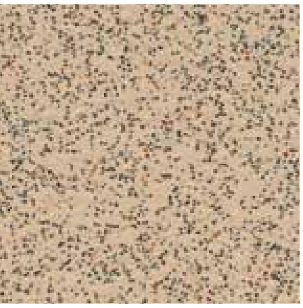
headlam
group plc







Europe's leading floorcovering distributor










Annual Report
and Accounts
2010

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

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

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

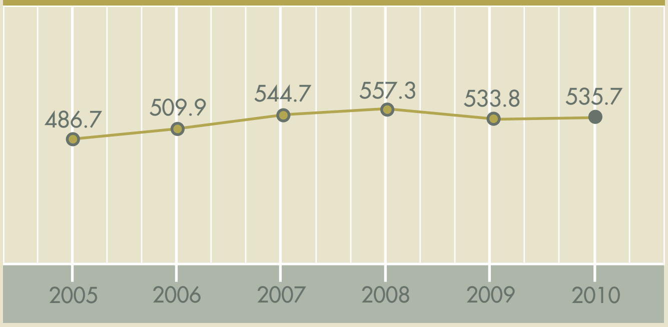
In implementing this strategy, Headlam has developed a diverse and autonomous structure with 49 businesses in the UK and a further five in Continental Europe.

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

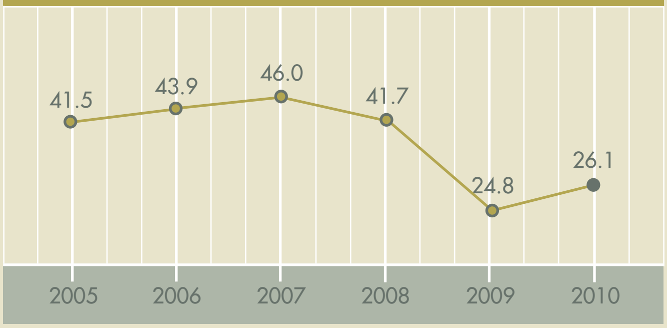
Each business is supported by the commitment to continued investment in people, product, facilities and IT. This commitment has provided the basis for the group's growth and performance enabling it to develop into Europe's leading floorcovering distributor.

Financial Highlights

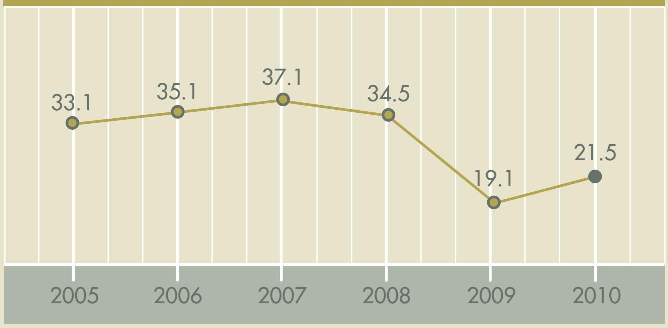
Revenue (£m)



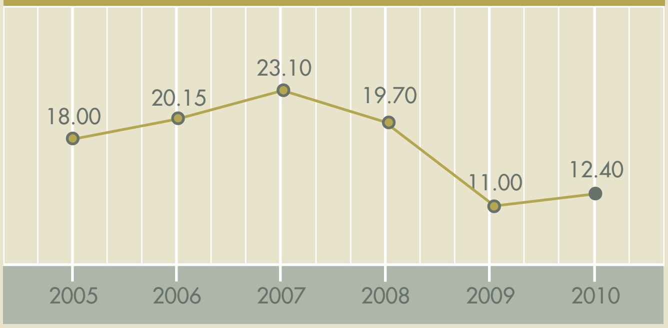
Operating Profit (£m)



Earnings Per Share (p)



Proposed Dividends (p)



Market Presence

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

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

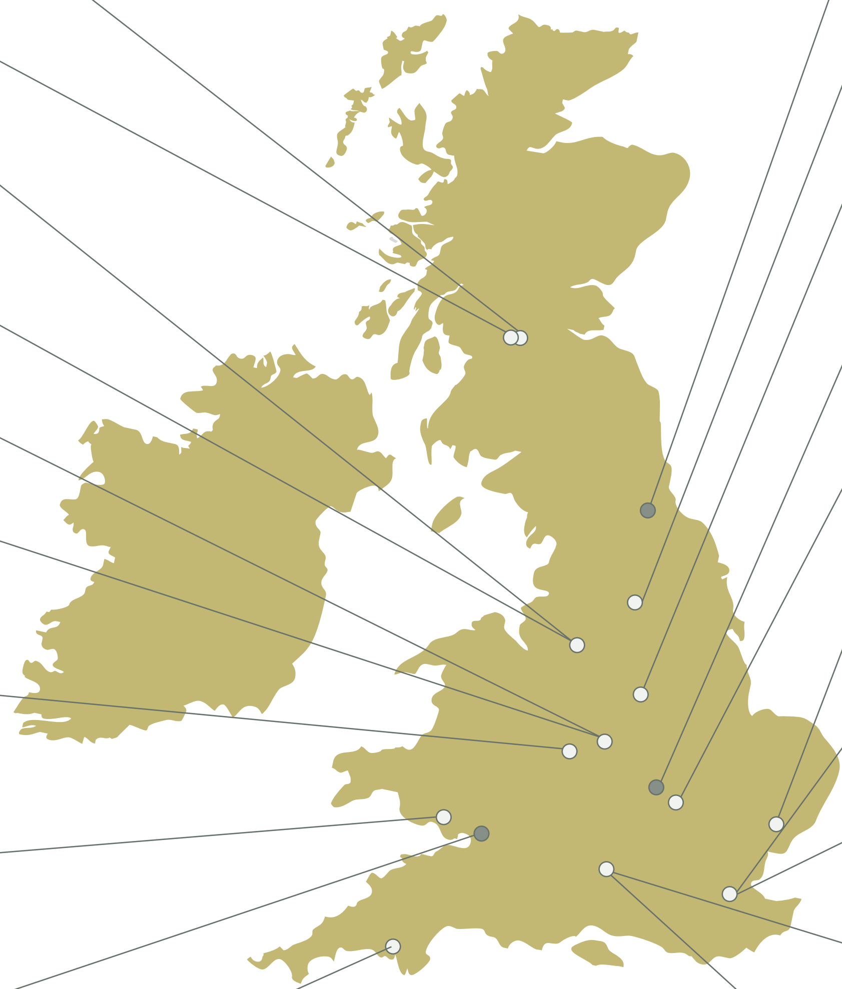
The Regional commercial businesses focus on strong relationships with suppliers and a high level of localised service for their customers.

