in attendance. Only members of the committee are entitled to be present at meetings but other directors and advisers may be invited by the committee to attend. The board has agreed the procedures to be followed by the 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, although none were appointed in the year. No director is involved in any decisions regarding their own reappointment or re-election.

Terms of reference

Full terms of reference of the committee can be found in the investors section of the company's website.

Diversity policy

Unchanged from prior years, we take note of the guidance provided and continue to make appointments on the basis of merit. However, we recognise the benefit that greater diversity can bring and take into account such factors when considering any particular appointment. Currently there are no female board members and no specific numeric target has been set.

Re-election and evaluation

The committee considered the time required from each non-executive director, their effectiveness and the experience brought to the board. New directors are appointed by the board and, in accordance with the company's articles of association, they must be elected at the next AGM to continue in office. Existing directors retire by rotation in accordance with article 89 of the articles of association, which requires them to retire from office and, if eligible for reappointment, stand again at the third AGM at which they were appointed or last reappointed.

Items discussed by the committee during the year to enable it to discharge its duties in accordance with its terms of reference included the consideration of candidates for a non-executive director role, the appointment of Philip Lawrence and proposals to elect Philip Lawrence and re–elect Tony Brewer under the retirement by rotation provisions.

Nominations Committee Report

Having regard to the personal effectiveness and commitment assessed as part of the evaluation of the board, through the completion of an internally prepared questionnaire, the performance of each board member continues to be effective and therefore shareholders are recommended to vote in favour of resolutions 3 and 4 at the 2016 Annual General Meeting.

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. Appointments to the committee are made by the board.

After review, the committee was satisfied that it continues to perform its duties in accordance with its terms of reference.

A. K. Eastgate

Andrew Eastgate
Chairman of the Nominations Committee
3 March 2016

Other Statutory Disclosures

The directors present their report, together with the audited financial statements, for the year ended 31 December 2015. This report, which has been prepared solely for the company's shareholders, contains forward-looking statements which have been made by the directors in good faith based on the information available to them up to the time of their approval of the report and which should be treated with caution due to the inherent uncertainties underlying such forward-looking information. No obligation is accepted by the company to update these forward-looking statements and nothing in the report should be construed as a profit forecast.

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 subsidiaries are listed on page 141. Further details of the group's activities and future plans are set out in the Chief Executive's Review on pages 6 to 7.

Acquisitions

Details of acquisitions made in the year are set out in note 23.

Results and ordinary dividends

The results for the year and financial position at 31 December 2015 are shown in the Consolidated Income Statement on page 89 and Statements of Financial Position on page 91.

An interim ordinary dividend of 6.00p per share (2014: 5.20p) was paid on 4 January 2016 to shareholders on the register at the close of business on 4 December 2015. The directors propose a final ordinary dividend of 14.70p per ordinary share (2014: 12.30p), to be paid on 1 July 2016 to shareholders on the register of members at the close of business on 3 June 2016, the associated ex-dividend date being 2 June 2016.

This would bring the total ordinary dividend for the year to 20.70p per ordinary share (2014: 17.50p). The payment of the final ordinary dividend is subject to shareholder approval at the Annual General Meeting ("AGM").

Share capital

As at 31 December 2015, the issued share capital of the company comprised a single class of ordinary shares of 5p each, with 85,363,743 shares in issue at that date. The company's ordinary shares are listed on the London Stock Exchange. No shares were issued during the year and there were no additions to treasury shares.

Of the 1,296,517 shares held in treasury at the start of the year, 390,866 were transferred from treasury in connection with the SAYE and executive share option schemes leaving 905,651 at the year end representing 1.06% of the issued share capital.

Proceeds received in respect of the 390,866 shares were £1,005,123. Details of the company's share capital are set out in note 21 to 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.

Directors

The membership of the board and biographical details of the directors are given on pages 42 and 43 and are incorporated into this report by reference.

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.

Other Statutory Disclosures

There were two changes to the board in the year, no other person acting as a director of the company during the year. Mike O'Leary stepped down as Chairman of the Remuneration Committee and retired from the board on 31 May 2015. Philip Lawrence was appointed to the board on 1 June 2015 when he assumed the chairmanship of the Audit Committee from Dick Peters. Andrew Eastgate was appointed Chairman of the Remuneration Committee and Senior Independent Director.

The company's Articles of Association ("articles") give directors power to appoint and replace directors. Each new appointee to the board is required to stand for election at the next AGM following their appointment. In addition, the company's articles of association require each director to stand for re-election at least once every three years.

Accordingly, Tony Brewer who retires by rotation and Philip Lawrence who retires at the first AGM following his appointment, and being eligible, offer themselves for re-election and election respectively at the forthcoming AGM. In proposing their re-election or 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.

The company does not seek to comply with the provision in the UK Corporate Governance Code which requires the annual re-election of all 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.

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

	Date of appointment	Date of original letter of appointment	Effective date of current letter of appointment	Expiry of current term
Executive directors				
Tony Brewer	June 1991	n/a	n/a	May 2016
Steve Wilson	December 1991	n/a	n/a	May 2018
Non executive directors				
Dick Peters	10 March 2006	1 December 2005	10 March 2015	9 March 2018
Andrew Eastgate	17 May 2010	27 April 2010	17 May 2014	16 May 2017
Philip Lawrence	1 June 2015	18 June 2015	1 June 2015	20 May 2015

Directors' and officers' indemnity insurance

The articles entitle the directors of the company, to the extent permitted by the Companies Act 2006, 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 3 March 2016.

Directors' interests

The interests of the persons, including the interests of any connected persons who were directors at the end of the year, in the share capital of the company, and their interests under share option and incentive schemes, are shown on page 71.

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.

Statement of directors' responsibilities in respect of the Annual Report and financial statements

The statement of directors' responsibilities in respect of the Annual Report and financial statements can be found on page 83.

Management of conflicts of interest

The company's articles of association include certain provisions relevant to the activity of the board and its committees. These provisions include requirements for disclosure and approval by the board of potential conflicts of interest. It is the board's view that they operated effectively during 2015. Each director has a duty to avoid a situation in which they have or may have a direct or indirect interest that conflicts or possibly may conflict with the interests of the company. This duty is in addition to the duty that they owe to the company to disclose to the board any interest in any transaction or arrangement under consideration by the company. If any director becomes aware of any situation which may give rise to a conflict of interest, that director informs the rest of the board and the board is then permitted to decide to authorise such conflict, the matter being recorded in the relevant board minutes.

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 lender may cancel all or any part of the facility and/or declare that all amounts outstanding under the facility are immediately due and payable by the 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 taking place.

Matching share awards granted under the 2008 CIP 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.

Details regarding directors' service agreements are included within the Directors' Remuneration Report.

Substantial interests in voting rights

As at 31 December 2015 and unchanged at 26 February 2016, being as at the end of the financial year and a date not more than one month before the date of notice of the AGM, in accordance with the requirements of the Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority, the company had been notified of the following interests exceeding the 3% notification threshold in the ordinary share capital of the company.

Ordinary shares of 5p each

	28 February 2015 aggregate voting rights	%	10 February 2016 aggregate voting rights	%	Indirect/direct
Franklin Templeton Institutional LLC	15,066,975	18.02	15,066,975	18.02	indirect
FIL Limited	5,385,199	6.43	5,857,660	6.93	indirect
BlackRock Inc	–	–	4,449,038	5.29	indirect
Heronbridge Investment Management LLP	4,209,552	5.04	4,209,552	5.04	direct
JO Hambro Capital Management Limited	4,190,972	5.01	4,190,972	5.01	direct
Ruffer LLP	–	–	4,270,594	5.00	direct
Threadneedle Investments	4,154,941	4.99	4,154,941	4.99	indirect & direct
Schroders plc	4,119,581	4.96	4,119,581	4.96	indirect
Rathbone Brothers plc	4,070,078	4.87	4,070,078	4.87	indirect
Tweedy, Browne Company LLC	4,523,274	5.44	3,567,409	4.24	direct

As far as the company is aware, there are no persons with substantial holdings in the company other than those noted above.

Other Statutory Disclosures

Rights under employees' share schemes

As at 31 December 2015, 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 was approved by shareholders on 20 June 2008, held 224,941 shares, approximately 0.3% 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 Headlam Group Employee Trust Company Limited 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.

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.

Employees

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, and is committed to fair and equal treatment. 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.

Reward is linked to business plans and targets, thereby giving employees the opportunity to share in the financial 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.

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 the group gives full and fair consideration to applications for employment from disabled persons. Further details of arrangements relating to employees are described in Corporate Responsibilities on pages 22 to 27, and the average number of employees and their remuneration are shown in note 4 to the financial statements.

The company has communicated an internally operated whistleblowing 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.

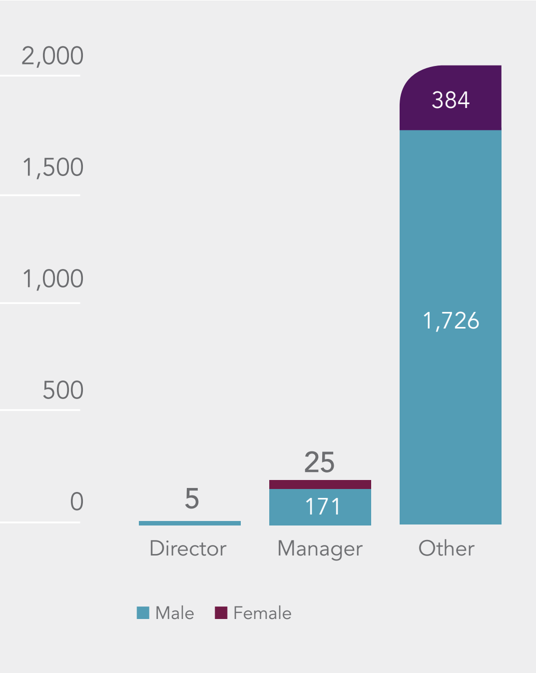
Employees are encouraged to own shares in the company and the group operates an HMRC Approved Savings Related Share Option Scheme (SAYE). Those employees who choose to take up the option to purchase shares in the company may enter into a savings arrangement for either a three or five year period, with 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.

The company considers that diversity, including gender diversity, is essential to good business and measures are in place to ensure all appointments are made on merit. Currently there are no female directors out of a total of five board members.

Without seeking to set a specific goal for female representation on the board, the company is committed to maintain diversity, including gender diversity, appropriate to and reflecting the nature and strategic aims of the company. This similarly applies to women in leadership positions in the company.

As at 31 December 2015 we had 2,311 employees of which 18% are female. The significant majority of our employees work regular full time hours with a minority working flexible hours.

Gender of Group Employees



Health, safety and the environment

Details of health and safety and of environmental reporting, including carbon reporting, is to be found on pages 24 to 27.

UK Corporate Governance Code

The corporate governance report on compliance with the UK Corporate Governance Code (the Code), and information on how the company has applied the main principles of the Code in accordance with the Listing Rules and sections 7.1 and 7.2 of the Disclosure and Transparency Rules of the Financial Conduct Authority and other corporate governance matters, can be found in the Corporate Governance Report on pages 45 to 51 which is incorporated into this Directors' Report by reference.

Strategic Report and Corporate Responsibility

Information concerning likely future developments, greenhouse gas emissions, environmental matters, business ethics, health and safety, employees, customers, suppliers and the community is contained in the Corporate Responsibility Report on pages 22 to 27 within the Strategic Report.

Disclosure of information to auditor

So far as each director is aware, there is no audit information relevant to the preparation of the auditor's report of which the auditor are unaware and each director has 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 auditor is aware of that information.

Directors' and Auditor's Responsibilities

A statement by the directors on their responsibilities in respect of the Annual Report and the financial statements is given on page 83 and a statement by the auditor on their responsibilities is given on page 88.

Fixed assets

A consideration of the market value of the group's tangible fixed assets is detailed in note 1 to the financial statements.

Political donations and expenditure

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 (2014: £nil).

Other Statutory Disclosures

Charitable contributions
Charitable donations made during the year in support of charitable causes in the local communities in which the group operates, nationally and those of interest to employees amounted to £11,321 (2014: £32,323). In addition, employees participated in a variety of fundraising activities and supported charities local to their businesses.

Authority to allot shares and disapply statutory pre-emption rights
Subject to certain limits, at the AGM on 21 May 2015, the directors were granted general authority to allot shares in the company together with an authority to allot shares in the company in connection with a rights issue and in respect of cash without first offering them to existing shareholders. Whilst no shares have been allotted by the company during the year, the directors will be seeking to renew these authorities to allot unissued shares and to disapply statutory pre-emption rights at the forthcoming AGM. Further details are set out in the Notice of AGM.

Purchase of own shares
At the AGM on 21 May 2015, the company was given the authority to purchase shares in the company up to 10% of the issued share capital. Whilst no shares have been purchased under the buyback authority by the company during the year, the directors will be seeking to renew this authority for the company to purchase its ordinary shares at the forthcoming AGM.

Further details are set out in the Notice of AGM.

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. Further shareholder information is available on pages 151 to 152.

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

AGM
This year's AGM will be held at the group's distribution facility in Coleshill on Friday 20 May 2016 at 10.00 a.m. The notice convening this meeting is set out within this Annual Report and Accounts on page 143, along with explanatory notes regarding the resolutions that will be proposed at the meeting on pages 145 to 147. The directors consider that each of the resolutions to be proposed 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.

Auditor
During the year the Audit Committee conducted an external audit tender in accordance with best practice guidance and recommended to the Board that PricewaterhouseCoopers LLP ("PwC") be appointed as the Company's auditor in place of KPMG LLP with effect from the forthcoming AGM. The Board approved the recommendation. Further information regarding the tender process is given in the Audit Committee Report on page 57.