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

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

Regional Multi-product Distribution

Distribution Centre
Service Centre



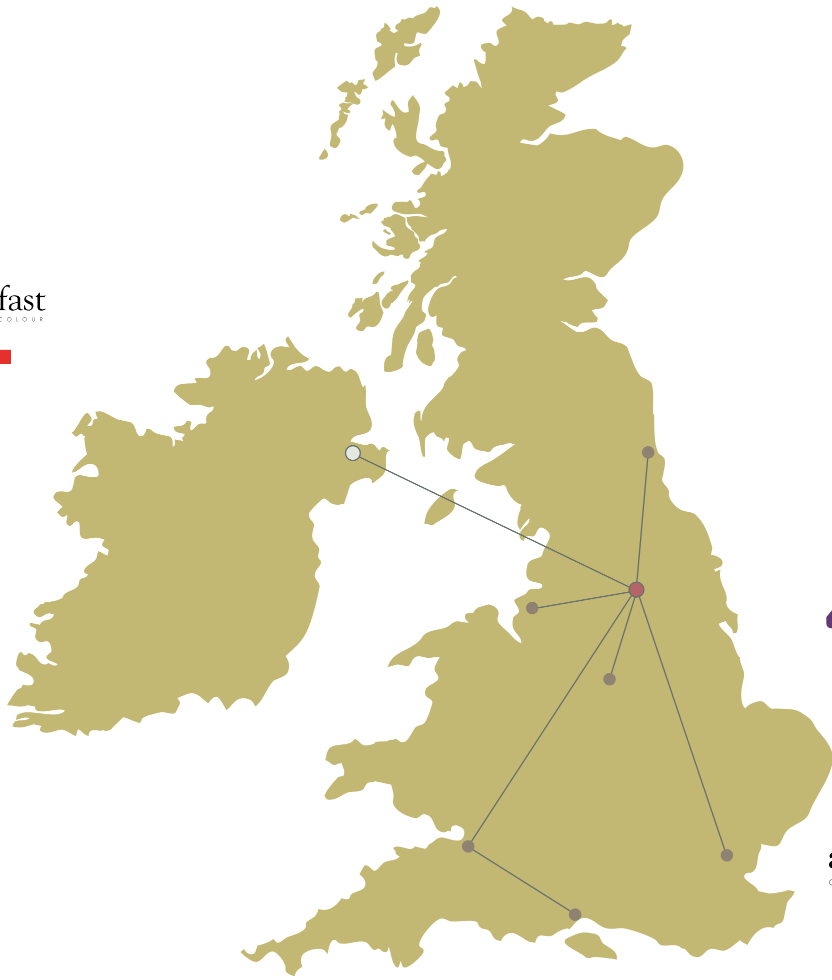
MCD SCOTLAND
HEADLAM The First Name in Floorcoverings
HBS FLOORTRADE
Hadfields The Floorcovering Specialist
centralflooring distributors
KJC a passion for flooring
MCD
MCD
Bailey Carpets Bristol
BAILEYS PLYMOUTH

SOLMERE CARPET DISTRIBUTORS
Wilkies
Cheshires nottingham
garrard waters 'simply flooring'
BEDS Flooring
Faithfull FLOORCOVERINGS
CLIFFORD CARPETS
Culpeck EXPERTISE IN FLOORCOVERINGS
DJ Hann
florco SERVICE YOU EXPECT

Market Presence continued

National Multi-product Distribution

Distribution Hub
Distribution Centre
Trans-shipping Location



Regional Commercial Distribution

- Distribution Centre
- Shared Distribution Centre
- Service Centre

Market Presence continued

National Residential Specialist Products

○ Distribution Centre

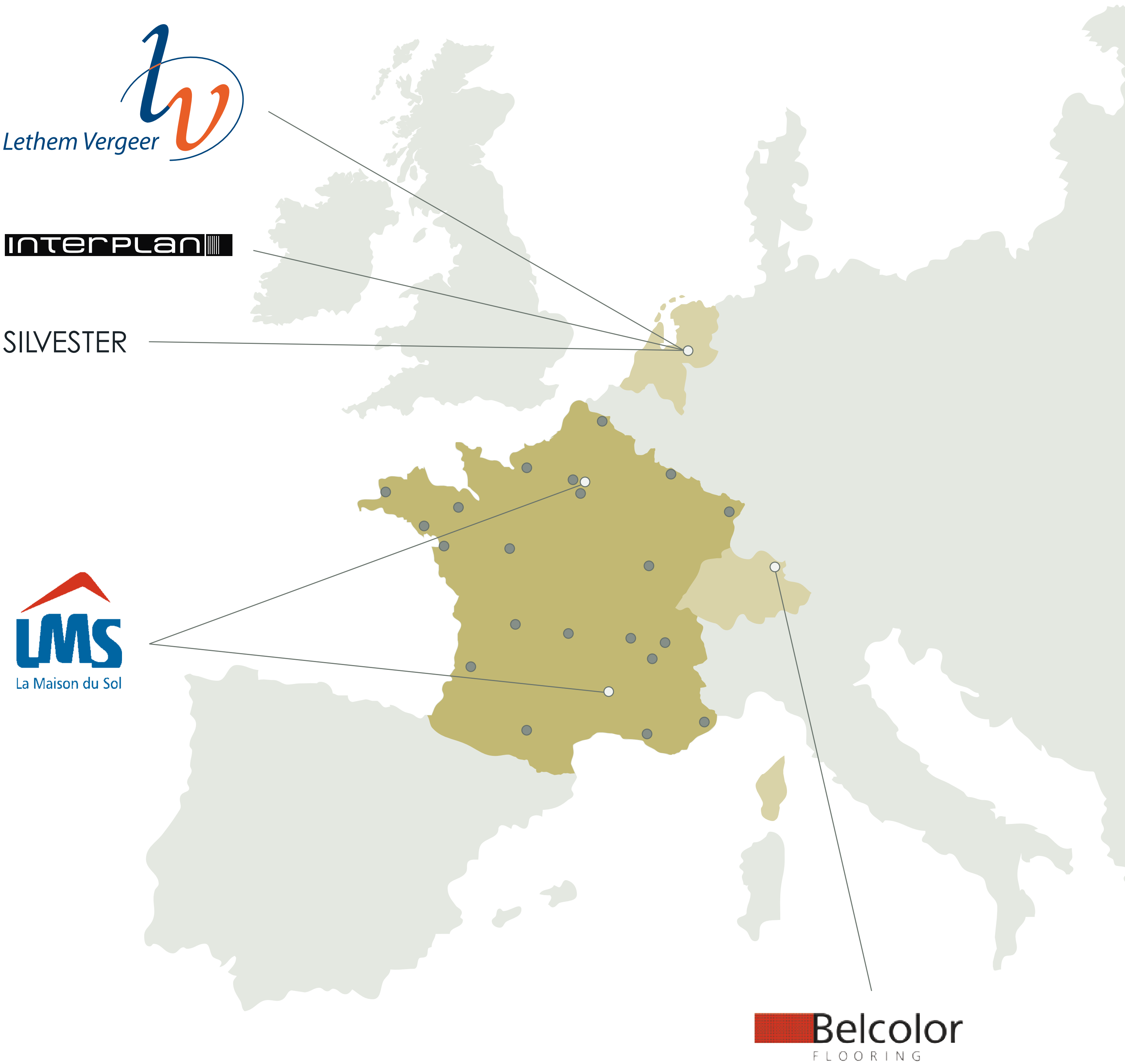
National Commercial Specialist Products

○ Distribution Centre

Market Presence continued

European Multi-product Distribution

Distribution Centre
Service Centre



Excellence in Systems

A

Order

Customers in the UK, who are principally independent flooring retailers and contractors, placed 3,807,034 orders during 2010

Select

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

B

C

Cut

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

Deliver

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

D

Chairman's Statement

I am pleased to report that in 2010, we were able to increase revenue by 0.4% to £535.7 million. This was against market conditions where most indicators suggested further reductions in market size in both the UK and Continental Europe.

Earnings and dividend

Profit before tax increased from £22.1 million to £25.0 million and earnings per share improved by 12.6% from 19.1p to 21.5p. The board has therefore elected to increase the final dividend by 17.4% from 7.30p to 8.57p. This results in a total dividend for the year of 12.4p, which represents an increase of 12.7% on 2009.

"Maintaining our fundamental structure has strengthened our market position in a challenging environment."

The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 1 July 2011 to shareholders on the register at close of business on 3 June 2011.

Strategy

Whilst the group implemented limited restructuring in 2008 and 2009, we believe that maintaining our fundamental structure has strengthened our market position in a challenging environment and gives us the opportunity to continue to enlarge the business as market conditions stabilise and improve.

The group remains fully committed to the product development, sales, marketing and distribution of floorcovering in the UK and Continental Europe. In the UK, revenue growth and the consequent increase in profitability, has been achieved through our policy of operating through 49 individual management teams and businesses, focused on their geographical areas and product categories. This performance has been enhanced by a positive contribution from our businesses in Continental Europe.

The group's growth objectives will continue to be focused on the development of our floorcovering businesses in the UK and Continental Europe.

Management and Employees

The board were pleased to advise you in May 2010, of the appointment of Andrew Eastgate as a non-executive director. Andrew brings a wealth of corporate experience and we look forward to working with him in the future.

Following the retirement last year of Andrew Simpson, we have realigned the responsibilities of the senior executive managers, Gary Phillips, Tony Judge, Keith Yates and Mike McMaster, to develop both their group and operational objectives. They direct and encourage the individual management teams to ensure compliance with group strategy, policy and achievement of their individual business objectives.

I would like to thank our management and employees for their contribution to another successful year in the development of our group.

Outlook

We have made a positive start to 2011 and whilst January and February are relatively lower trading months, it does give a good indication to future trading assuming normal seasonality.

With the group's strategic direction established and the individual management teams having many sales and marketing initiatives in place, we are therefore confident, at this stage, of achieving our internal objectives for the year.

Graham Waldron Chairman

Chief Executive's Review

The 0.4% increase in the group's revenue was achieved in both a challenging market environment and particularly harsh weather conditions in the UK during January and December 2010. If the effects of these two months are excluded, the increase in revenue from February to November is 1.2% in the UK, which is a better reflection of the underlying performance during the year.

Various market indicators would suggest that conditions remained difficult in both the UK and Continental Europe and therefore, the group's revenue increase reflects an outperformance in our respective markets.

We believe that with our autonomous operating structure and proactive management teams, we can continue to outperform the floorcovering market and develop our business, principally by organic growth, but also, with appropriate strategic acquisitions.

"Our managers have spent many years gaining a thorough understanding of the floorcovering market."

UK Structure

As referred to in the Chairman's Statement, we considered it appropriate for the group to retain the fundamental structure that has been developed over the last 19 years, in order to preserve the inherent culture and maintain the opportunity to increase the group's market presence.

The UK operations incorporate 49 individual businesses, operating from 18 distribution centres and 14 service centres. These businesses are positioned within five market sectors, based on their geographical focus and product offering.

The individual businesses market very diverse product portfolios, therefore offering an extensive choice to our customers throughout the UK.

The five market sectors are:

Regional multi-product: These 20 businesses represent 52% of UK revenue, selling both residential and commercial floorcovering and provide a comprehensive geographical coverage. They have continued to develop their market share providing a solid base for the group to expand.

National multi-product: Operating principally under the Mercado trade brand, these businesses, offering a national service for residential and commercial floorcovering throughout England, Wales and Northern Ireland, maintained their market position.

Regional commercial: Following on from the successful development of this sector, it is our intention over the next three years to increase the number of operations from 16, either through acquisition or development of new service centre operations, to further enhance our position in the regional commercial market.

Residential specialist: Operating mainly in the middle to premium quality carpet market, the performance of these 14 businesses has been particularly encouraging, given the challenging market conditions. They have added an extra dimension to our business over the last 10 years and have undoubtedly taken the group into additional product areas and widened our customer base within the floorcovering market.

Commercial specialist: Following the restructuring of our commercial specialist business in 2009, it is pleasing to report that JHS has prospered and further developed its market position in 2010.

Management

Our individual managers have spent many years gaining a thorough understanding of the floorcovering market. They are clearly focused on their individual objectives against which they are measured and subsequently rewarded.

Within the autonomous teams we have taken the opportunity, due to retirement and certain changes in management, to promote internally and the early results of this are particularly encouraging.

It has been the group's policy to promote from within wherever possible, but there are certain instances, particularly with our more specialist businesses, where it is appropriate to recruit externally.

These various opportunities demonstrate to all our employees that there is a career path within the group and sufficient opportunities for them to expand their individual aspirations.

Chief Executive's Review continued

> "The independent floorcovering retailers and contractors are at the forefront of all new floorcovering products."

Suppliers

We continue to work closely from a group strategic perspective and also through our individual operating businesses with our suppliers, principally the leading floorcovering manufacturers in the UK and Continental Europe.

Our supplier base has remained fairly stable throughout the last 12 months and we would like to thank our suppliers for their ongoing support through the launch of new products, which ensures that the independent floorcovering retailers and contractors are at the forefront of all new floorcovering products in our respective markets.

Market Presence

The individual management teams operate within a specified strategy relating to their market position, complying with standard operating disciplines and financial controls. However, within this structure they are given autonomy to develop their business through

UK Warehouse Capacity

52

million cubic feet

their relationship with suppliers and customers. This ensures that we have a constant programme of promotional events, customer initiatives, marketing plans and product launches.

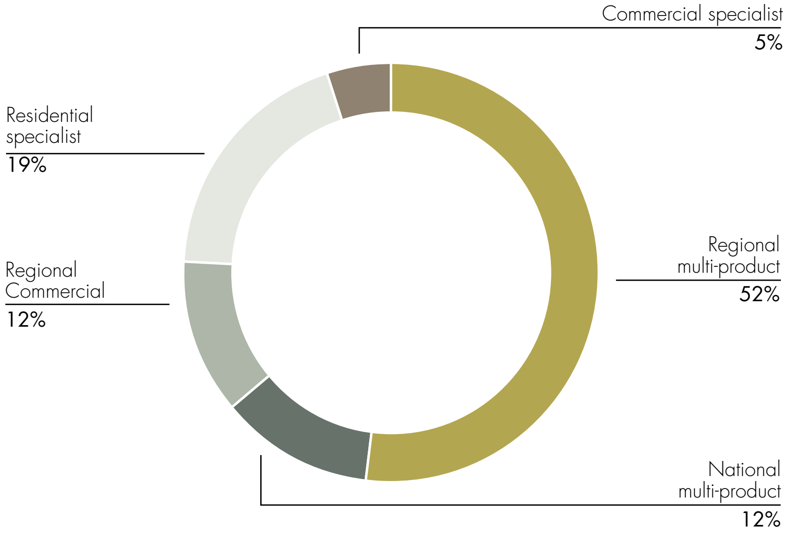
During 2010, we have experienced a similar performance from our UK businesses in residential and commercial floorcoverings. This has resulted in the product mix being stable at 69% residential and 31% commercial.

Our individual management teams are continually developing product and during 2010, our businesses in the UK launched 3,109 new products, including carpet, residential vinyl, laminate and wood. These were supported by our 366 external sales people in the UK placing, into independent flooring retailers and contractors, 626,637 new point of sale items, typically display stands and pattern books.

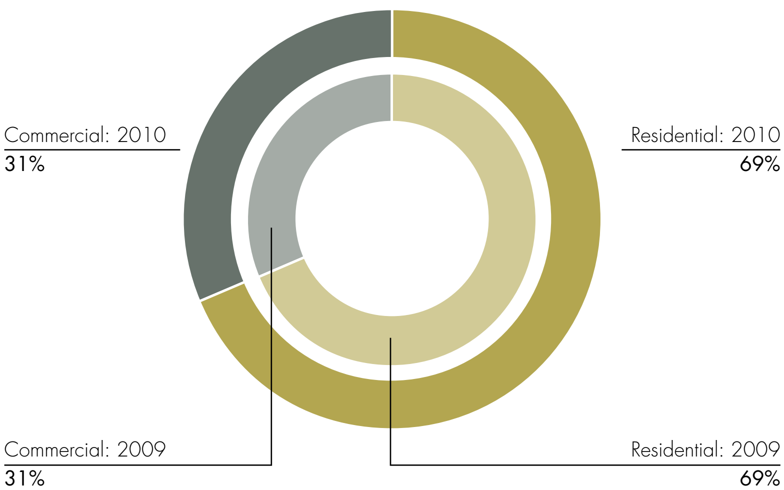
Furthermore, we launched, through our regional and national multi-product businesses, the Lifestyle Floors brand during 2010. This was originally intended to promote a limited number of carpet ranges, but with such a positive reaction from our customer base, we have both extended the number of carpet ranges and also developed other products under the Lifestyle Floors brand, including residential vinyl, laminate, wood and luxury vinyl tile.