As a consequence, KPMG LLP has notified the company that it is not seeking reappointment at the forthcoming AGM and PwC has agreed to be appointed in its place. The statement of circumstances required under section 519 of the Companies Act 2006 is reproduced in the Appendix to the Notice of AGM after the financial statements.
In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit Committee, a resolution is to be proposed at the AGM for the appointment of PwC as auditor of the Company.

This report was approved by the board on 3 March 2016 and signed on its behalf by

Geoff Duggan
Company Secretary
3 March 2016

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 Accounts 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 Strategic Report, 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 Report and Accounts and the financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, and contained in this Annual Report and Accounts, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report, included in this Annual Report and Accounts, includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Approved by the board of directors on 3 March 2016 and signed on its behalf by

Tony Brewer
Director

Steve Wilson
Director

Processing

40,586 UK CUT LENGTH PROCESSING PER WEEK

Financial Statements

86 Independent Auditor's Report
89 Consolidated Income Statement
90 Consolidated Statement of Comprehensive Income
91 Statements of Financial Position
92 Statement of Changes in Equity – Group
93 Statement of Changes in Equity – Company
94 Cash Flow Statements
95 Notes to the Financial Statements
141 Group Subsidiaries
142 Financial Record

Independent Auditor's Report

TO THE MEMBERS OF HEADLAM GROUP PLC ONLY

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Headlam Group plc for the year ended 31 December 2015 set out on pages 89 to 140. 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 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Carrying amount of goodwill (£10.4 million):

Refer to page 55 (Audit Committee Report), page 96 (accounting policies) and pages 111 to 112 (financial disclosures).

- *The risk* –The determination of the recoverable amount of goodwill is a key judgment area as small changes in assumptions, notably in respect of the 2016 cash flow forecasts (e.g. forecast sales volume and gross profit margins), forecast growth and discount rates, can result in materially different outcomes. This is particularly true of the goodwill allocated to the Belcolor AG CGU in Switzerland where macroeconomic conditions, including the impact of the removal of the fixed exchange rate between the Swiss franc and the euro, could continue to adversely affect the performance and competitiveness of the business going forward, resulting in an impairment of goodwill.
- *Our response* – Our audit procedures in this area included, among others, critically assessing the key assumptions applied by the group in determining the recoverable amounts of each Cash Generating Unit ("CGU") and testing the integrity of the group's discounted cash flow model. We considered the appropriateness of the growth assumptions applied with reference to historical forecasting accuracy, comparison of forecast cash flows to those currently being achieved by the CGUs, and challenged the group's justification for using any cash flows in their forecast that were higher than our expectations, based on current levels adjusted for known or probable changes in business environment. We used our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied to the CGUs in the UK and Switzerland. We performed our own sensitivity analysis, including assessing the effect of a reasonably possible reduction in growth rates and forecast cash flows. We also considered whether the group's disclosures regarding the sensitivity of the outcome of the impairment review to changes in key assumptions appropriately reflected the subjectivity in the valuation.

Carrying amount of freehold property (£86.5 million):

Refer to page 55 (Audit Committee Report), page 96 (accounting policies) and pages 111 to 112 (financial disclosures).

- *The risk* – The group holds a number of freehold properties that are used for trading purposes (as distribution branches) in the UK and in Continental Europe. The carrying amount of the freehold property represents original cost less accumulated depreciation. The aggregate carrying value of the property portfolio exceeds its current market value, indicating that the carrying amount of the property may be impaired.
- *Our response* – Our audit procedures included, among others, comparing the carrying value of the group's freehold properties to recent external market valuations prepared for the group by an independent expert. We used our own valuation specialist to assist us in evaluating the external market valuations, including assessing whether the most recent valuation remains an appropriate reflection of year end market value. Where the carrying amount of a property exceeded the external market valuation, we assessed the directors' estimate of the value to be recovered from the ongoing use of the property within the cash generating unit to which it belongs, including testing the integrity of the model used to determine its value in use. We considered the appropriateness of the growth assumptions applied by comparing the forecast cash flows to those currently being achieved by the CGUs and challenged the group's justification for using

any cash flows in their forecast that were higher than our expectations, based on current levels adjusted for known or probable changes in business environment. We used our own valuation specialist to assist us in evaluating the discount rates applied. We also performed break even analysis in relation to key assumptions and considered whether the group's disclosures regarding the outcome of the impairment review were appropriate.

Carrying amount of inventory (£119.1 million):

Refer to page 56 (Audit Committee Report), page 96 (accounting policies) and pages 111 to 112 (financial disclosures).

- *The risk* – The group holds a significant amount of inventory across a broad and diverse product range, which is subject to a risk that changes in consumer tastes and demand could result in some products becoming slow-moving or obsolete, such that they could not be sold or could only be sold for sales prices that are less than the current carrying value. This means there is inherent subjectivity and estimation required in determining the level of inventory provision required.
- *Our response* – Our audit procedures included, among others, evaluating the historical accuracy of management's calculation of the provision with reference to the value of inventory sold at a loss or written off in the past. We considered the carrying amount, ageing profile and turnover of inventory to form our own expectation of the level of provision required, and challenged management's provision with reference to our expectations. We used our own IT specialist to perform data analytics to determine the accuracy of the ageing profile of inventory by extracting data from the group's accounting system and reproducing the aged inventory report. We also considered the adequacy of the group's disclosures about the degree of estimation involved in arriving at the provision.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at £1.78 million (2014: £1.80 million), determined with reference to a benchmark of group profit before taxation (of which it represents 5.0% (2014: 5.9%)).

We report to the Audit Committee any corrected or uncorrected misstatements exceeding £80,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 11 reporting components, we subjected five to audits for group reporting purposes. These audits covered 98% of group revenue, 99% of group profit before taxation and 95% of group total assets. The group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The group audit team approved the component materialities, which ranged from £0.1 million to £1.8 million, having regard to the size and risk profile of the group across the components.

The group audit team visited 14 locations in the UK and France. Telephone conference meetings were also held with the component auditors in Switzerland. At these visits and meetings, the findings reported to the group audit team were discussed in more detail, and any further work required by the group audit team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Report set out on pages 50 and 51 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.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of viability on page 35, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 31 December 2018; or
- the disclosures in note 1 to the financial statements concerning the use of the going concern basis of accounting.

Independent Auditor's Report
TO THE MEMBERS OF HEADLAM GROUP PLC ONLY

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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 34, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 45 to 51 relating to the company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 83, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

G. Neale

Graham Neale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6HG
3 March 2016

Consolidated Income Statement
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Revenue	2	**654,078**	635,242
Cost of sales		**(453,568)**	(444,702)
Gross profit		**200,510**	190,540
Distribution expenses		**(120,070)**	(117,458)
Administrative expenses		**(43,663)**	(41,620)
Operating profit	2	**36,777**	31,462
Finance income	6	**738**	819
Finance expenses	6	**(1,891)**	(1,981)
Net finance costs		**(1,153)**	(1,162)
Profit before tax	3	**35,624**	30,300
Taxation	7	**(7,213)**	(6,515)
Profit for the year attributable to the equity shareholders		**28,411**	23,785
Dividend paid per share	21	**17.50p**	15.30p
Earnings per share			
Basic	9	**33.8p**	28.6p
Diluted	9	**33.7p**	28.5p

All group operations during the financial years were continuing operations.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Profit for the year attributable to the equity shareholders		**28,411**	23,785
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	19	**1,292**	(8,900)
Related tax		**(554)**	1,789
		738	(7,111)
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations		**6**	(742)
Effective portion of changes in fair value of cash flow hedges		**(556)**	(177)
Transfers to profit or loss on cash flow hedges		**172**	132
Related tax		**58**	18
		(320)	(769)
Other comprehensive income/(expense) for the year		**418**	(7,880)
Total comprehensive income attributable to the equity shareholders for the year		**28,829**	15,905

Statements of Financial Position

AT 31 DECEMBER 2015

	Note	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Assets					
Non-current assets					
Property, plant and equipment	10	**101,263**	103,461	**86,638**	88,157
Intangible assets	11	**10,388**	10,013	**–**	–
Investments in subsidiary undertakings	12	**–**	–	**89,806**	88,985
Deferred tax assets	13	**2,238**	2,726	**1,123**	1,702
		113,889	116,200	**177,567**	178,844
Current assets					
Inventories	14	**119,143**	116,569	**–**	–
Trade and other receivables	15	**120,154**	118,816	**20,185**	15,334
Cash and cash equivalents	16	**63,932**	47,589	**33,001**	14,237
		303,229	282,974	**53,186**	29,571
Total assets		**417,118**	399,174	**230,753**	208,415
Liabilities					
Current liabilities					
Other interest-bearing loans and borrowings	17	**–**	(204)	**–**	–
Trade and other payables	18	**(172,701)**	(166,266)	**(38,051)**	(37,672)
Employee benefits	19	**(2,171)**	(2,933)	**(2,171)**	(2,933)
Income tax payable	7	**(6,974)**	(6,073)	**(2,691)**	(2,892)
		(181,846)	(175,476)	**(42,913)**	(43,497)
Non-current liabilities					
Other interest-bearing loans and borrowings	17	**(20,000)**	(22,818)	**(20,000)**	(20,000)
Employee benefits	19	**(16,843)**	(18,803)	**(13,993)**	(16,457)
		(36,843)	(41,621)	**(33,993)**	(36,457)
Total liabilities		**(218,689)**	(217,097)	**(76,906)**	(79,954)
Net assets		**198,429**	182,077	**153,847**	128,461
Equity attributable to equity holders of the parent					
Share capital	21	**4,268**	4,268	**4,268**	4,268
Share premium		**53,512**	53,512	**53,512**	53,512
Other reserves	21	**(275)**	(1,721)	**14,874**	13,434
Retained earnings		**140,924**	126,018	**81,193**	57,247
Total equity		**198,429**	182,077	**153,847**	128,461

These financial statements were approved by the board of directors on 3 March 2016 and were signed on its behalf by:

Tony Brewer
Director

Steve Wilson
Director

Company Number: 460129

Statement of Changes in Equity – Group

FOR THE YEAR ENDED 31 DECEMBER 2015

	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 2014	4,268	53,512	88	6,165	(87)	(10,908)	124,465	177,503
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	23,785	23,785
Other comprehensive income	–	–	–	(742)	(45)	–	(7,093)	(7,880)
Total comprehensive income for the year	–	–	–	(742)	(45)	–	16,692	15,905
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	692	692
Share options exercised by employees	–	–	–	–	–	3,808	(2,780)	1,028
Current tax on share options	–	–	–	–	–	–	183	183
Deferred tax on share options	–	–	–	–	–	–	(545)	(545)
Dividends to equity holders	–	–	–	–	–	–	(12,689)	(12,689)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	3,808	(15,139)	(11,331)
Balance at 31 December 2014	4,268	53,512	88	5,423	(132)	(7,100)	126,018	182,077
Balance at 1 January 2015	**4,268**	**53,512**	**88**	**5,423**	**(132)**	**(7,100)**	**126,018**	**182,077**
Profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**28,411**	**28,411**
Other comprehensive income	**–**	**–**	**–**	**6**	**(384)**	**–**	**796**	**418**
Total comprehensive income for the year	**–**	**–**	**–**	**6**	**(384)**	**–**	**29,207**	**28,829**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1,100**	**1,100**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**1,824**	**(819)**	**1,005**
Current tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**95**	**95**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**(22)**	**(22)**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(14,655)**	**(14,655)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**–**	**1,824**	**(14,301)**	**(12,477)**
Balance at 31 December 2015	**4,268**	**53,512**	**88**	**5,429**	**(516)**	**(5,276)**	**140,924**	**198,429**

Statement of Changes in Equity – Company

FOR THE YEAR ENDED 31 DECEMBER 2015

	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 £000
Balance at 1 January 2014	4,268	53,512	88	20,578	(87)	(10,908)	71,220	138,671
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	7,661	7,661
Other comprehensive income	–	–	–	–	(45)	–	(6,668)	(6,713)
Total comprehensive income for the year	–	–	–	–	(45)	–	993	948
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	692	692
Share options exercised by employees	–	–	–	–	–	3,808	(2,780)	1,028
Current tax on share options	–	–	–	–	–	–	37	37
Deferred tax on share options	–	–	–	–	–	–	(226)	(226)
Dividends to equity holders	–	–	–	–	–	–	(12,689)	(12,689)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	3,808	(14,966)	(11,158)
Balance at 31 December 2014	4,268	53,512	88	20,578	(132)	(7,100)	57,247	128,461
Balance at 1 January 2015	**4,268**	**53,512**	**88**	**20,578**	**(132)**	**(7,100)**	**57,247**	**128,461**
Profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**37,560**	**37,560**
Other comprehensive income	**–**	**–**	**–**	**–**	**(384)**	**–**	**814**	**430**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(384)**	**–**	**38,374**	**37,990**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1,040**	**1,040**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**1,824**	**(819)**	**1,005**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(14,655)**	**(14,655)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**–**	**1,824**	**(14,428)**	**(12,604)**
Balance at 31 December 2015	**4,268**	**53,512**	**88**	**20,578**	**(516)**	**(5,276)**	**81,193**	**153,847**

Cash Flow Statements

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Cash flows from operating activities					
Profit before tax for the year		**35,624**	30,300	**1,635**	2,013
Adjustments for:					
Depreciation, amortisation and impairment		**5,179**	4,900	**1,735**	1,702
Finance income	6	**(738)**	(819)	**(655)**	(642)
Finance expense	6	**1,891**	1,981	**1,404**	1,365
Profit on sale of property, plant and equipment		**(31)**	(30)	**(14)**	3
Share-based payments	20	**1,100**	692	**279**	138
Operating cash flows before changes in working capital and other payables		**43,025**	37,024	**4,384**	4,579
Change in inventories		**(1,827)**	(1,514)	**–**	–
Change in trade and other receivables		**(1,524)**	(143)	**4**	737
Change in trade and other payables		**7,270**	2,656	**(4,303)**	(2,029)
Cash generated from the operations		**46,944**	38,023	**85**	3,287
Interest paid		**(1,268)**	(1,477)	**(766)**	(805)
Tax paid		**(6,245)**	(6,357)	**(118)**	(193)
Additional contributions to defined benefit plan	19	**(2,925)**	(2,996)	**(2,925)**	(2,996)
Net cash flow from operating activities		**36,506**	27,193	**(3,724)**	(707)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**277**	92	**85**	861
Interest received		**726**	846	**393**	433
Dividends received		**–**	–	**35,947**	5,742
Acquisition of subsidiaries, net of cash acquired	23	**(1,977)**	(331)	**–**	–
Acquisition of property, plant and equipment	10	**(2,856)**	(5,668)	**(287)**	(2,662)
Net cash flow from investing activities		**(3,830)**	(5,061)	**36,138**	4,374
Cash flows from financing activities					
Proceeds from the issue of treasury shares		**1,005**	1,028	**1,005**	1,028
Repayment of borrowings		**(2,817)**	(10,210)	**–**	(10,000)
Dividends paid	21	**(14,655)**	(12,689)	**(14,655)**	(12,689)
Net cash flow from financing activities		**(16,467)**	(21,871)	**(13,650)**	(21,661)
Net increase/(decrease) in cash and cash equivalents		**16,209**	261	**18,764**	(17,994)
Cash and cash equivalents at 1 January		**47,589**	47,477	**14,237**	32,231
Effect of exchange rate fluctuations on cash held		**134**	(149)	**–**	–
Cash and cash equivalents at 31 December	16	**63,932**	47,589	**33,001**	14,237

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 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 3 March 2016.