The Lifestyle Floors initiative, in conjunction with our normal daily product activities, will undoubtedly further support and develop the market presence of the group.

UK Revenue Percentage by Market Sector



UK Revenue Percentage by Principal Product



> "Each of our business teams are focused on meeting their individual targets, which provides the group with confidence to achieve its overall objectives for the year."

Customers
In order to maximise our position with independent floorcovering retailers and contractors, we closely monitor the call rate of our individual external sales people, which has culminated in 475,901 visits to our customers during the year.

Our customers are able to place orders until late afternoon for delivery the following working day. This service has resulted in our commercial vehicle drivers making 1,126,676 deliveries to customers' premises during 2010.

This continual interface with customers has been largely responsible for the increase in the number of active accounts during 2010 to 41,994 from 41,334 in 2009. In conjunction with this, our debtor days decreased from 45.4 to 44.8 days. It is encouraging that this activity and the payment to credit terms of our customers further reflect their positive performance and financial health.

UK Cut lengths

34,200

per week

Continental Europe
Our three operations in Continental Europe collectively produced a solid operating profit during 2010. The most positive performance was produced by Belcolor in Switzerland. Whilst market conditions in the Netherlands were generally challenging, our three businesses, Lethem Vergeer, Interplan and Silvester, showed some improvement towards the end of 2010. In France our single business, LMS, operating from two distribution centres and 21 service centres, produced a satisfactory result in a difficult market.

Investments
In May, we completed the purchase of a 110,000 square feet freehold distribution centre, located in Rochdale, to provide National Carpets with increased capacity to expand its activities. We are still awaiting planning approval, for the construction of a 127,000 square feet purpose built freehold distribution centre, in connection with the project to relocate Faithfulls, our regional multi-product business in the southeast of England, to a site in Hadleigh near Ipswich.

UK Deliveries

1,126,676

during 2010

Outlook

The performance in 2010 and a positive start to 2011 is a result of the tremendous effort from our management, sales people and all our employees. The group has positioned autonomous businesses into specific market sectors to take full advantage of all opportunities.

Through this structure we have extensive penetration into the floorcovering market encompassing both suppliers and customers.

Each of our business teams are focused on meeting their individual targets, which provides the group with confidence to achieve its overall objectives for the year.

Tony Brewer Group Chief Executive


lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
From sumptuous living rooms...
...to contemporary dining rooms...
From stylish bedrooms...
Cottage Berber
Urban Twist
lifestyle FLOORS


lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS
lifestyle FLOORS

Financial Review

TRADING

Revenue

Group revenue increased during the year by 0.4% from £533.8 million to £535.7 million.

In the UK, which accounts for 80.8% of group revenue (2009: 80.5%), like for like revenue increased by 0.4% from £428.8 million to £430.4 million with new businesses introduced during 2009 and 2010 contributing £2.4 million (2009: £0.8 million).

Based on constant currency, the Continental European businesses, which account for the balance of the group's revenue, recorded a 0.7% decline in revenue. The affects of currency translation increase this to a 1.3% decline with revenue falling from £104.1 million to £102.9 million.

Gross margin and expenses

During the year, the businesses received an increased number of cut length orders for residential carpet, which yielded higher margins and a reduced number of orders for full rolls, which attract a lower margin. In addition, the group continues to develop initiatives to reduce the costs associated with withdrawing product from the market at the end of its life. These two factors were the principal reasons for the gross margin improving by 40 basis points, compared with 2009.

Distribution and administration expenses, collectively representing 25.9% of revenue, were unchanged on the previous year. In isolation, distribution expenses increased, year on year, by 1.3%, fuel costs being the principal cause, whilst administration expenses registered a slight increase of 0.2%.

Net finance costs

Net finance costs reduced during the year by £1.6 million compared with 2009. Approximately half of the decrease was attributable to the reduced interest charge associated with the group's UK borrowings, which occurred on cessation of the interest rate swap contract during April 2010. The other significant contributor to the change in the year was the net reduction in finance cost associated with the group's pension plans.

Taxation

The effective rate of taxation increased to 28.5% during the year, which reflects the group's mix of profits across the UK and Continental Europe and current level of disallowable expenditure. The anticipated effective rate for 2011 is expected to reduce to 28%.

Property valuation

In keeping with the company's practice of updating the valuation of its freehold and long leasehold properties on a triennial basis, the portfolio was valued at 31 December 2010 on an existing use basis. The results of the valuation revealed an £11.3 million shortfall compared with depreciated historical cost. This is a considerable change compared with the position at 31 December 2007, when the valuation exceeded depreciated historical cost by £12.1 million. The result is because the valuation is based on rental yields and of course, commercial property rentals have declined markedly during the period since December 2007.

An impairment review has been undertaken on the portfolio and with the exception of one property, which has been impaired by approximately £0.5 million, no further impairment was considered necessary.

The valuation excludes freehold properties located in Continental Europe and the property classified as held for sale as at 31 December 2010.

Cash flows and net funds

Net cash flow from operating activities

Cash flows from operating profit before changes in working capital were unchanged year on year at £31.5 million.

Investment in net working capital during the year amounted to £0.2 million, which compares with a net contraction in 2009 amounting to £12.2 million. The £12.4 million movement in year on year investment occurred as a result of the businesses moving back into a normal operating cycle following the unusual trading conditions during 2008 and 2009. In particular, the movement in inventory, which changed from a cash inflow of £6.6 million in 2009 to a cash outflow of £5.8 million in 2010, represented a substantial year on year reversal of £12.4 million, as the businesses replenished their product positions following the reductions of 2009.

The additional net working capital investment explains the £12.3 million decline in cash generated from operations. The reduced interest paid of £0.9 million and the £7.5 million cash outflow relating to the enhanced transfer value exercise are the principal reasons for the adverse variance in net cash flow from operating activities increasing by £6.8 million to £19.1 million.

Cash flows from investing and financing activities

Net cash outflows from investing activities totalled £3.0 million compared with £5.8 million during 2009 with investment in property, plant and equipment amounting to £7.0 million, compared with £7.3 million for 2009. The principal investment during the year was the purchase of the freehold distribution centre, located in Rochdale, for National Carpets. Cash proceeds, amounting to £3.2 million, as a result of the sale of property, plant and equipment were significantly higher in 2010 compared with £0.7 million in 2009.

Cash out flows from financing activities totalled £10.0 million compared with £15.2 million during the previous year, with the reduction in dividend payments of £7.2 million being the main reason for the change.

Changes in net funds

Group net funds increased by £0.8 million from £9.7 million to £10.5 million during the year as detailed in the table below.

Employee benefits

During the year, the net deficit relating to the defined benefit pension plans decreased by £10.1 million from £22.8 million to £12.7 million. The additional contributions to the plan, £2.7 million (2009: £2.6 million) and the cash spent on the enhanced transfer value exercise, £7.5 million (2009: £nil) significantly contributed to the reduction. As mentioned last year, the company offered deferred members of the UK defined benefit pension plan the opportunity to transfer out. The amount finally expended in connection with this exercise was £0.3 million ahead of the £7.2 million reported at the half year. In addition, associated costs amounted to £0.3 million.

The additional contributions of £2.7 million, made to the plan during 2010, will be reassessed during 2011 when the UK plan's actuary undertakes the triennial valuation as at 31 March 2011. Furthermore, additional enhanced transfer value payments, totalling £3.3 million, have been made in 2011 as the group continues its strategy of eliminating the plan deficit.

Going concern

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

Steve Wilson Group Finance Director

Changes in net funds

	At 1 January 2010 £000	Cash flows £000	Translation differences £000	At 31 December 2010 £000
Cash at bank and in hand	45,737	(1,444)	465	44,758
Bank overdraft	(758)	730	28	–
	44,979	(714)	493	44,758
Debt due within one year	(900)	642	33	(225)
Debt due after one year	(34,392)	224	157	(34,011)
	9,687	152	682	10,522

Directors, Officers and Advisors

DIRECTORS

G Waldron
Chairman ❇
Graham was appointed an executive director in June 1991 becoming Chairman later that year until 31 December 1999. On the resignation of Trevor Larman on 1 June 2006 he was re-appointed Chairman. He has 58 years experience in the floorcovering industry. He was the non-executive Chairman of Tandem Group plc until his retirement from their board on 21 June 2010.

A J Brewer
Group Chief Executive ■
Tony was appointed an executive director in June 1991, becoming Managing Director of the Floorcoverings Division in January 1992, and was appointed Group Chief Executive in November 2000. He has 33 years experience in the floorcovering industry.

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

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

M K O'Leary
Senior Independent Director ◆ ● ■
Mike was appointed a non-executive director in March 2006. He previously served on the Board of Misys plc in an executive capacity for 15 years, was CEO of Marlborough Stirling and later a non-executive director at the Stroud & Swindon Building Society. He is currently non-executive Chairman of EMIS Group plc and Digital Healthcare Limited and a non-executive director at Psion plc.

A K Eastgate
Non-executive Director ◆ ● ■
Andrew was appointed a non-executive director in May 2010. He was formerly a Partner in Pinsent Masons and head of the corporate practice in Birmingham. Andrew has a broad experience of advising quoted companies, particularly in connection with transactions and compliance issues. He is a non-executive director of Epwin Group Limited.

COMPANY SECRETARY

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

SENIOR EXECUTIVE MANAGEMENT

G B Phillips
Finance Director Operations
Gary joined the group in June 1992 and is the Finance Director of floorcovering operations. He is an associate of the Chartered Institute of Management Accountants.

A R Judge
Commercial Director, Coleshill and Tamworth businesses
Tony joined the group in May 1992, is the Managing Director of all the businesses operating from the Coleshill and Tamworth distribution centres and has operational responsibility for businesses located in Thatcham and Stockport. Tony has 30 years experience in the floorcovering industry.

K R Yates
Managing Director, Mercado
Keith joined Mercado in April 1983 and was subsequently appointed its Managing Director in 1996. In addition he has operational responsibility for the businesses located in Scotland. Keith has 28 years experience in the floorcovering industry.

M W McMaster
Commercial Director selected UK Operations
Mike joined the group in September 1997 following the acquisition of MCD (UK) Ltd and was appointed to the Senior Executive Management in January 2009 with operational responsibility for fifteen of the UK businesses. Mike has 40 years experience in the floorcovering industry.

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

ADVISERS

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KPMG Audit Plc
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Taxation Advisers
Deloitte LLP
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Principal Bankers
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Solicitors
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Birmingham
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Stockbrokers
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Birmingham B15 3DU

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0GA

Financial Calendar

Announcements	
Interim Management Statement	18 May 2011
Annual General Meeting	17 June 2011
Interim results announced	19 August 2011
Interim Management Statement	18 November 2011
Full year results announced	March 2012
Dividend Dates	
Final dividend for 2010, if approved, payable to qualifying shareholders on the register as at 3 June 2011	1 July 2011
Interim dividend for 2011 announced	19 August 2011
Interim dividend for 2011 payable	3 January 2012

Directors' Report

The directors present their annual report to shareholders on the affairs of the group and the parent company ("company") together with the audited Financial Statements and Independent Auditor's Report, for the year ended 31 December 2010.

Principal activities

The principal activities of the group are wholly aligned to the sales, marketing, supply and distribution of floorcovering and certain other ancillary products. The principal activity of the company is that of a holding company and its principal trading subsidiaries are listed on page 103.

Review of the business

The Chairman's Statement on page 10 and the Chief Executive's Review and the Financial Review on pages 12 to 21 provide a detailed review of the group's activities. The information contained in these sections fulfils the requirements of the Business Review, as required by Section 417 of the Companies Act 2006, and should be treated as part of this report. The reports on corporate governance on pages 29 to 35 and corporate and social responsibility on pages 47 to 50 are also incorporated into this report by reference. A description of the group's financial risk management objectives and policies and its exposure to price, credit, liquidity and cash flow risk is contained in note 23 to the Financial Statements on page 91.

Financial results and dividends

The profit attributable to equity shareholders of the company for the financial year was £17.9 million as shown in the Consolidated Income Statement set out on page 52.

The directors are proposing a final dividend for the current year of 8.57p per share (2009: 7.30p), making a total dividend of 12.40p per share for the year (2009: 11.00p).The final dividend, if approved by shareholders at the Annual General Meeting ("AGM"), will be payable on 1 July 2011 to shareholders whose names appear on the register at the close of business on 3 June 2011. The associated ex-dividend date is 1 June 2011. An interim dividend of 3.83p per share (2009: 3.70p) was paid on 4 January 2011 to shareholders on the register at the close of business on 4 December 2010.

Directors and their interests

The directors of the company during the financial year ended 31 December 2010 were Graham Waldron, Tony Brewer, Steve Wilson, Dick Peters, Mike O'Leary, David Grove and Andrew Eastgate. Biographical details of the directors currently serving on the board being set out on page 22. There were two changes to the board in the year, David Grove resigning on 17 March 2010 and Andrew Eastgate being appointed on 17 May 2010. No other person has acted as a director of the company during the financial year ended 31 December 2010. The company's Articles of Association ("articles") give directors' power to appoint and replace directors. They also provide that each director shall retire from office and shall be eligible for re-appointment at the third AGM after the general meeting at which they were appointed or last re-appointed. Accordingly Tony Brewer who retires by rotation and Andrew Eastgate 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 and election, the board confirms to shareholders that following evaluation, each of these individuals' performance continues to be effective and they have expressed a willingness to continue in their roles.

Details of directors' remuneration and service contracts are set out in the Remuneration Report on pages 41 and 44. The beneficial interests of the directors and their immediate families in the company's shares and their interests in share options are detailed in the Remuneration Report on page 42.

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, further detail of which is set out in the report on Corporate Governance.

Directors' indemnity

The company maintains directors and officers liability insurance and indemnity cover (as defined in sections 233 and 234 of the Companies Act 2006) which is provided for the benefit of the company's directors and officers. No indemnity is provided for the company's auditors. Further detail is set out in the report on Corporate Governance.

Management changes

With effect from 17 May 2010, Andrew Eastgate was appointed a non-executive director. Additionally, Mike McMaster was appointed to the senior executive management with responsibility for a number of the regional distribution businesses. Biographical details are shown on page 22.

Principal risks and uncertainties

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

Market demand

A significant proportion of the group's revenues are to independent retailers and flooring contractors. The activity levels within this customer base are determined by consumer demand created through residential property refurbishment or moves, new residential housing developments and a wide range of commercial refurbishment and new building projects. Periods of recession, low consumer confidence or changes in trends and preferences have the potential to affect market activity and therefore demand for products supplied by the group. However, market activity is monitored in each individual

Directors' Report
continued

business and at group level on a daily basis which enables a rapid response to any factors adversely affecting trading. Furthermore, since the group's principal activities are supply and distribution, it has the ability to quickly respond to market changes. This, coupled with the development of broad market penetration through the establishment of a range of diverse regional, national and specialist businesses provides the group with a degree of resilience and protection.