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 significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed below.

(a) Measurement convention

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

The company and group financial statements are prepared on the historical cost basis with the exception of derivative financial instruments and pension scheme assets, 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 a period no shorter than 12 months from the date of approval of the Annual Report.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 4 and 5 and Chief Executive's Review on pages 6 and 7.

The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 30 to 34. In addition, note 22 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group meets its day-to-day working capital requirements through its banking facilities. The group's long term banking arrangements run to March 2017; its level of committed funds is £40 million. The group also has short term 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 a period no shorter than 12 months from the date of approval of the Annual Report. 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.

Notes to the Financial Statements

1 ACCOUNTING POLICIES CONTINUED

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 occasion 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 2013, the 2015 carrying value of UK freehold and long leasehold land and buildings would have exceeded market value (on an existing use basis) by £13,763,000. 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. No impairment was considered necessary in 2015 or 2014.

A review of the properties held in Continental Europe has been undertaken and no impairment was considered necessary for the years ended 31 December 2015 or 31 December 2014.

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, which are subject to inherent estimation and uncertainty, including the discount rate and future profit growth. No impairment resulted from the annual impairment test for 2015 and 2014 in the UK or in Continental Europe.

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.

Inventory

Inventories are valued at the lower of cost and net realisable value. Provision is calculated based on the ageing profile and consideration of inventory sold for less than its carrying value.

Employee benefits

The deficit relating to the group's defined benefit plans is assessed annually in accordance with IAS 19 and after taking independent actuarial advice. The principal assumptions are set out in note 19. 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

There have been no significant changes in accounting policies or any material impact on the group financial statements arising from the adoption of new accounting standards and interpretations in 2015.

(d) IFRS not yet applied

The following standards and interpretations, which were not effective as at 31 December 2015 and have not been early adopted by the group, will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' (effective 1 January 2017)
- International Financial Reporting Standard (IFRS) 9 'Financial instruments' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 16 'Leases' (effective 1 January 2019)
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38.
- Equity Method in Separate Financial Statements – Amendments to IAS 27
- Disclosure Initiative – Amendments to IAS 1
- Annual Improvements to IFRSs – 2012–2014 Cycle.

None of the standards above are expected to have a material impact on the group.

Basis of consolidation

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

Subsidiaries are entities controlled by the group. Control exists when the group has power over an entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The financial 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 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 22 contains information about the foreign currency exposure of the group and risks in relation to foreign exchange movements.

Notes to the Financial Statements

1 ACCOUNTING POLICIES CONTINUED

Derivative financial instruments

The group holds derivative financial instruments to hedge its foreign currency, commodity and its interest rate risk 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 third-party valuations. 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 market price at the Statement of Financial Position date, being the present value of the forward price. The gain or loss on remeasurement to fair value of forward exchange contracts is recognised immediately in the income statement.

The fair value of the commodity transaction swap is based on third-party valuations. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using rates for a similar instrument at the measurement date.

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. Self-constructed assets begin to be depreciated from the date they become available for 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.

Following the requirements of IFRS 3 revised, transaction costs associated with acquisitions and movements in contingent consideration are recognised in the income statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment, or more frequently when there is an indicator that the unit may be impaired.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. This is in accordance with IFRS 1.

Other 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. Amortisation on customer lists is charged to administrative expenses in the income statement.

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 one and 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.

Notes to the Financial Statements

1 ACCOUNTING POLICIES CONTINUED

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 asset's 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.

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 asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade payables

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

Interest-bearing borrowings

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

Borrowing costs

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

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

1 ACCOUNTING POLICIES CONTINUED

Employee benefits

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

Defined contribution plans

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

Defined benefit plans

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement immediately.

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

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

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

The group operates a UK defined benefit pension plan and a defined benefit plan in Switzerland. In the UK, there is no contractual agreement or stated group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the company, which is the sponsoring employer.

The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary.

Share-based payment transactions

The company and group operate various equity-settled share option schemes under the approved and unapproved executive schemes and savings-related schemes.

For executive share option schemes, the option price may not be less than the mid-market value of the group's shares at the time when the options were granted or the nominal value.

Further details of the share plans are given in the Remuneration Report on pages 68 to 69.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity over the period that the employees unconditionally become entitled to the award. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to market conditions such as share prices not achieving the threshold for vesting.

When options are granted to employees of subsidiaries of the company, the fair value of options granted is recognised as an employee expense in the financial statements of the subsidiary undertaking together with the capital contribution received. In the financial statements of the company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding increase in equity.

Notes to the Financial Statements

1 ACCOUNTING POLICIES CONTINUED

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, net of any tax effects is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Own shares held by Employee Benefit Trust

Transactions of the group sponsored Employee Benefit Trust are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the company are debited directly to equity.

Revenue

Revenue from the sale of goods is measured at the fair value of the consideration 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 group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

Dividends

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.

2 SEGMENT REPORTING

The group has 56 operating segments in the UK and five operating segments in Continental Europe. Each segment represents an individual trading operation, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Group Chief Executive. Discrete financial information is available for each segment and used by the Group Chief Executive to assess performance and decide on resource allocation.

The operating segments have been aggregated to the extent that they have similar economic characteristics. The key economic indicators considered by management in assessing whether operating segments have similar economic characteristics are the products supplied, the type and class of customer, method of sale and distribution and the regulatory environment in which they operate.

As each operating segment is a trading operation wholly aligned to the sales, marketing, supply and distribution of floorcovering products, management considers all segments have similar economic characteristics except for the regulatory environment in which they operate, which is determined by the country in which the operating segment resides.

The group's internal management structure and financial reporting systems differentiate the operating segments on the basis of the differing economic characteristics in the UK and Continental Europe and accordingly present these as two separate reportable segments. This distinction is embedded in the construction of operating reports reviewed by the Group Chief Executive, the board and the executive management team and forms the basis for the presentation of operating segment information given below.

	UK		Continental Europe		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Revenue						
External revenues	**575,341**	548,393	**78,737**	86,849	**654,078**	635,242
Reportable segment operating profit	**37,363**	30,695	**575**	1,183	**37,938**	31,878
Reportable segment assets	**257,984**	256,274	**34,067**	34,444	**292,051**	290,718
Reportable segment liabilities	**(158,859)**	(151,566)	**(13,326)**	(14,568)	**(172,185)**	(166,134)

During the year there were no inter-segment revenues for the reportable segments (2014: £nil).

Notes to the Financial Statements

2 SEGMENT REPORTING CONTINUED

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

	2015 £000	2014 £000
Profit for the year		
Total profit for reportable segments	**37,938**	31,878
Unallocated expense	**(1,161)**	(416)
Operating profit	**36,777**	31,462
Finance income	**738**	819
Finance expense	**(1,891)**	(1,981)
Profit before taxation	**35,624**	30,300
Taxation	**(7,213)**	(6,515)
Profit for the year	**28,411**	23,785

	2015 £000	2014 £000
Total assets for reportable segments	**292,051**	290,718
Unallocated assets:		
Properties, plant and equipment	**89,828**	91,493
Deferred tax assets	**2,238**	2,726
Cash and cash equivalents	**33,001**	14,237
Total assets	**417,118**	399,174
Liabilities		
Total liabilities for reportable segments	**(172,185)**	(166,134)
Unallocated liabilities:		
Employee benefits	**(19,014)**	(21,736)
Other interest-bearing loans and borrowings	**(20,000)**	(23,022)
Income tax payable	**(6,974)**	(6,073)
Derivative liabilities	**(516)**	(132)
Total liabilities	**(218,689)**	(217,097)

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
Other material items 2015					
Capital expenditure	**2,064**	**543**	**2,607**	**287**	**2,894**
Depreciation	**2,246**	**538**	**2,784**	**2,020**	**4,804**
Amortisation	**–**	**–**	**–**	**375**	**375**
Other material items 2014					
Capital expenditure	2,586	421	3,007	2,661	5,668
Depreciation	2,260	567	2,827	1,998	4,825
Amortisation	–	–	–	75	75

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.

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	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Revenue						
Residential	**399,453**	378,910	**40,281**	43,415	**439,734**	422,325
Commercial	**175,888**	169,483	**38,456**	43,434	**214,344**	212,917
	575,341	548,393	**78,737**	86,849	**654,078**	635,242

3 PROFIT BEFORE TAX

The following are included in profit before tax:

	2015 £000	2014 £000
Depreciation on property, plant and equipment	**4,804**	4,825
Amortisation of intangible assets	**375**	75
Profit on sale of property, plant and equipment	**(31)**	(30)
Operating lease rentals		
Plant and machinery	**10,187**	10,158
Land and buildings	**1,444**	1,696

Auditor's remuneration:

	2015 £000	2014 £000
Audit of these financial statements	**78**	72
Amounts received by the auditor and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**166**	158
Other tax advisory services	**11**	17
All other services	**17**	19
	272	266

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.

Notes to the Financial Statements

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	
	2015	2014
By sector:		
Floorcoverings	2,271	2,151
Central operations	10	9
	2,281	2,160
By function:		
Sales and distribution	2,129	1,986
Administration	152	174
	2,281	2,160

The aggregate payroll costs were as follows:

	£000	£000
Wages and salaries	75,353	73,100
Equity settled share-based payment expense	1,100	692
Social security costs	9,293	9,614
Pension costs (note 19)	4,958	3,733
	90,704	87,139

5 EMOLUMENTS OF KEY MANAGEMENT PERSONNEL

Executive and non-executive directors are considered to be the key management personnel of the group.

	2015 £000	2014 £000
Short term employee benefits	2,181	2,111
Equity settled share-based payment expense	251	159
	2,432	2,270

Short term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year.

6 FINANCE INCOME AND EXPENSE

	2015 £000	2014 £000
Interest income:		
Bank interest	699	693
Other	39	126
Finance income	738	819
Interest expense:		
Bank loans, overdrafts and other financial expenses	(1,150)	(1,323)
Net change in fair value of cash flow hedges transferred from equity	(125)	(132)
Net interest on defined benefit plan obligation	(616)	(526)
Finance expenses	(1,891)	(1,981)

7 TAXATION

Recognised in the income statement

	2015 £000	2014 £000
Current tax expense:		
Current year	**7,552**	6,156
Adjustments for prior years	**(317)**	(556)
	7,235	5,600
Deferred tax expense:		
Origination and reversal of temporary differences	**87**	795
Effect of change in UK tax rate	**(126)**	–
Adjustments for prior years	**17**	120
	(22)	915
Total tax in income statement	**7,213**	6,515

	2015 £000	2014 £000
Tax relating to items (charged)/credited to equity		
Current tax on:		
Income and expenses recognised directly in equity	**(87)**	(192)
Deferred tax on:		
Share options	**22**	545
Deferred tax on other comprehensive income:		
Defined benefit plans	**554**	(1,789)
Cash flow hedge	**(66)**	(9)
Total tax reported directly in reserves	**423**	(1,445)

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on these rates.

Notes to the Financial Statements

7 TAXATION CONTINUED

Reconciliation of effective tax rate

	2015		2014	
	%	£000	%	£000
Profit before tax		**35,624**		30,300
Tax using the UK corporation tax rate	**20.2%**	**7,213**	21.5	6,515
Effect of change in UK tax rate	**(0.4%)**	**(128)**	(0.2)	(63)
Non-deductible expenses	**1.2%**	**427**	1.6	481
Effect of tax rates in foreign jurisdictions	**–**	**1**	0.1	19
Over provided in prior years	**(0.8%)**	**(300)**	(1.5)	(437)
Total tax in income statement on underlying items	**20.2%**	**7,213**	21.5	6,515

8 CURRENT TAX LIABILITIES

The group's current tax liability of £6,974,000 (2014: £6,073,000) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable. The company's current tax liability of £2,691,000 (2014: £2,892,000) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

9 EARNINGS PER SHARE

	2015 £000	2014 £000
Earnings		
Earnings for basic and diluted earnings per share	**28,411**	23,785

	2015	2014
Number of shares		
Issued ordinary shares at 31 December	**85,363,743**	85,363,743
Effect of shares held in treasury	**(1,331,576)**	(2,053,036)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,032,167**	83,310,707
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	**84,032,167**	83,310,707
Dilutive effect of share options	**282,078**	264,178
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,314,245**	83,574,885

At 31 December 2015, the company held 1,130,592 (2014: 1,521,458) shares which have been disclosed in the treasury reserve and these are excluded from the calculation of earnings per share.