Competitor risk
The group operates in four different geographical markets which generally share similar trading characteristics. Within each market, the group competes with a variety of regional and national distributors, with manufacturers selling directly to our customer base and indirectly with multiple retail chains. The group seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base. Substantial and continued investment in management, an extensive product offering, a knowledgeable sales resource, stock availability, IT, efficient material handling, and logistics removes the need to compete strictly on price and allows the group to enhance its overall market position through its commitment to service. The distribution competition in Continental Europe is diverse and very fragmented. The group has deliberately adopted a cautious acquisition policy in these markets, searching for opportunities that provide good growth opportunities but at sensible valuations. Given the number of opportunities it is possible that a competitor, following a more aggressive acquisition strategy in Continental Europe, could challenge the group's position as Europe's leading floorcovering distributor.

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

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

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

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

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

Pension
The cost of funding the group's defined benefit plans may increase due to a decline in investment returns, movement in interest rates and longer life expectancy. As a result of the triennial actuarial valuation of the UK plan, undertaken at 31 March 2008, the group agreed to make additional payments every year until 2018, details of which are provided in note 20. The results of future scheme valuations, the next being 31 March 2011, could result in this commitment increasing or decreasing.

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

AGM
This year's AGM will be held at the group's distribution facility in Coleshill, Birmingham on Friday 17 June 2011 at 10.00am. The notice convening this meeting is set out within this Annual Report and Accounts at page 105, along with explanatory notes regarding the resolutions that will be proposed at the meeting at pages 110 to 112.

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

Takeovers directive
The following provides the additional information required to be provided for shareholders as a result of the implementation of the Takeovers Directive into English law.

As at 31 December 2010, the company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the ordinary share capital can be found in note 22 to the Financial Statements which should be treated as forming part of this report.

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. There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws), and pursuant to the Listing Rules of the Financial Services Authority whereby certain directors, officers and employees of the company require the approval of the company to deal in the company's ordinary shares.

There are no requirements for prior approval of any transfers and none of the shares carry any special rights with regard to control of the company.

Shareholders passed a resolution at the 2010 AGM to permit the directors to allot shares up to an aggregate nominal amount of £1,122,500. This authority will expire at the earlier of the 2011 AGM or 30 June 2011. No shares have been allotted by the company during the year.

Shareholders passed a resolution at the 2010 AGM to permit the directors to undertake market purchases of up to 8,536,000 of the company's shares. This authority will expire at the earlier of the 2011 AGM or 30 June 2011. No shares have been purchased by the company during the year.

The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. The company's banking arrangements are terminable upon a change of control of the company.

The rules about the appointment and replacement of directors are contained in the company's articles. Directors may be appointed by the company by ordinary resolution or by the board. A director appointed by the board holds office only until the next AGM. Directors are required to retire from office and shall be eligible for reappointment at the third AGM after the general meeting at which they were appointed or last re-appointed.

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

Substantial shareholdings
As at the last date prior to posting the Annual Report and Accounts, in accordance with the disclosure and transparency rules, the company had been notified of the following substantial interests in the share capital of the company.

Ordinary shares of 5p each

Shareholder	Number	Per cent
Franklin Templeton Institutional, LLC	11,657,571	14.02
Aviva plc	5,831,244	7.02
Tweedy, Browne Company LLC	4,523,274	5.44
Aberforth Partners LLP	3,796,026	4.57
Schroders plc	3,565,486	4.18
Legal & General Investment Management Limited	3,317,829	3.99
Blackrock, Inc	2,775,989	3.25
Liverpool Victoria Friendly Society Limited	2,644,912	3.18

Directors' Report
continued

Contributions for political and charitable purposes
The group's Charities Committee considers requests for charitable donations within set criteria. During 2010, in addition to donations made to overseas charities, the group contributed charitable donations to UK charitable organisations, principally to local organisations serving the communities in which it operates, of £26,253 (2009: £29,280).

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 (2009: £nil).

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

Supplier payment policy
It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers. The group seeks to strictly comply with these payment terms whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The payment policy has been and will continue to be developed to meet the group's specific requirements and is not based on any particular code or standard relating to payment practice. The number of creditor days of the company at 31 December 2010 was 45 days (2009: 46 days).

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

Employees
The total number of employees at the end of the period was 2,020. The group recognises the value of its employees and seeks to create an energetic, dynamic and responsive environment in which to work. The company maintains a policy of employing the best candidates available in every position, regardless of gender, ethnic group or background. It places considerable importance on communications with employees which take place at many levels through the organisation on both a formal and informal level.

The group gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by handicapped or disabled persons. 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. Further details of arrangements relating to employees are described in the Corporate and Social Responsibility report on pages 47 to 50.

A "whistle-blowing" policy and procedure is in place and has been notified 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, harassment and bullying, whether they relate to sex, race, national origin, disability, age, religion or sexual orientation 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.

Directors' responsibilities
The Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements can be found on page 28 of the Annual Report.

Disclosure of information to the auditor
The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each of the directors has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information, and to establish that the company's auditor is aware of that information.

Auditor
KPMG Audit Plc has expressed its willingness to continue in office as auditor of the company and in accordance with the provisions of section 489 of the Companies Act 2006, a resolution for its re-appointment and to authorise the directors to agree its remuneration will be proposed at the forthcoming AGM. Auditor remuneration and fees paid during the year to 31 December 2010 are set out in note 3 to the Financial Statements.

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

G M Duggan
Company Secretary
11 March 2011

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 company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and 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 company's 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 company and of their profit or loss for that period. In preparing each of the group and 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 company will continue in business.

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company and the subsidiaries included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the company and the group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the board

Steve Wilson
Group Finance Director
11 March 2011

Corporate Governance

The Combined Code on Corporate Governance

The company is of the view that in seeking to achieve a high standard of corporate governance in all of its activities, the group's reputation and performance will be enhanced, to the benefit of the interests of investors, employees, customers, suppliers and other stakeholders.

Companies listed in the UK in the FTSE 100 and FTSE 250 indices are required to disclose how they have applied the principles of the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council ("FRC") in June 2008 and whether they have complied with its provisions throughout the year, providing 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.

Whilst the company is currently a constituent member of the FTSE Small Cap and FTSE All Share indices, it continues to seek to comply with the provisions of the Code having been a constituent member of the FTSE 250 index in prior years.

To this end, the directors consider that the company has, with the exception of a two month period following the resignation of a non-executive director and before a successor was appointed, complied throughout the year ended 31 December 2010 and up to the date of this report with the relevant provisions set out in Section 1 of the Code having applied the main and supporting principles set out in section 1 of the Code.

This report sets out how the principles of the Code are applied and reports on the company's compliance with the Code's provisions.

Directors' and board effectiveness

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

The board operates on a unitary basis and comprises the Chairman, three independent non-executive directors and two full time executive directors, being the Group Chief Executive and the Group Finance Director. A key element of the board's responsibility is monitoring and reviewing the effectiveness of the group's system of internal control. The non-executive directors play a pivotal role in challenging and scrutinising its effectiveness and integrity.

The roles and responsibilities of the Chairman and Group Chief Executive are clearly divided and periodically reviewed by the board. Whilst collectively they are responsible for the leadership of the group, the Chairman's primary responsibility is for leading the board and ensuring its effectiveness and the Group Chief Executive is responsible for implementing strategy, running the businesses in accordance with the objectives and policies agreed by the board and for the executive management of the group. The Chairman communicates frequently with the non-executive and executive directors and the non-executive directors have the opportunity to meet with and discuss any issues or concerns with the Chairman at any time throughout the year. Matters that are not specifically reserved for the board and its committees under their terms of reference or for shareholders in general meeting are delegated to the Group Chief Executive. The Chairman's other business commitments are set out in the biographical details on page 22. During the year he resigned as the non-executive Chairman of Tandem plc. The board is satisfied that his other business commitments did not unduly restrict his availability to the group.

The board maintains overall control of the group's affairs through a schedule of matters reserved for its decision, most recently updated in October 2010. These include, but are not limited to, setting group strategy, approval of the business objectives and annual plan, acquisitions and disposals, authority limits for capital and other expenditure, material treasury matters, changes to capital structure and dividend policy, committee terms of reference, auditor appointment or removal and remuneration, board composition, succession planning, health and safety, investor relations, financial reporting and controls and corporate governance.

Further details of the board's role in relation to the group's systems of internal control and risk management are given on pages 34 and 35. A description of the specific responsibilities delegated to the principal board committees is given on pages 31 to 34.

The effectiveness of the board is vital to the success of the group. In line with agreed procedures, using an in-house process, the board has conducted an evaluation of its own performance and that of its committees and individual directors, including the Chairman. No actions were considered necessary as a result of the evaluations. The board intends to conduct a further evaluation of its performance during 2011 with the aim of continually improving processes, procedures and performance. The evaluation process is designed to cover board processes, the structure and capability of the board, strategic alignment, board dynamics and the skills brought to the board by each director. The board is of the opinion that the directors seeking re-election/election at the AGM have continued to give effective counsel and commitment to the company and accordingly should be re-elected/elected.

Board of directors

As referred to above, during the year the board consisted of six members, three executive directors comprising Graham Waldron, Chairman, Tony Brewer, Group Chief Executive and Steve Wilson, Group Finance Director and three independent non-executive directors, Dick Peters, Mike O'Leary, David Grove up until his resignation on 17 March 2010 and with effect from 17 May 2010, Andrew Eastgate.

Corporate Governance
continued

The board considers that the balance achieved between executive and non-executive directors during the year was appropriate and effective for the control and direction of the business.

The board is assisted by committees that it has established with written terms of reference, details of which are set out below.

Mike O'Leary was the Senior Independent Director throughout the year. All of the directors bring strong judgement to the board's deliberations and the board is of sufficient size and diversity that the balance of skills and experience is considered to be appropriate for the requirements of the business. The non-executive directors are all independent of management and free from any business or other relationship, including those relationships and circumstances referred to in provision A.3.1 of the Code that could materially interfere with the exercise of independent and objective judgement. In making this determination the board has considered whether each director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could affect, the director's judgement. The board believes that it is evident from the consideration of the non-executive directors' biographies that they are of the integrity and stature to perform their roles of independent non-executive directors. The Senior Independent Director 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 board will keep under review the size and structure of the board to ensure it is appropriate for the ongoing business. The non-executive directors do not participate in any bonus, share option or pension scheme of the company. The biographical details of the current directors are given on page 22.

The procedure for the appointment of new directors to the board is described in the section on the Nominations committee below. Non-executive directors are initially appointed for a three-year term and, subject to review and re-election, can serve up to a maximum of three such terms.

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

Board information, induction, training and professional development

All directors are equally accountable for the proper stewardship of the group's affairs. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully discussed and critically examined to ensure that they take proper account of the best long term interests of the shareholders, employees, customers, suppliers and the community.

To enable them to do this, the board has a forward rolling business agenda which is regularly updated to include specific topics that directors have requested for review at future meetings. The board reviews the key activities of the business receiving papers and presentations from executive management and external advisers, generally a week in advance of the meeting, to enable it to do so effectively. There is an established procedure for the preparation and review, by the board of the annual budget. The board receives regular reports from the senior executive management covering a broad range of issues including health, safety and environmental matters, finance and operational performance, risk management, business development initiatives, special projects, legal and regulatory developments, governance and best practice guidelines that affect the group. The Company Secretary is responsible to the board, and is available to individual directors, in respect of board procedures. In conjunction with the Chairman, the Company Secretary ensures that information distributed to the board is sufficient, clear and accurate, that it is circulated in a timely manner and is appropriate to enable the board to discharge its duties.

On joining the board, a director receives a comprehensive induction pack which includes background information about the group and its directors, details of board meeting procedures, directors' responsibilities, procedures for dealing in company shares and a number of other governance-related issues. The director meets with the Group Chief Executive to be briefed on the general group strategy encompassing visits to group businesses. External training, particularly on matters relating to the role of a director and the role and responsibilities of board committees, is arranged as appropriate. Ongoing training is provided as and when necessary and may be identified in annual performance reviews or on an ad hoc basis. The suitability of external courses is kept under review by the Company Secretary. Training and development in the year took various forms, including visits to group businesses with the Group Chief Executive, attendance by certain directors at courses run by professional bodies on various commercial and regulatory matters. Directors receive regular updates appropriate to the business throughout the year and the company provides resources for directors to develop and refresh their knowledge and capabilities as required. All directors are 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, the non-executive directors are able to obtain professional advice at the company's expense, and a process is in place to facilitate this. The company provides directors' and officers' insurance cover, in line with normal market practice, for the benefit of directors in respect of claims arising in the performance of their duties.

Accountability and audit

The Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements under adopted IFRS is set out on page 28. The directors' confirmation that they consider it appropriate to prepare the accounts for 2010 on a going concern basis is given on page 21.

Corporate Governance
continued

Board meetings and attendance
The board usually meets nine times a year and normally includes at least one meeting at an operating business. During the year there are sufficient opportunities for the Chairman to meet with the non-executive directors without the executive directors being present should this be deemed appropriate. In addition, directors have frequent contact between meetings and directors visit trading locations in order to maintain close contact with the group's business.

A record of the meetings held during the year by the board, its committees and the attendance by individual directors is set out below.

Board attendance statistics for the 52 week period ended 31 December 2010

	Board	Committee meetings		
	meetings	Remuneration	Audit	Nomination
Total number of meetings	9	4	3	2
Graham Waldron	9	*	*	*
Tony Brewer	9	*	*	2
Stephen Wilson	8	*	*	*
Dick Peters	9	4	3	2
Mike O'Leary	8	4	3	2
David Grove (resigned 17 March 2010)	1	1	–	–
Andrew Eastgate (appointed 17 May 2010)	6	2	2	–

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

In addition to the board meetings above there were two meetings which approved the 2010 Interim and 2009 Annual Report and Accounts. These meetings are constituted by a committee of the board formed for that sole purpose comprising the Group Chief Executive and Group Finance Director having considered the views of the whole board beforehand.

Directors' interests and indemnity arrangements
At no time during the year did any director hold a material interest in any contract of significance with the company or any of its subsidiary undertakings other than a third-party indemnity provision between each director and the company and service contracts between each executive director and the company. The company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained in the company's articles. These provisions, which are qualifying third-party indemnity provisions as defined by Section 236 of the Companies Act 2006, were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts and interests in the shares of the company are set out in the directors' Remuneration Report.

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

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

Board committees
The board has established Audit, Nomination and Remuneration committees to oversee and debate important issues of policy and assist in attending to its responsibilities, each with terms of reference that each comply with the provisions of the Code and are available on written request from the Company Secretary at the registered office and will be available on the company's website during April 2011. The roles of the Remuneration, Audit and Nomination committees are set out below. The Audit and Remuneration committees were comprised of the three independent non-executive directors with the Group Chief Executive additionally serving on the Nomination committee.