10 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings £000	Plant and equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2014	100,377	30,928	14,476	145,781
Additions	118	2,921	2,629	5,668
Disposals	–	(835)	–	(835)
Transfer to use	16,269	836	(17,105)	–
Effect of movements in foreign exchange	(727)	(461)	–	(1,188)
Balance at 31 December 2014	116,037	33,389	–	149,426
Balance at 1 January 2015	**116,037**	**33,389**	**–**	**149,426**
Acquisition	**–**	**38**	**–**	**38**
Additions	**213**	**2,619**	**24**	**2,856**
Disposals	**–**	**(1,264)**	**–**	**(1,264)**
Effect of movements in foreign exchange	**39**	**(146)**	**–**	**(107)**
Balance at 31 December 2015	**116,289**	**34,636**	**24**	**150,949**
Depreciation and impairment				
Balance at 1 January 2014	21,107	21,595	–	42,702
Depreciation charge for the year	1,957	2,868	–	4,825
Disposals	–	(774)	–	(774)
Effect of movements in foreign exchange	(430)	(358)	–	(788)
Balance at 31 December 2014	22,634	23,331	–	45,965
Balance at 1 January 2015	**22,634**	**23,331**	**–**	**45,965**
Depreciation charge for the year	**1,979**	**2,825**	**–**	**4,804**
Disposals	**–**	**(1,020)**	**–**	**(1,020)**
Effect of movements in foreign exchange	**48**	**(111)**	**–**	**(63)**
Balance at 31 December 2015	**24,661**	**25,025**	**–**	**49,686**
Net book value				
At 1 January 2014	79,270	9,333	14,476	103,079
At 31 December 2014 and 1 January 2015	93,403	10,058	–	103,461
At 31 December 2015	**91,628**	**9,611**	**24**	**101,263**

At 31 December 2015 the cost less accumulated depreciation of long leasehold property held by the group was £7,791,000 (2014: £7,971,000).

Notes to the Financial Statements

10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Company	Land and buildings £000	Plant and equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2014	86,960	171	14,476	101,607
Additions	1	32	2,629	2,662
Disposals	–	(39)	–	(39)
Transfer to use	16,269	–	(16,269)	–
Transfer to group company	–	–	(836)	(836)
Balance at 31 December 2014	103,230	164	–	103,394
Balance at 1 January 2015	**103,230**	**164**	**–**	**103,394**
Additions	**166**	**97**	**24**	**287**
Disposals	**–**	**(156)**	**–**	**(156)**
Balance at 31 December 2015	**103,396**	**105**	**24**	**103,525**
Depreciation				
Balance at 1 January 2014	13,513	33	–	13,546
Depreciation charge for the year	1,661	41	–	1,702
Disposals	–	(11)	–	(11)
Balance at 31 December 2014	15,174	63	–	15,237
Balance at 1 January 2015	**15,174**	**63**	**–**	**15,237**
Depreciation charge for the year	**1,693**	**42**	**–**	**1,735**
Disposals	**–**	**(85)**	**–**	**(85)**
Balance at 31 December 2015	**16,867**	**20**	**–**	**16,887**
Net book value				
At 1 January 2014	73,447	138	14,476	88,061
At 31 December 2014 and 1 January 2015	88,056	101	–	88,157
At 31 December 2015	**86,529**	**85**	**24**	**86,638**

At 31 December 2015 the cost less accumulated depreciation of long leasehold property held by the company was £7,791,000 (2014: £7,971,000).

11 INTANGIBLE ASSETS – GROUP

	Goodwill £000	Customer lists £000	Total £000
Cost			
Balance at 1 January 2014	13,210	4,382	17,592
Addition (note 23)	–	75	75
Balance at 31 December 2014	13,210	4,457	17,667
Balance at 1 January 2015	**13,210**	**4,457**	**17,667**
Addition (note 23)	**375**	**375**	**750**
Balance at 31 December 2015	**13,585**	**4,832**	**18,417**
Amortisation			
Balance at 1 January 2014	3,197	4,382	7,579
Charge for the year	–	75	75
Balance at 31 December 2014	3,197	4,457	7,654
Balance at 1 January 2015	**3,197**	**4,457**	**7,654**
Charge for the year	**–**	**375**	**375**
Balance at 31 December 2015	**3,197**	**4,832**	**8,029**
Net book value			
At 1 January 2014 and 31 December 2014	10,013	–	10,013
At 31 December 2015	**10,388**	**–**	**10,388**

Cumulative impairment losses recognised in relation to goodwill is £3,197,000 (2014: £3,197,000).

Impairment tests for cash-generating units containing goodwill ("CGU")

Goodwill is attributed to the businesses identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent operating segments.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported segment	2015 £000	2014 £000
Joseph, Hamilton & Seaton	**UK**	**4,348**	4,348
Crucial Trading	**UK**	**1,369**	1,369
Belcolor AG	**Continental Europe**	**3,342**	3,342
Other	**UK**	**1,329**	954
		10,388	10,013

Notes to the Financial Statements

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.

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 (2014: No impairment).

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2014, and applying the following key assumptions.

Key assumptions

Cash flows were projected based on actual operating results, the approved 2016 business plan and management's assessment of planned performance in the period to 2020. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.5% beyond 2020.

The main assumptions within the operating cash flows used for 2016 include the achievement of future sales volumes and prices for all key product lines, control of purchase prices, achievement of budgeted operating costs and no significant adverse foreign exchange rate movements. These assumptions have been reviewed in light of the current economic environment.

The directors have estimated the discount rate by reference to an industry average weighted average cost of capital. This has been adjusted to include an appropriate risk factor to reflect current economic circumstances and the risk profile of the CGUs. A pre-tax weighted average cost of capital of 11.1% (2014: 8.7%) has been used for impairment testing, adjusted to 12.0% (2014: 9.8%) 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 CGUs 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 CGUs in Continental Europe as having consistent risk profiles and therefore a single risk factor has been applied. The CGUs in Continental Europe operate under a different regulatory environment and this is therefore reflected in the risk factor used to determine the discount rates in the UK and Continental Europe.

Sensitivity analysis

The group has applied sensitivities to assess whether any reasonable possible changes in these key assumptions could cause an impairment that would be material to these consolidated financial statements. The sensitivity analyses did not identify any material impairment risks with the exception of the goodwill attributed to Belcolor.

Belcolor

The key assumptions used in the Belcolor impairment review relate to the 2016 budgeted cash flows and the future growth rates assumed thereafter. The budget for 2016 assumes a 151% increase in operating profit (equivalent to a 1% increase in sales) compared with 2015. Subsequently the calculations assume future annual growth in operating profit of between 1.5% and 2.5%, resulting in calculated headroom of £1.5 million. A reduction of 15% in the 2016 budgeted operating profit would reduce the headroom to zero. In the event that 2016 budget is achieved but there is no subsequent growth, a goodwill impairment charge of £0.2 million would arise. The carrying value of goodwill of £3.3 million would be fully impaired if the 2015 operating profit recurred in 2016 and there was no forecast future growth thereafter.

12 INVESTMENTS IN SUBSIDIARIES

Summary information on investments in subsidiary undertakings is as follows:

	£000
Cost	
Balance at 1 January 2014	88,431
Share options granted to employees of subsidiary undertakings	554
Balance at 31 December 2014	88,985
Balance at 1 January 2015	**88,985**
Share options granted to employees of subsidiary undertakings	**821**
Balance at 31 December 2015	**89,806**
Carrying value	
At 1 January 2014	88,431
At 31 December 2014	88,985
At 31 December 2015	**89,806**

A full list of the group's subsidiaries is presented on page 141. There were no impairments recognised on the company's investments in subsidiaries in the year ended 31 December 2015.

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	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Property, plant and equipment	**–**	–	**(2,125)**	(2,398)	**(2,125)**	(2,398)
Intangible assets	**–**	–	**(206)**	(211)	**(206)**	(211)
Employee benefits	**4,061**	4,746	**–**	–	**4,061**	4,746
Hedging	**92**	26	**–**	–	**92**	26
Other items	**416**	563	**–**	–	**416**	563
Tax assets/(liabilities)	**4,569**	5,335	**(2,331)**	(2,609)	**2,238**	2,726
Set-off of tax	**(2,331)**	(2,609)	**2,331**	2,609	**–**	–
	2,238	2,726	**–**	–	**2,238**	2,726

Movement in deferred tax during the year

	1 January 2015 £000	Recognised in income £000	Recognised in equity £000	31 December 2015 £000
Property, plant and equipment	**(2,398)**	**273**	**–**	**(2,125)**
Intangible assets	**(211)**	**5**	**–**	**(206)**
Employee benefits	**4,746**	**(109)**	**(576)**	**4,061**
Hedging	**26**	**–**	**66**	**92**
Other items	**563**	**(147)**	**–**	**416**
	2,726	**22**	**(510)**	**2,238**

Notes to the Financial Statements

13 DEFERRED TAX ASSETS AND LIABILITIES – GROUP CONTINUED

Movement in deferred tax during the prior year

	1 January 2014 £000	Recognised in income £000	Recognised in equity £000	31 December 2015 £000
Property, plant and equipment	(2,166)	(232)	–	(2,398)
Intangible assets	(194)	(17)	–	(211)
Employee benefits	4,262	(760)	1,244	4,746
Hedging	17	–	9	26
Other items	469	94	–	563
	2,388	(915)	1,253	2,726

Unrecognised deferred tax assets and liabilities

At the Statement of Financial Position date the group has unused capital losses in the UK of £10,797,000 (2014: £10,797,000) available for offset against future chargeable gains. The group also has tax losses available for set-off in Continental Europe of £3,009,615 (2014: £2,639,505) which consist of a capital loss on the sale of a building and the liquidation of an investment in the Netherlands in 2010 and trade losses incurred in other years.

No deferred tax asset has been recognised in respect of these amounts 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	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Property, plant and equipment	**–**	–	**(2,079)**	(2,325)	**(2,079)**	(2,325)
Employee benefits	**3,063**	3,855	**–**	–	**3,063**	3,855
Hedging	**93**	26	**–**	–	**93**	26
Other items	**46**	146	**–**	–	**46**	146
Tax assets/(liabilities)	**3,202**	4,027	**(2,079)**	(2,325)	**1,123**	1,702
Set-off of tax	**(2,079)**	(2,325)	**2,079**	2,325	**–**	–
	1,123	1,702	**–**	–	**1,123**	1,702

Movement in deferred tax during the year

	1 January 2015 £000	**Recognised in income £000**	**Recognised in equity £000**	**31 December 2015 £000**
Property, plant and equipment	**(2,325)**	**246**	**–**	**(2,079)**
Employee benefits	**3,855**	**(206)**	**(586)**	**3,063**
Hedging	**26**	**–**	**67**	**93**
Other items	**146**	**(100)**	**–**	**46**
	1,702	**(60)**	**(519)**	**1,123**

MOVEMENT IN DEFERRED TAX DURING THE PRIOR YEAR

	1 January 2014 £000	Recognised in income £000	Recognised in equity £000	31 December 2014 £000
Property, plant and equipment	(2,187)	(138)	–	(2,325)
Employee benefits	3,076	(665)	1,444	3,855
Hedging	17	–	9	26
Other items	145	1	–	146
	1,051	(802)	1,453	1,702

Unrecognised deferred tax assets and liabilities

At the Statement of Financial Position date the company has unused capital losses of £10,797,000 (2014: £10,797,000) 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.

14 INVENTORIES

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Goods for resale	**119,143**	116,569	**–**	–

Cost of sales consists of the following:

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Material cost	**450,498**	441,759	**–**	–
Processing cost	**3,070**	2,943	**–**	–
	453,568	444,702	**–**	–

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Trade receivables	**89,428**	90,495	**–**	–
Prepayments and accrued income	**3,935**	3,757	**26**	41
Other receivables	**26,751**	24,562	**189**	212
Derivative assets used for economic hedging:				
Other derivatives at fair value	**40**	2	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**19,970**	15,081
	120,154	118,816	**20,185**	15,334

£1,572,000 (2014: £1,099,000) was recognised as an impairment loss in the Consolidated Income Statement in respect of trade receivables.

Notes to the Financial Statements

15 TRADE AND OTHER RECEIVABLES CONTINUED

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

	2015 £000	2014 £000
UK	**1,210**	816
Continental Europe	**362**	283
	1,572	1,099

16 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Cash and cash equivalents per Statement of Financial Position	**63,932**	47,589	**33,001**	14,237

17 OTHER INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the group's and company's interest-bearing loans and borrowings.

On 8 March 2012 the group refinanced the terms of its banking facilities. The refinancing increased the availability of committed facilities from £30 million to £40 million, and extended the availability to four years. On 15 January 2013 an option was taken to extend this by an additional year in line with the facility agreement and the renewal date is now March 2017. Uncommitted facilities were maintained at £35 million, renewable on an annual basis.

For more information about the group's and company's exposure to interest rate and foreign currency risk, see note 22.

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Current liabilities				
Interest-bearing loan	–	204	–	–
	–	204	–	–
Non–current liabilities				
Interest-bearing loans	**20,000**	22,818	**20,000**	20,000
	20,000	22,818	**20,000**	20,000

The group has undrawn borrowing facilities expiring in one year or less which, at 31 December 2015, amounted to £61,706,000 (2014: £62,883,000). 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 %	2015 £000	Interest rate %	2014 £000
UK	**2.01**	**55,000**	2.23	55,000
Netherlands	**2.31**	**1,106**	1.52	1,164
France	**1.15**	**2,211**	1.17	3,492
Switzerland	**2.25**	**3,389**	1.35	3,227
		61,706		62,883

All the borrowing facilities above bear interest at floating rates, however the group entered into two interest rate swaps on 11 June 2012 to fix £20 million of its sterling denominated borrowings. The swaps are due to mature on 8 March 2016. The Swiss facility may be drawn as an overdraft or fixed rate loan with different rates depending on the term and amount.

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Trade payables	**131,153**	127,235	**307**	169
Taxation and social security	**15,291**	15,018	**2,012**	2,443
Non-trade payables and accrued expenses	**25,741**	23,881	**3,901**	3,551
Amounts due to subsidiary undertakings	**–**	–	**31,315**	31,377
Derivative liabilities used for economic hedging:				
Derivatives used for hedging	**516**	132	**516**	132
	172,701	166,266	**38,051**	37,672

Included within non-trade payables and accrued expenses is an amount of £35,000 for accrued interest on unsecured bank loans (2014: £35,000).

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

19 EMPLOYEE BENEFITS

During the year, the group operated a UK and Swiss defined benefit plan and defined contribution plans in the UK, France and the Netherlands.

UK defined benefit plan

The Headlam Group plc Staff Retirement Benefits Scheme is the principal defined benefit plan which provides pensions in retirement and death benefits to members. The majority of members are entitled to receive pensions from age 65, equal to either 1/50 or 1/60 of final salary for each year of service that the employee provided, depending on which section of the plan the member is part of.

The plan is a registered scheme under UK legislation and is contracted out of the State Second Pension. The plan is legally separated from the company and assets are held independently of the company's finances.

The plan is subject to the scheme funding requirements outlined in UK legislation.

The company has a right to a refund of any surplus in the plan if the plan winds up, after payment of expenses, members benefits and any enhancements to the members' benefits as the Trustee sees fit. In addition, if the assets of the plan exceed the estimate by the actuary of the cost of buying out the benefits of all beneficiaries with an insurance company, including the associated expenses, and the plan is not being wound up, then the company may request a payment of the excess funds. There have been no payments made to the company out of the plan's assets over the year, and so no additional liability has been recognised on the balance sheet.

The plan was established from 11 February 1983 under trust and is governed by the plan's Trust Deed and Rules dated 26 March 2015. The Trustee of the plan comprises two employee representatives and three employer representatives. The Trustee of the plan is required by law to act in the best interests of the plan participants. The Trustee is responsible for the operation and the governance of the plan, including making decisions regarding the plan's funding and investment strategy in conjunction with the company.

The ultimate cost of the plan to the company will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

19 EMPLOYEE BENEFITS CONTINUED

The plan exposes the company to actuarial risks such as longevity risk, interest rate risk, market (investment) risk and currency risk. The risk to the company is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the company is higher than expected. This could result in higher contributions required from the company and a higher deficit disclosed. More specifically, the assumptions not being borne out in practice could include:

- The return on the plan assets being lower than assumed, resulting in an unaffordable increase in the required company contribution rate.
- Falls in asset values not being matched by similar falls in the value of liabilities.
- Inflation being higher than that assumed, resulting in an increase in the value of the members' benefits and therefore a higher cost to the plan.
- Unanticipated future changes in mortality patterns leading to an increase in the plan's liabilities. Future mortality rates cannot be predicted with certainty.
- The potential exercise of options against the plan, for example taking early retirement or exchanging a portion of pension for a cash lump sum.

There have been no amendments, curtailments or settlements made to the plan during 2015.

The plan's investment strategy is to invest broadly 90% in return seeking assets and 10% in matching assets, mainly government bonds. This strategy reflects the plan's liability profile and the Trustee's and company's attitude to risk. The matching fund seeks to match the return achieved on the liabilities.

The plan's investments include interest rate and inflation hedging.

The plan holds a number of annuity policies which match a portion of the pensions in payment.

The scheme is funded partly by contributions from members and partly by contributions from the company at rates advised by professionally qualified actuaries. The last scheme funding valuation of the plan was as at 31 March 2014 and revealed a funding deficit of £10,883,000. The trustees of the scheme commissioned an annual update valuation as at 31 March 2015 and this reported an increase in deficit from £10,883,000 to £14,211,000. The main factors that have combined to produce this change in the position since the last formal valuation are shown in the table below:

	£000
Shortfall as at 31 March 2014	(10,883)
Interest on deficit	(500)
Gain on investments	10,550
Contributions paid to repair the shortfall	2,929
Change in the market conditions	(16,295)
Miscellaneous	(12)
Estimated shortfall as at 31 March 2015	**(14,211)**

The main annual rate assumptions used by the actuary in the 2014 valuation were: increase in salaries 4.8%; increase of pensions in payment 3.3%; discount rate before retirement 5.46%; discount rate after retirement 3.71%; and inflation 3.3%. Assets were taken at their market value at the valuation date.

The main annual rate assumptions used by the actuary in the 2015 annual update valuation were: increase in salaries 4.8%; increase of pensions in payment 3.3%; discount rate before retirement 4.24%; discount rate after retirement 2.49%; and inflation 2.96%.

In the recovery plan dated 26 March 2015 the company has agreed to pay contributions of £175,000 per month from 1 January 2016, increasing by 3.3% each subsequent 1 January, with the view to eliminating the shortfall by 30 April 2019.

In accordance with the recovery plans dated 29 July 2011 and 26 March 2015, payments were made to the plan during 2015 of £2,925,000 towards the deficit. The company is expected to pay contributions of £3,301,000 over the next accounting period. This includes £2,171,000 for payments under the recovery plan and £1,130,000 for the accrual of benefits.

In addition to the recovery payments, under the schedule of contributions dated 29 July 2011, company contributions were fixed at 28.9% of pensionable salaries at 1 July 2011, increased by 3.4% per annum, with no allowance made in respect of subsequent leavers. This represented an additional contribution amounting to approximately £43,000 during 2015 (2014: £276,000). The new schedule of contributions dated 26 March 2015 came into force on 1 April 2015, and under this company contributions are based on 35% of pensionable salaries each month.

In addition, the company is expected to meet the cost of administrative expenses and insurance premiums for the plan.

The liabilities of the plan are based on the current value of expected benefit payment cash flows to members of the plan over the next 60 years or more. The weighted average duration of the liabilities is approximately 20 years.

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.

Swiss defined benefit plan

The plan provides occupational retirement, disability and survivors' benefits. The members are entitled to receive pensions from age 64 (female) or 65 (male), equal to the old age savings balance multiplied with a conversion rate of 6.8% for the mandatory part of the savings balance and 5.85% for the part beyond the mandatory part. The minimum interest rate on old age savings has legally been fixed.

The company is affiliated to the Columna Collective Foundation Client Invest. The plan is legally separated from the company. The executive body of the collective foundation is the board of trustees, which is elected directly by the insured of the affiliated companies/occupational benefits funds and functions independently of AXA. Its members include employer and employee representatives from a wide range of occupations and companies of different sizes. The board of trustees' responsibilities include, among other things, supervising compliance with legal provisions and issuing the regulations that govern the various activities. The company elects an occupational benefits fund commission ("OBC"). The Foundation was established on 20 March 1974 by Credit Suisse Ltd.

The collective foundation is reinsured for risk benefits with AXA Winterthur Life insurance company.

The plan exposes the company to market (investment) risk. The risk to the company is that return on assets may be lower than legally required. This could result in higher contributions required from the company and a higher deficit disclosed.

There have been no amendments, curtailments or settlements made to the plan during 2015.

The OBC defines the investment strategy; the affiliated occupational benefits fund itself bears the investment risk. The investments are managed with Credit Suisse.

The last (provisional) scheme funding valuation of the plan was as at 31 December 2015 and revealed cover ratio of 116.36% (overfunding). This overfunding is appropriate to Swiss legislation and cannot be considered in the context of IAS 19. According to Swiss rules there is no need to evaluate the scheme using assumptions for future changes of salary increase, benefit increase or inflation.

The last IAS 19 valuation at year end 2015 revealed a funding deficit of £2,517,000. The group is expected to pay £656,000 for future service costs over the next accounting period.

The liabilities of the plan are based on the current value of expected benefit payment cash flows to members of the plan over the next 50 years or more. The weighted average duration of the liabilities is approximately 17 years.

Notes to the Financial Statements

19 EMPLOYEE BENEFITS CONTINUED

Defined benefit obligation

In the UK there is no contractual agreement or stated group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the company, which is the sponsoring employer. The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary. The company recognises a cost equal to its contributions payable for the period net of amounts recharged in relation to the group deficit to the participating subsidiary companies.

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Present value of funded defined benefit obligations	**(115,849)**	(117,639)	**(102,766)**	(106,297)
Fair value of plan assets	**97,167**	96,190	**86,601**	86,907
Net obligations	**(18,682)**	(21,449)	**(16,165)**	(19,390)
Recognised liability for defined benefit obligations	**(18,682)**	(21,449)	**(16,165)**	(19,390)
Other long term employee benefits	**(332)**	(287)	**–**	–
Total employee benefits	**(19,014)**	(21,736)	**(16,165)**	(19,390)
Analysed as:				
Current liabilities	**(2,171)**	(2,933)	**(2,171)**	(2,933)
Non-current liabilities	**(16,843)**	(18,803)	**(13,994)**	(16,457)
Total employee benefits	**(19,014)**	(21,736)	**(16,165)**	(19,390)

Movements in present value of defined benefit obligation

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
At 1 January	**117,639**	97,085	**106,297**	87,111
Current service cost	**2,173**	1,685	**1,541**	1,207
Interest cost	**3,714**	3,962	**3,570**	3,769
Net remeasurement (gains)/losses – financial	**(4,108)**	15,971	**(4,581)**	14,961
Net remeasurement (gains)/losses – demographic	**–**	344	**–**	344
Net remeasurement (gains)/losses – experience	**(478)**	2,211	**(217)**	1,860
Benefits paid	**(4,050)**	(3,502)	**(4,036)**	(3,148)
Contributions by members	**393**	387	**192**	193
Effect of movements in foreign exchange	**566**	(504)	**–**	–
At 31 December	**115,849**	117,639	**102,766**	106,297

Movements in fair value of plan assets

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
At 1 January	**96,190**	82,263	**86,907**	73,704
Interest income on plan assets	**3,098**	3,436	**2,978**	3,267
Return on assets, excluding interest income	**(3,294)**	9,626	**(3,460)**	8,818
Contributions by employer:				
Future service contributions	**1,397**	1,284	**1,052**	947
Past service deficit contributions	**2,925**	2,834	**2,925**	2,834
Additional past service deficit contributions	**43**	276	**43**	276
Employer augmentations	**–**	16	**–**	16
Contributions by members	**393**	387	**192**	193
Benefits paid	**(4,050)**	(3,502)	**(4,036)**	(3,148)
Effect of movements in foreign exchange	**465**	(430)	**–**	–
At 31 December	**97,167**	96,190	**86,601**	86,907

The fair value of the plan assets were as follows:

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Equities	**40,715**	36,271	**38,639**	34,262
Government debt	**13,396**	7,478	**13,396**	7,478
Corporate bonds	**29,528**	28,966	**24,374**	24,297
Annuities	**5,019**	5,137	**5,019**	5,137
Hedge funds	**(2,229)**	5,589	**(2,229)**	5,589
Other	**10,738**	12,749	**7,402**	10,144
	97,167	96,190	**86,601**	86,907

Expense recognised in the income statement relating to defined benefit obligation

	Group 2015 £000	Group 2014 £000
Service cost	**2,173**	1,685
Net interest on the net defined benefit liability (note 6)	**616**	526
Total	**2,789**	2,211

The expenses recognised in the following line items in the Consolidated Income Statement are:

	Group 2015 £000	Group 2014 £000
Administrative expenses	**2,173**	1,685
Net financing income (note 6)	**616**	526
	2,789	2,211

Notes to the Financial Statements

19 EMPLOYEE BENEFITS CONTINUED

Remeasurement of the net defined benefit liability in the Statement of Comprehensive Income:

	Group	
	2015 £000	2014 £000
Net remeasurement – financial	**(4,108)**	15,971
Net remeasurement – demographic	**–**	344
Net remeasurement – experience	**(478)**	2,211
Return on assets, excluding interest income	**3,294**	(9,626)
	(1,292)	8,900

Principal actuarial assumptions are as follows:

	UK		Swiss	
	2015 %	2014 %	**2015 %**	2014 %
Discount rate	**3.7**	3.4	**1.0**	1.2
Future salary increases	**4.8**	4.7	**2.0**	2.0
Future pension increases	**3.3**	3.2	**0.0**	0.0
Inflation rate	**3.3**	3.2	**2.0**	2.0
Mortality table assumptions:				
UK pre-retirement	**AC00 (Ultimate) table**	AC00 (Ultimate) table	**–**	–
UK post-retirement – future pensioners	**94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2013 with a long term rate of improvement of 1.5% per annum.**	94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2010 with a long term rate of improvement of 1% per annum.	**–**	–
UK post-retirement – current pensioners	**94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2013 with a long term rate of improvement of 1.5% per annum.**	94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2010 with a long term rate of improvement of 1% per annum.	**–**	–
Swiss scheme	**–**	–	**BVG 2010**	BVG 2010

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

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Non-pensioner male	**25.1**	24.9	**25.1**	24.9
Pensioner male	**22.8**	22.7	**22.8**	22.7
Non-pensioner female	**27.0**	26.9	**27.0**	26.9
Pensioner female	**24.7**	24.6	**24.7**	24.6

Company

The principal actuarial assumptions for the company are the same as those disclosed for the UK above.

Sensitivity analysis

The tables below for the UK and Swiss defined benefit plans show the impact on the defined benefit obligation of changing each of the most significant assumptions in isolation.

UK defined benefit plan

		Impact on scheme liabilities 2015		Impact on scheme liabilities 2014	
Effect in £millions	**Change in assumption**	**Increase**	**Decrease**	Increase	Decrease
Discount rate	0.25% movement	**(5.0)**	**5.3**	(5.2)	5.6
Rate of inflation (RPI)*	0.25% movement	**4.5**	**(4.2)**	4.7	(4.4)
Salary increases	0.25% movement	**1.2**	**(1.2)**	1.3	(1.2)
Assumed life expectancy	one year movement	**4.1**	**(4.2)**	4.2	(4.3)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2015 have been calculated using the same valuation method that was used to calculate the UK defined benefit obligation at the same date. The figures in the table as at 31 December 2014 have been calculated by applying the same percentage increase or decrease as at 31 December 2015.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

Swiss defined benefit plan

		Impact on scheme liabilities 2015		Impact on scheme liabilities 2014	
Effect in £millions	**Change in assumption**	**Increase**	**Decrease**	Increase	Decrease
Discount rate	0.25% movement	**(4.5)**	**4.8**	(4.5)	4.8
Rate of inflation (RPI)*	0.25% movement	**3.4**	**(3.4)**	3.4	(3.4)
Salary increases	0.25% movement	**0.6**	**(0.6)**	0.6	(0.6)
Assumed life expectancy	one year movement	**1.6**	**(1.8)**	1.5	(1.6)

* With corresponding changes to the salary and pension increase assumptions.

The figures in the table as at 31 December 2015 have been calculated using the same valuation method that was used to calculate the Swiss defined benefit obligation at the same date. The figures in the table as at 31 December 2014 have been calculated by applying the same percentage increase or decrease as at 31 December 2015.

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

Notes to the Financial Statements

19 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	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of defined benefit obligation	**(115,849)**	(117,639)	(97,085)	(93,499)	(84,923)
Fair value of plan assets	**97,167**	96,190	82,263	76,388	70,692
Deficit	**(18,682)**	(21,449)	(14,822)	(17,111)	(14,231)

Company	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of defined benefit obligation	**(102,766)**	(106,297)	(87,111)	(82,735)	(74,737)
Fair value of plan assets	**86,601**	86,907	73,704	67,391	62,202
Deficit	**(16,165)**	(19,390)	(13,407)	(15,344)	(12,535)

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 2015 is £332,000 (2014: £287,000). This was reported as other long term employee benefits within the employee benefits disclosure.

Total group pension costs

Included within the total staff costs as disclosed in note 4 are costs relating to the group's defined contribution plans. The pension cost for the year represents contributions payable by the group to the plans and amounted to £2,785,000 (2014: £2,587,000). Contributions amounting to £166,000 (2014: £157,000) in respect of December 2015 payroll were paid in January 2016.

The total group cost of operating the plans during the year was £4,958,000 (2014: £3,733,000) and, at 31 December 2015, there was an amount of £321,000 (2014: £296,000) owed to the plans, being employer and employee contributions due for December 2015, which was paid in January 2016.

20 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 5 May 2015 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 68 and 69.

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 2015	2014	Vesting conditions	Contractual life of options
Approved 1998 scheme granted to key management 22 August 2005	**–**	42,852	Movement of the group's basic earnings per share exceeding that of RPI by 3% p.a. over the relevant period	22/08/08 – 22/08/15
Five-year Sharesave scheme granted to other employees 21 May 2010	**–**	53,274	Continuous service	01/07/15 – 01/01/16
Five-year Sharesave scheme granted to other employees 11 May 2011	**42,006**	43,385	Continuous service	01/07/16 – 01/01/17
Three-year Sharesave scheme granted to other employees 11 May 2012	**151**	306,063	Continuous service	01/07/15 – 01/01/16
Five-year Sharesave scheme granted to other employees 11 May 2012	**49,905**	54,694	Continuous service	01/07/17 – 01/01/18
Three-year Sharesave scheme granted to other employees 10 May 2013	**117,762**	123,932	Continuous service	01/07/16 – 01/01/17
Five-year Sharesave scheme granted to other employees 10 May 2013	**46,731**	52,641	Continuous service	01/07/18 – 01/01/19
Headlam Group Co-Investment Plan 2008 granted to key management 1 April 2014*	**249,418**	290,532	If the real earnings per share growth is over 3% p.a. – 50% vesting; over 6% – 100% vesting. TSR: if company is ranked at median or above – 50%; upper quartile – 100%	02/04/16 – 02/04/23
Three-year Sharesave scheme granted to other employees 8 May 2014	**177,869**	265,851	Continuous service	01/07/17 – 01/01/18
Five-year Sharesave scheme granted to other employees 8 May 2014	**70,689**	185,169	Continuous service	01/07/19 – 01/01/20
Headlam Group Co-Investment Plan 2008 granted to key management 1 May 2015*	**263,495**	–	If the real earnings per share growth is over 3% p.a. – 50% vesting; over 6% – 100% vesting. TSR: if company is ranked at median or above – 50%; upper quartile – 100%	02/05/18 – 02/05/25
Three-year Sharesave scheme granted to other employees 5 May 2015	**362,651**	–	Continuous service	01/07/18 – 01/01/19
Five-year Sharesave scheme granted to other employees 5 May 2015	**226,113**	–	Continuous service	01/07/20 – 01/01/21
Total share options	**1,606,790**	1,418,393		

* Further details are provided on page 69 of the Remuneration Report.

Notes to the Financial Statements

20 SHARE-BASED PAYMENTS CONTINUED

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

	Weighted average exercise price 2015	Number of options 2015	Weighted average exercise price 2014	Number of options 2014
Outstanding at the beginning of the year	**245.4**	**1,418,393**	117.2	2,532,846
Exercised during the year	**257.2**	**(390,866)**	126.0	(816,062)
Granted during the year	**238.3**	**880,521**	235.9	762,862
Lapsed during the year	**316.0**	**(301,258)**	24.32	(1,061,253)
Outstanding at the end of the year	**225.4**	**1,606,790**	245.4	1,418,393
Exercisable at the end of the year	**0.0**	**263,495**	420.0	42,852

The weighted average share price for options exercised during the year was 468.5p (2014: 414.3p).

The options outstanding at the year end have an exercise price in the range of 0.0p to 420.0p and a weighted average contractual life of 2.6 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. In order to estimate the fair value of the services received the company uses an appropriate option pricing model, either the Black–Scholes or the Monte Carlo option pricing model.

It is expected that the options will be exercised as soon as they reach maturity.

The expected volatility is based on historic volatility calculated over the weighted average remaining life of the share options.

Details of share options granted during 2015 are shown below:

2015		Three-year Co-Investment Plan 2008	Three-year Sharesave scheme	Five-year Sharesave scheme
Number of options		**263,495**	**381,121**	**235,905**
Fair value at measurement date:				
No performance conditions		**–**	**136.1p**	**136.8p**
Performance conditions	EPS 80% & TSR 20%	**411.7p**	**–**	**–**
Share price at 31 December		**499.3p**	**499.3p**	**499.3p**
Exercise price		**–**	**340.0p**	**340.0p**
Expected volatility		**36.8% p.a.**	**36.8% p.a.**	**34.9% p.a.**
Option life		**three years**	**three years**	**five years**
Dividend yield		**4.1% p.a.**	**4.1% p.a.**	**4.1% p.a.**
Risk-free rate of interest		**0.8% p.a.**	**1.0% p.a.**	**1.5% p.a.**

Details of share options granted during 2014 are shown below:

2014		Three-year Co-Investment Plan 2008	Three-year Sharesave scheme	Five-year Sharesave scheme
Number of options		290,532	283,224	189,106
Fair value at measurement date:				
No performance conditions		–	100.6p	130.2p
Performance conditions	EPS 80% & TSR 20%	443.7p	–	–
Share price at 31 December		437.8p	437.8p	437.8p
Exercise price		–	381.0p	381.0p
Expected volatility		23.2% p.a.	23.2% p.a.	30.2% p.a.
Option life		three years	three years	five years
Dividend yield		3.5% p.a.	3.5% p.a.	3.5% p.a.
Risk-free rate of interest		1.3% p.a.	1.3% p.a.	2.0% p.a.

Notes to the Financial Statements

20 SHARE-BASED PAYMENTS CONTINUED

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

	Group		Company		Subsidiaries	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Share options granted in 2008 under the SAYE five-year scheme	**–**	15	**–**	–	**–**	15
Share options granted in 2009 under the SAYE five-year scheme	**–**	13	**–**	1	**–**	12
Share options granted in 2010 under the SAYE five-year scheme	**5**	14	**–**	–	**5**	14
Share options granted in 2011 under the SAYE three-year scheme	**–**	15	**–**	–	**–**	15
Share options granted in 2011 under the SAYE five-year scheme	**17**	17	**–**	–	**17**	17
Headlam Group Co-Investment Plan 2008 (awarded 2011)	**–**	42	**–**	19	**–**	23
Share options granted in 2012 under the SAYE three-year scheme	**31**	87	**–**	2	**31**	85
Share options granted in 2012 under the SAYE five-year scheme	**14**	14	**–**	–	**14**	14
Headlam Group Co-Investment Plan 2008 (awarded 2012)	**48**	74	**20**	31	**28**	43
Share options granted in 2013 under the SAYE three-year scheme	**28**	28	**–**	–	**28**	28
Share options granted in 2013 under the SAYE five-year scheme	**7**	7	**–**	–	**7**	7
Headlam Group Co-Investment Plan 2008 (awarded 2014)	**468**	291	**133**	82	**335**	209
Share options granted in 2014 under the SAYE three-year scheme	**76**	49	**1**	2	**75**	47
Share options granted in 2014 under the SAYE five-year scheme	**39**	26	**4**	1	**35**	25
Headlam Group Co-Investment Plan 2008 (awarded 2015)	**242**	–	**117**	–	**125**	–
Share options granted in 2015 under the SAYE three-year scheme	**91**	–	**4**	–	**87**	–
Share options granted in 2015 under the SAYE five-year scheme	**34**	–	**–**	–	**34**	–
Total expense recognised	**1,100**	692	**279**	138	**821**	554

21 CAPITAL AND RESERVES

Share capital

	Ordinary shares 2015	Ordinary shares 2014
Number of shares		
On issue at 1 January and 31 December – authorised	**107,840,000**	107,840,000
On issue at 1 January and 31 December – fully paid	**85,363,743**	85,363,743

	2015 £000	2014 £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

At 31 December 2015, the company held 1,130,592 (2014: 1,521,458) shares which have been disclosed in the treasury reserve. Dividends are not payable on these shares and they are excluded from the calculation of earnings per share. The shares held in treasury represent 1.3% (2014: 1.8%) of the issued share capital with a nominal value of £56,530 (2014: £76,073).

In the period from 31 December 2015 to 3 March 2016 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

	2015 £000	2014 £000
Interim dividend for 2014 of 5.20p paid 2 January 2015	**4,355**	–
Final dividend for 2014 of 12.30p paid 1 July 2015	**10,300**	–
Interim dividend for 2013 of 4.65p paid 2 January 2014	**–**	3,856
Final dividend for 2013 of 10.65p paid 1 July 2014	**–**	8,833
	14,655	12,689

The final proposed dividend of 14.70p per share (2014: 12.30p per share) will not be provided for until authorised by shareholders at the forthcoming AGM. There are no income tax consequences.

Interim dividends of 6.00p per share (2014: 5.20p per share) are provided for when the dividend is paid. The dividend was paid on 2 January 2016 and totalled £5,048,000.

The total value of dividends proposed but not recognised at 31 December 2015 is £17,416,000 (2014: £14,655,000).

A special dividend has been declared of 6.00p per share that will be paid on 25 April 2016.

Notes to the Financial Statements

21 CAPITAL AND RESERVES CONTINUED

Reserves

Other reserves

Other reserves as disclosed on the Statement of Financial Position comprise the capital redemption reserve, translation reserve, cash flow hedging reserve 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 comprises 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.

22 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 three months of the year end. The directors have considered the inherent risk profile of other receivables at the year end and are of the view that this historical experience will prevail for the foreseeable future and accordingly consider the credit quality of these assets to be robust.

Cash and cash equivalents represent deposits with reputable financial institutions in the UK and Continental Europe and hence, the directors consider the credit quality of cash and cash equivalents to be robust.

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

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Trade and other receivables (note 15)	**116,179**	115,057	**20,159**	15,293
Cash and cash equivalents (note 16)	**63,932**	47,589	**33,001**	14,237
	180,111	162,646	**53,160**	29,530

The fair values of the above financial assets at both 31 December 2015 and 2014 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	
	2015 £000	2014 £000	**2015 £000**	2014 £000
UK	**79,730**	79,457	**–**	–
Continental Europe	**9,698**	11,038	**–**	–
	89,428	90,495	**–**	–

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

	2015		2014	
Group	**Gross £000**	**Impairment £000**	Gross £000	Impairment £000
Not past due	**80,543**	**(167)**	82,002	–
Past due 0–30 days	**7,764**	**(335)**	8,524	(444)
Past due 31–120 days	**3,815**	**(2,192)**	2,118	(1,705)
	92,122	**(2,694)**	92,644	(2,149)

All other receivables and derivative financial assets are not past due (2014: not past due).

The company had trade receivables of £nil (2014: £nil).

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

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Balance at 1 January	**2,149**	2,486	**–**	–
Amounts provided	**1,572**	1,099	**–**	–
Amounts utilised	**(1,005)**	(1,380)	**–**	–
Effect of movements in foreign exchange	**(22)**	(56)	**–**	–
Balance at 31 December	**2,694**	2,149	**–**	–

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 0.24% (2014: 0.17%).

Notes to the Financial Statements

22 FINANCIAL INSTRUMENTS CONTINUED

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 2015 cash and cash equivalents covered the amounts of borrowings maturing in the next 12 months with a net positive liquidity of £63,932,000 (2014: £47,385,000). Details of the total facilities that the group has access to are given in note 17.

The following are the contractual maturities of financial liabilities:

31 December 2015 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	**20,000**	**(20,676)**	**(579)**	**(20,097)**	**–**	**–**
Trade and other payables	**156,894**	**(156,894)**	**(156,894)**	**–**	**–**	**–**
Derivative financial liabilities						
Interest rate swaps used for hedging	**30**	**(30)**	**(30)**	**–**	**–**	**–**
Diesel commodity swap used for hedging	**486**	**(486)**	**(424)**	**(62)**	**–**	**–**
	177,410	**(178,086)**	**(157,927)**	**(20,159)**	**–**	**–**

31 December 2014 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	23,022	(24,552)	(838)	(834)	(20,840)	(2,040)
Trade and other payables	151,521	(151,521)	(151,521)	–	–	–
Derivative financial liabilities						
Interest rate swaps used for hedging	132	(132)	(55)	(77)	–	–
	174,675	(176,205)	(152,414)	(911)	(20,840)	(2,040)

31 December 2015 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	**20,000**	**(20,676)**	**(579)**	**(20,097)**	**–**
Trade and other payables	**35,523**	**(35,523)**	**(35,523)**	**–**	**–**
Derivative financial liabilities					
Interest rate swaps used for hedging	**30**	**(30)**	**(30)**	**–**	**–**
Diesel commodity swap used for hedging	**486**	**(486)**	**(424)**	**(62)**	**–**
	56,039	**(56,715)**	**(36,556)**	**(20,159)**	**–**

31 December 2014 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	20,000	(21,255)	(579)	(579)	(20,097)
Trade and other payables	35,502	(35,502)	(35,502)	–	–
Derivative financial liabilities					
Interest rate swaps used for hedging	132	(132)	(55)	(77)	–
	55,634	(56,889)	(36,136)	(656)	(20,097)

The value of the group's and company's financial liabilities as detailed above at 31 December 2015 and 2014 were not materially different to the carrying value. Fair values were calculated using market rates, where available. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

The table below sets out the group's accounting classification of each class of financial assets and liabilities at 31 December 2015 and 2014.

31 December 2015	**Available for sale £000**	**Other derivatives at fair value £000**	**Amortised cost £000**	**Total carrying value £000**
Cash and cash equivalents	–	–	**63,932**	**63,932**
Borrowings due within one year	–	–	–	–
Borrowings due after one year	–	–	**(20,000)**	**(20,000)**
Trade payables	–	–	**(131,153)**	**(131,153)**
Non-trade payables	–	–	**(25,741)**	**(25,741)**
Trade receivables	–	–	**89,428**	**89,428**
Other receivables	–	–	**26,751**	**26,751**
Derivative liabilities	–	**(516)**	–	**(516)**
Derivative assets	–	**40**	–	**40**
	–	**(476)**	**3,217**	**2,741**

31 December 2014	Available for sale £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	–	–	47,589	47,589
Borrowings due within one year	–	–	(204)	(204)
Borrowings due after one year	–	–	(22,818)	(22,818)
Trade payables	–	–	(127,235)	(127,235)
Non-trade payables	–	–	(24,286)	(24,286)
Trade receivables	–	–	90,495	90,495
Other receivables	–	–	24,562	24,562
Derivative liabilities	–	(132)	–	(132)
Derivative assets	–	2	–	2
	–	(130)	(11,897)	(12,027)

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.

22 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 its exposure to UK interest rates, the group entered into two interest rate swaps in 2012 to fix £20 million of its sterling denominated borrowings. 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. The cash flows will occur over the period to 8 March 2016.

The fair value of these interest rate swaps are included in the Statement of Financial Position as a £30,000 derivative liability (2014: £132,000).

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

	Group Carrying amount		Company Carrying amount	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Variable rate instruments				
Financial assets	**63,932**	47,589	**33,001**	14,237
Financial liabilities	**(20,000)**	(23,022)	**(20,000)**	(20,000)
	43,932	24,567	**13,001**	(5,763)

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 2014.

	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 2015								
Variable rate instruments	**439**	**(439)**	**–**	**–**	**130**	**(130)**	**–**	**–**
31 December 2014								
Variable rate instruments	246	(246)	–	–	(58)	58	–	–

Commodity risk

The company and group are exposed to the commodity risk of rising fuel prices. On 1 November 2015, in order to manage this risk the group has entered into a hedging instrument that is a two year commodity transaction swap. The risk hedged is the diesel fuel price risk, being the change in fuel price payments on the specified diesel consumption. The notional amount is 6,768 metric tons, under which a fixed diesel price of £348.25 per metric ton is paid monthly and the floating price according to Platts European is received.

The fair value of this diesel commodity swap is included in the Statement of Financial Position as a £485,000 derivative liability.

Foreign currency risk

The group and company are exposed to movements in currency exchange rates arising from transaction currency cash flows and the translation of the results and net assets of overseas subsidiaries. The currencies giving rise to this risk are primarily the euro, Swiss franc and US dollar.

The group and company use forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in the functional currency of the acquiring company. These forward exchange contracts would have a maturity of less than one year after the Statement of Financial Position date. The group also enters into foreign currency contracts at spot rate where the amounts are not frequent or material. Gains and losses on currency contracts recognised as an asset as at 31 December 2015 amounted to £40,000 (2014: asset of £2,000).

For the 12-month period to 31 December 2015, 1.6% (2014: 3.8%) of the group's operating profit was derived from overseas subsidiaries and at 31 December 2015, 17.4% (2014: 16.0%) of the group's net operating assets related to overseas subsidiary operations. Hedge accounting, following the adoption of IFRS, has not been applied to these operations.

The group and company do not use derivatives other than as described above.

The exposure to foreign currency risk was as follows:

	Group			Company		
2015	**Euro amount £000**	**Other amount £000**	**Total £000**	**Euro amount £000**	**Other amount £000**	**Total £000**
Trade and other receivables	**127**	**163**	**290**	**4,690**	**109**	**4,799**
Cash and cash equivalents	**374**	**516**	**890**	**64**	**–**	**64**
Trade and other payables	**(879)**	**(2,322)**	**(3,201)**	**–**	**–**	**–**
	(378)	**(1,643)**	**(2,021)**	**4,754**	**109**	**4,863**

	Group			Company		
2014	Euro amount £000	Other amount £000	Total £000	Euro amount £000	Other amount £000	Total £000
Trade and other receivables	98	70	168	67	15	82
Cash and cash equivalents	309	482	791	98	–	98
Trade and other payables	(1,029)	(2,574)	(3,603)	–	–	–
	(622)	(2,022)	(2,644)	165	15	180

Sensitivity analysis

A 10% 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 2014.

	Group		Company	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Euro	**(38)**	(62)	**475**	16
Other	**(164)**	(202)	**11**	1

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

22 FINANCIAL INSTRUMENTS CONTINUED

Fair values hierarchy

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

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

The group has two interest rates swaps used for hedging which were fair valued in accordance with level 2 for the year ended 31 December 2015 (2014: level 2) and forward currency contracts which were fair valued in accordance with level 2 (2014: 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.

Capital management

The group views its finance capital resources as primarily comprising share capital, bank loans and operating cash flow.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board closely monitors its shareholder base, dividend yield and earnings per share. In the medium term the group aims to maintain a dividend cover of 1.6 times.

The board encourages employees of the group to hold the company's ordinary shares. The group operates a number of employee share option schemes. In previous years 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 a £40 million committed facility and a £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.

No changes were made to the objectives, policies or processes during the years ended 31 December 2015 and 31 December 2014.

23 ACQUISITIONS

On 30 January 2015, a wholly owned group subsidiary company acquired the business and certain assets of Matty's Wholesale Carpets Limited ("Matty's").

Matty's is a distributor of residential floorcovering to independent flooring retailers, principally in the Midlands.

Cash consideration was paid of £1,977,000. Since its acquisition the business has contributed revenue of £3.4 million and a profit of £0.3 million to the Consolidated Statement of Comprehensive Income for the year ended 31 December 2015. If the acquisition had occurred on 1 January 2015 group revenue would have been an estimated £3.6 million and profit after tax would have been an estimated £0.3 million.

	Acquiree's book value £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Intangible assets	–	375	375
Tangible fixed assets	38	–	38
Inventories	974	–	974
Trade and other receivables	216	–	216
Trade and other payables	(1)	–	(1)
Net identifiable assets and liabilities	1,227	375	1,602
Goodwill on acquisition		375	375
Consideration paid			1,977
Satisfied by:			
Cash			1,977
Analysis of cash flows:			
On completion			1,977
Costs of acquisition			24
			2,001

Professional fees of £24,000 were incurred on the acquisition and have been expensed to the income statement within administration expenses.

The book value of receivables given in the table above represents the gross contracted amounts receivable. At the acquisition date the entire book value of receivables was expected to be collected.

Goodwill of £375,000 has arisen on the acquisition of the business and certain assets of Matty's Wholesale Carpets Limited. There were also intangible assets on acquisition of £375,000 which were attributed to customer order books.

Notes to the Financial Statements

23 ACQUISITIONS CONTINUED

Prior year acquisitions

On 2 July 2014, a group subsidiary company acquired the business and certain assets of Kalm Investments Limited.

Kalm Investments has two trading entities: RPS Flooring based in Mansfield and Mytton Flooring based in Norwich, both being suppliers to independent floorcovering retailers in their areas. Cash consideration was paid of £331,000. Since its acquisition the businesses have contributed revenue of £1,458,000 and a loss of £22,000 to the Consolidated Statement of Comprehensive Income for the year ended 31 December 2014. If the acquisition had occurred on 1 January 2014 group revenue would have been an estimated £638.3 million and profit after tax would have been an estimated £23.9 million.

	Acquiree's book value £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Intangible assets	–	75	75
Inventories	171	–	171
Trade and other receivables	261	–	261
Trade and other payables	(176)	–	(176)
Net identifiable assets and liabilities	256	75	331
Goodwill on acquisition			–
Consideration paid			331
Satisfied by:			
Cash			331
Analysis of cash flows:			
On completion			331
Costs of acquisition			26
			357

Professional fees of £26,000 were incurred on the acquisition and have been expensed to the income statement within administration expenses.

The book value of receivables given in the table above represented the gross contracted amounts receivable. At the acquisition date the entire book value of receivables was expected to be collected.

No goodwill has arisen on the acquisition of the business and certain assets of Kalm Investments Limited. The intangible assets on acquisition were attributed to customer order books.

Following acquisition, it is the group's normal practice to implement its operational and financial procedures and standard IT systems.

Furthermore, acquired businesses gain access to the group's extensive product ranges and benefit from enhanced sales and marketing investment. These changes typically enable acquired businesses to enhance the service provided to their customers and ultimately, develop and grow.

Whilst acquired customer order books are a key component at the point of acquisition, this position quickly dissipates during the post acquisition period. The dynamic and renewable nature of this class of asset is the reason the group elects to amortise it over a period of one to 24 months, the precise period being dependent upon the size of the acquired business.

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:

	2015			2014		
Group	Land and buildings £000	Plant and machinery £000	Total £000	Land and buildings £000	Plant and machinery £000	Total £000
Less than one year	1,843	9,984	11,827	1,728	9,355	11,083
Between one and five years	3,557	16,612	20,169	3,160	13,657	16,817
More than five years	2,468	–	2,468	2,234	–	2,234
	7,868	26,596	34,464	7,122	23,012	30,134

	2015			2014		
Company	Land and buildings £000	Plant and machinery £000	Total £000	Land and buildings £000	Plant and machinery £000	Total £000
Less than one year	26	8	34	26	2	28
Between one and five years	105	10	115	105	–	105
More than five years	1,854	–	1,854	1,881	–	1,881
	1,985	18	2,003	2,012	2	2,014

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 2015, total operating lease expense of £11,631,000 was recognised in the Consolidated Income Statement (2014: £11,854,000).

25 CAPITAL COMMITMENTS

Group

During the year ended 31 December 2015, the group entered into commitments to purchase property, plant and equipment for £728,000 (2014: £1,019,000). These commitments are expected to be settled in the following financial year.

Company

During the year ended 31 December 2015, the company entered into commitments to purchase property, plant and equipment for £nil (2014: £109,000).

26 RELATED PARTIES

Group and company

Identity of related parties

The group has a related party relationship with its subsidiaries and with its directors and executive officers.

Transactions with key management personnel

The group annually re-evaluates its interpretation of key management personnel and considers that this relates to the executive and non-executive directors of the group as identified on pages 42 and 43.

As at 31 December 2015, directors of the company and their immediate relatives controlled 1.3% of the voting shares of the company (2014: 1.3%).

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 £251,000 (2014: £159,000).

Notes to the Financial Statements

26 RELATED PARTIES

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 2015 £000**	Highest during the year £000	Balance at 31 December 2014 £000
Amounts due from subsidiaries	**19,970**	**19,970**	15,081	15,081
Amounts due to subsidiaries	**(31,315)**	**(31,315)**	(31,377)	(31,377)

Transactions with group companies typically comprise management, rent and interest charges during the period.

The disclosure of the year-end balance and the highest balance during the year is considered to provide a meaningful representation of transactions between the company and its subsidiaries in the year. The highest balance is generally at the start or close of the financial year since this is the time when the company levies its recharge of its operating expenses.

Related party transactions reported in the income statement

	For year ended 31 December 2015 £000	For year ended 31 December 2014 £000
Rental income	**7,202**	7,202
Dividends received	**35,947**	5,742
Recharge of operating expenses	**1,192**	1,954
Interest income	**170**	167
Pension recharge	**–**	162

27 SUBSEQUENT EVENTS

Management has given due consideration to any events occurring in the period from the reporting date to the date these financial statements were authorised for issue and has concluded that there are no material adjusting or non-adjusting events to be disclosed in these financial statements.

Group Subsidiaries

Company	Registered Number	Type	Place of incorporation
HFD Limited	02674152	Trading	Great Britain
MCD Group Limited	00423062	Trading	Great Britain
NCT (International) Limited	9127711	Trading	Great Britain
Headlam BV		Trading	Netherlands
LMS SA		Trading	France
Belcolor AG		Trading	Switzerland
Headlam (European) Limited	5272085	Holding Company	Great Britain
Headlam Holdings BV		Holding Company	Netherlands
Headlam SAS		Holding Company	France
Yourfloors Plc	3968487	Dormant	Great Britain
Crossforge Limited	01290315	Dormant	Great Britain
Gorsey Eleven Limited	2398926	Dormant	Great Britain
Headlam Group Employee Trust Company Limited	03402470	Dormant	Great Britain
Headlam Group Pension Trustees Limited	3666554	Dormant	Great Britain
Mercado Group Limited	9725622	Dormant	Great Britain

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.

Financial Record

	2015 £000	2014 £000	2013 Restated* £000	2012 £000	2011 £000
Trading results					
Revenue	**654,078**	635,242	603,051	585,984	569,795
Gross profit	**200,510**	190,540	181,255	175,733	175,739
Overheads	**(163,733)**	(159,078)	(153,575)	(146,419)	(147,687)
Underlying operating profit	**36,777**	31,462	27,680	29,314	28,052
Underlying profit before net financing costs	**36,777**	31,462	27,680	29,314	28,052
Net financing costs	**(1,153)**	(1,162)	(1,241)	(1,463)	(464)
Underlying profit on ordinary activities before tax	**35,624**	30,300	26,439	27,851	27,588
Taxation	**(7,213)**	(6,515)	(6,146)	(6,939)	(7,184)
Underlying profit on ordinary activities after taxation	**28,411**	23,785	20,293	20,912	20,404
Shareholder value					
Paid dividend per share	**17.50p**	15.30p	14.85p	14.15p	12.40p
Proposed dividend per share	**20.70p**	17.50p	15.30p	14.85p	14.15p
Underlying earnings per share	**33.8p**	28.6p	24.5p	25.3p	24.6p
Net assets					
Non-current assets					
Property, plant and equipment	**101,263**	103,461	103,079	96,182	94,201
Intangible assets	**10,388**	10,013	10,013	13,210	13,210
Deferred tax assets	**2,238**	2,726	2,388	2,376	962
	113,889	116,200	115,480	111,768	108,373
Current assets					
Inventories	**119,143**	116,569	115,678	115,332	114,196
Trade and other receivables	**120,154**	118,816	119,488	108,070	111,656
Cash and cash equivalents	**63,932**	47,589	47,477	49,798	41,494
Assets held for sale	**–**	–	–	212	362
	303,229	282,974	282,643	273,412	267,708
Total assets	**417,118**	399,174	398,123	385,180	376,081
Current liabilities					
Other interest-bearing loans and borrowings	**–**	(204)	(218)	(213)	(30,219)
Trade and other payables	**(172,701)**	(166,266)	(164,519)	(153,755)	(154,490)
Employee benefits	**(2,171)**	(2,933)	(2,842)	(2,754)	(2,669)
Income tax payable	**(6,974)**	(6,073)	(7,022)	(7,117)	(6,678)
	(181,846)	(175,476)	(174,601)	(163,839)	(194,056)
Non-current liabilities					
Other interest-bearing loans and borrowings	**(20,000)**	(22,818)	(33,239)	(33,371)	(3,691)
Employee benefits	**(16,843)**	(18,803)	(12,780)	(14,641)	(11,789)
	(36,843)	(41,621)	(46,019)	(48,012)	(15,480)
Total liabilities	**(218,689)**	(217,097)	(220,620)	(211,851)	(209,536)
Net assets	**198,429**	182,077	177,503	173,329	166,545

* Restated to reflect the changes for revised IAS 19.

Notice of Annual General Meeting

Notice is hereby given that the 68th Annual General Meeting of Headlam Group plc will be held at the group's distribution facility located at Gorsey Lane, Coleshill, B46 1JU on Friday 20 May 2016 at 10.00 a.m. for the following purposes.

As ordinary business

1. To receive, consider and adopt the Annual Report and Accounts, the reports of the directors and the Independent Auditor's Report for the year ended 31 December 2015.

2. To declare a final ordinary dividend for the year ended 31 December 2015 of 14.70p per ordinary share.

3. To elect as a director Philip Lawrence who was appointed since the date of the last notice of annual general meeting and who is retiring in accordance with the company's articles of association.

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

5. To appoint PricewaterhouseCoopers LLP as the 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 Directors' Remuneration Report for the year ended 31 December 2015.

As special business

To consider and, if thought fit, pass the following resolutions, of which resolution 8 will be proposed as an ordinary resolution 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 2017 AGM (or, if earlier, at the close of business on 30 June 2017), 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. Disapplication 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 9 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 2017 AGM if passed (or, if earlier, at the close of business on 30 June 2017), 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

Notice of Annual General Meeting

(b) shall be limited to:

(i) the allotment of equity securities in connection with an issue to holders of ordinary shares of 5p 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 9(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 9 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 5p 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 5p;

(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 2017 AGM or, if earlier, at the close of business on 30 June 2017 (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 2017 or 30 June 2017, whichever is the earlier.

By order of the board

Geoff Duggan
Company Secretary
3 March 2016

Headlam Group plc
Registered No. 460129, England
Registered office:
PO Box 1
Gorsey Lane, Coleshill
Birmingham, B46 1LW

Explanatory Notes to the Proposed Resolutions

This year's AGM will be held at the group's distribution facility at Gorsey Lane, Coleshill, Birmingham B46 1JU on Friday 20 May 2016 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 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 auditor's reports for the financial year ended 31 December 2015. Shareholders are invited to vote to receive and adopt the Annual Report and Accounts for the year ended 31 December 2015.

Resolution 2 – Declaration of ordinary dividend

The directors recommend the payment of a final ordinary dividend of 14.70p on each of the ordinary shares entitled thereto, which, together with the interim ordinary dividend of 6.00p, gives a total ordinary dividend of 20.70p for the year ended 31 December 2015. Subject to approval of the declaration of the final ordinary dividend at the AGM, the final ordinary dividend will be paid on 1 July 2016 to the holders of ordinary shares whose names are recorded on the register of members at the close of business on 3 June 2016.

Resolution 3 – Election of Philip Lawrence as a director

Philip Lawrence was appointed to the board on 1 June 2015, at which time he was also appointed to the Nominations, Audit and Remuneration Committees. In accordance with the company's articles of association, he offers himself for election at the forthcoming AGM. Philip is the Chief Executive of the Coal Authority, prior to which he held significant roles with Marconi plc and Deloitte & Touche having trained as a chartered accountant after attaining a BSc in Mathematics.

In accordance with the recommendations of the combined code relating to non-executive directors, the board believes that Philip Lawrence should be elected and makes such a recommendation to shareholders.

Resolution 4 – Re-election of Tony Brewer as a director

Tony Brewer is retiring by rotation in accordance with the company's articles and is offering himself for re-election by shareholders. Under the articles of association, directors are required to retire every three years. Tony was appointed an executive director in June 1991, becoming Managing Director of the Floorcoverings Division in 1992 and Group Chief Executive in November 2000. The board believes that Tony Brewer should be re-elected and makes such a recommendation to shareholders.

Resolution 5 – To appoint PricewaterhouseCoopers LLP as the Company's Auditor

An auditor must be appointed at every Annual General Meeting at which accounts are presented to the shareholders. Following a tender process, which is described in the report on the activities of the Audit Committee set out on page 57 of the company's Annual Report and Accounts, KPMG LLP is not seeking reappointment.

PricewaterhouseCoopers LLP has advised its willingness to stand for appointment as auditor of the Company. The Board recommends the appointment of PricewaterhouseCoopers LLP following recommendation by the Audit Committee, which has considered the circumstances of the change of auditor.

Explanatory Notes to the Proposed Resolutions

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 2015 Directors' Remuneration Report, which gives details of the directors' remuneration for the period ended 31 December 2015 and is set out on pages 58 to 74 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. As required by the Directors' Remuneration Report Regulations 2002, KPMG LLP has audited those parts of the Directors' Remuneration Report capable of being audited and their report can be found on pages 86 to 88 of the Annual Report and Accounts.

SPECIAL BUSINESS – RESOLUTIONS 8 TO 11

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. With due regard to the ABI guidelines and to comments received from shareholders, the proposed general authority, similar to last year, 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 3 March 2016). As at 3 March 2016, the company held 905,651 treasury shares, which represented approximately 1.1% 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 2017, or, if earlier, on 30 June 2017. The directors consider that this authority is desirable to allow the company to retain flexibility, although they have no current intention of exercising this authority except in connection with the company's employee share schemes.

Resolution 9 – Disapplication 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 3 March 2016). The authority will lapse at the conclusion of the AGM to be held in 2017 or, if earlier, on 30 June 2017.

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"). 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 in 2015. The authority is in respect of 10% of the company's issued ordinary share capital as at 3 March 2016 and will lapse at the conclusion of the AGM to be held in 2017 or, if earlier, on 30 June 2017. 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 20 and 21 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 the AGM in 2015, 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 Notice of Meeting

Notes 1 to 17 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 our registrars, Capita Asset Services, telephone 0871 664 0300 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Capita are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales). 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 Asset Services, 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 Uncertificated 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 18 May 2016 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.

6. Corporate representatives

Corporations may appoint one or more corporate representatives who, on its behalf, may exercise all of its powers as a member.

7. 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.

8. Issued share capital/voting rights

As at 3 March 2016, being the latest practicable date prior to the publication of this document, the company's issued share capital, including treasury shares, consisted of 85,363,743 ordinary shares of 5p ("shares"). Of these, 905,651 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 84,458,092.

9. 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.

10. 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 LLP 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.

Explanatory Notes to the Notice of Meeting

11. 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.

12. Access arrangements

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

13. 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: PO Box 1, Gorsey Lane, Coleshill, Birmingham, B46 1LW; or

(b) by writing to: Capita Asset Services, 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 2015 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.

14. 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 Nominations 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.

15. 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.

16. Website

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

17. 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 whom 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.

Shareholder Information

Shareholder helpline

The company's shareholder register is maintained by Capita Asset Services ("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 Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Email: ssd@capitaregistrars.com, telephone 0871 664 0300 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Capita are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.)

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.capitaassetservices.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. 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.

HMRC confirms legislation to implement changes to dividend payments

What does the new legislation mean for issuers?

A new zero rate tax will be introduced, effective from 6 April 2016, to dividends. The Dividend Tax Credit will no longer be required.

The way in which companies paying dividends advise shareholders of the funds they have received remain broadly unchanged, a payment advice still being required. The obligation to show the dividend tax credit is, though, removed and the new notification is likely to be called a "dividend confirmation".

What does it mean for Shareholders?

Currently all UK dividends are paid with a notional 10% tax credit, so for every £1,000 of dividend income received it is assumed that £111 in basic rate tax has already been paid (the total dividend is therefore £1,111). For this reason, non and basic rate tax payers have no further tax liability on dividends received. This tax credit is being scrapped, so in future all dividend income will be treated as gross (i.e. untaxed) income.

From April 2016, there will be an income tax charge on dividends at the rate of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

The long-standing system of tax credits attached to dividends will be replaced with a new tax-free Dividend Allowance. This will mean that there will be no tax to pay on the first £5,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs will be unaffected, remaining tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income between £5,001 and £10,000 will need to make a self assessment declaration to HMRC for the first

Shareholder Information

time. Individuals with dividend income of more than £10,000 are already required to submit a self assessment declaration. It is expected that most of those individuals who will have some tax to pay on dividend income will have it collected by PAYE. Further details of how this will be done are yet to be published but will be in time before the tax is due.

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.

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 Conduct Authority (FCA) by calling 0800 111 6768 or by visiting www.fca.org.uk and contact the firm using the details on the register.
- Report the matter to the FCA by calling 0800 111 6768 or by visiting www.fca.org.uk.

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 FCA website www.moneymadeclear.org.uk. If you have any queries, please contact the Company Secretary.

Advisers

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KPMG LLP
One Snowhill
Snow Hill Queensway
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Taxation Advisers
Deloitte LLP
Four Brindleyplace
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Institutional Banking
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Solicitors
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Birmingham B4 6BH

Stockbrokers
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Arden House
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Birmingham B15 3DU

Investec Bank plc
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EC2V 7QP

Financial PR and IR
Buchanan
107 Cheapside
London
EC2V 6DN

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Financial Calendar

Announcements

Annual General Meeting	20 May 2016
Interim results announced	22 August 2016
Full year results announced	March 2017

Dividend Dates

Final dividend for 2015, if approved, payable to qualifying shareholders on the register as at 3 June 2016	1 July 2016
Special dividend for 2015, payable to qualifying shareholders on the register as at 8 April 2016	25 April 2016
Interim dividend for 2016 declared	22 August 2016
Interim dividend for 2016 payable	3 January 2017

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