Corporate Governance
continued

Audit committee

The Audit committee was chaired during the year by Dick Peters and is comprised of all of the non-executive directors.

The committee monitors the integrity of the company's financial statements and the effectiveness of the external audit process. It is responsible for ensuring that an appropriate relationship between the company and the external auditor is maintained, including reviewing non-audit services and fees, and makes recommendations to the board on the appointment, re-appointment or dismissal of the external auditor. It also reviews the group's systems of internal control and the processes for monitoring and evaluating the risks facing the group on an ongoing basis. The committee periodically reviews its terms of reference and its effectiveness and recommends to the board any changes required as a result of such review.

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

Only members of the committee are entitled to be present at meetings however the auditor, Chairman, Group Chief Executive and Group Finance Director attend meetings by invitation. The company does not have a formal internal audit function, considering that one is not appropriate. However detailed monthly reviews are carried out by the Finance Director for Operations and Financial Controller. The Finance Director for Operations reports to the Group Finance Director and has access to the Chairman of the committee. The committee members, all other directors and senior executive management have direct access to the external auditor throughout the year, to seek advice or raise any issues or concerns.

The committee has an agenda linked to events in the group's financial calendar, normally meeting at least twice a year, including meetings before the annual and interim results announcements. The committee met three times in the year, members' attendance record being given on page 31, during which it discharged its responsibilities as set out in its terms of reference and schedule of business for the year. All of the committee members attended the meetings that they were eligible to attend. The committee has authority to investigate any matters within its terms of reference, to access resources, to call for information and to obtain external professional advice at the cost of the company.

At each meeting there is an opportunity for the external auditor to discuss matters with the committee without any executive management being present. The committee has independent access to the external auditor who has direct access to the Chairman of the committee outside formal committee meetings. The Audit committee has the specific task of keeping under review the nature and extent of non-audit services provided by the external auditor in order to ensure that objectivity and independence are maintained. The Audit committee reviews annually the independence of the external auditor and the individuals carrying out the audit.

The committee seeks to balance the benefits of continuity of audit personnel and the need to ensure independence through a change of audit personnel by agreeing with the auditor staff rotation policies. Whilst KPMG have been an external auditor to the group since 1992, there is a procedure in place for the audit partner to change every five years, so maintaining objectivity and independence without the need to change firm, the last such change taking place during 2009.

The external auditor has in place processes to ensure its independence is maintained including safeguards to ensure that, where it does provide non-audit services, its independence is not compromised. It has written to the Audit committee confirming that, in its opinion, it is independent. During the year the committee reviewed the scope and programme of work to be undertaken by the external auditor, considered the independence and objectivity of services provided and reviewed the level of fees paid for those services.

During 2010, the Audit committee discharged its responsibilities by:

- reviewing the group's draft 2009 preliminary annual results announcement and financial statements and 2010 interim results statement prior to board approval, including consideration of the significant accounting judgments contained therein, and reviewing the external auditors' detailed reports thereon.
- reviewing 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.
- reviewing the potential impact on the group's financial statements of certain matters such as impairment of asset values and employee benefits.
- reviewing the effectiveness of the 2009 external audit process and recommending to the board, after due consideration, the re-appointment of the incumbent external auditor at the AGM.
- reviewing 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 in 2009.
- reviewing the external auditors' plan for the audit of the group's 2010 accounts, which included key areas of focus, key risks on the accounts, confirmation of auditor independence and the proposed audit fee and approving the terms of engagement for the audit.
- reviewing reports from the external auditor on the group's systems of internal control in advance of the announcement of the group's results for 2009 (the internal report included a summary of and commentary on the business risks and internal control processes) and reporting to the board on the results of this review and reviewing interim updates prior to the interim results.
- receiving regular updates from executive directors and senior executive management on key financial control matters arising in the group.
- considering the appropriateness of an internal audit function.
- reviewing and assessing the group's compliance with corporate governance principles.
- reviewing arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting and other matters.

Corporate Governance
continued

Resolution 5 set out in the Notice of AGM recommends that shareholders re-appoint KPMG Audit Plc as the group's auditor and resolution 6 authorises the directors to determine their remuneration.

When appointing advisers for non-audit work, the group considers the value for money, experience and objectivity required and in this respect it has used Deloitte to conduct non-audit tax work. The committee recognises that there are occasions when it is advantageous to use the external auditor to undertake non-audit services, when they are best placed to do so. The committee operates under a formal policy approved by the board to help ensure the independence and objectivity of the external auditor is not compromised. The policy states that non-audit fees paid to the principal external auditor should not exceed 250% of the audit fee, except in the case of significant events. The Chairman of the committee is required to authorise non-audit work above a pre-agreed threshold. Note 3 to the Financial Statements provides a breakdown of 2009 and 2010 audit and non-audit fees. In 2010, the non-audit services provided by the external auditor, predominantly in respect of iXBRL mapping, winding up dormant companies and P11D software, amounting to £21,000 was below the pre-agreed threshold.

As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured, as far as possible by enquiry of them, the independence of the external auditors. The terms of reference of the committee are available on request from the Company Secretary at the registered office and will be available on the company's website during April 2011. The Chairman of the committee will be available at the AGM to answer any questions on the work of the committee.

Remuneration committee

The Remuneration committee, chaired by Mike O'Leary and comprising all of the non-executive directors, establishes, on behalf of the board, the remuneration policy generally, approves specific arrangements for the Chairman and the executive directors and reviews and comments upon the proposed arrangements for senior executive management so as to ensure consistency within the overall remuneration policy and group strategy. Further information on the activities of the committee is given in the directors' Remuneration Report on pages 36 to 46 which should be read in conjunction with this report. The directors' Remuneration Report also describes how the principles of the Code are applied in respect of remuneration matters and includes a statement on the company's policy on directors' and senior executive managers' remuneration, benefits, share scheme entitlements and pension arrangements. During the period no director was, and procedures are in place to ensure that no director is, involved in deciding or determining their own remuneration. A resolution to approve the Remuneration Report will be proposed at the AGM.

Nominations committee

The Nominations committee, chaired during the year by Mike O'Leary, comprises all of the non-executive directors and the Group Chief Executive. The terms of reference of the committee are available on request to the Company Secretary at the registered office and will be available on the company's website during April 2011.

The committee leads the process for identifying and makes recommendations to the board on candidates for appointment as directors of the company and as Company Secretary, giving full consideration to succession planning and the leadership needs of the group. It also makes recommendations to the board on the composition and Chairmanship of the Audit and Remuneration committees. It keeps under review the structure, size and composition of the board, including the balance of skills, knowledge and experience and the independence of the non-executive directors, and makes recommendations to the board with regard to any changes. The committee meets periodically when required. The Nominations committee met twice in the year, as reflected in the attendance record during 2010 given on page 31. Only members of the committee are entitled to be present at meetings but others may be invited by the committee to attend. The board has agreed the procedures to be followed by the Nominations committee in making appointments to the various positions on the board and as Company Secretary. The committee has access to such information and advice both from within the group and externally, at the cost of the company, as it deems necessary. This may include the appointment of external executive search consultants, where appropriate. No director is involved in any decisions regarding their appointment.

All non-executive directors are appointed for an initial three year term pursuant to a standard letter of appointment, which is available for viewing at the company's registered office during normal business hours or at the AGM.

The committee ensures that newly appointed directors receive a full induction and when considering the re-appointment of directors ensures that the board has an appropriate balance of skills, knowledge and experience. Items discussed by the committee during the year to enable it to discharge its duties in accordance with its terms of reference included the size, structure, composition and skills of the board membership, the resignation of David Grove, the appointment of Andrew Eastgate, the proposal to elect Andrew Eastgate and to re-elect Tony Brewer under the retirement by rotation provisions and the evaluation process relating to the board and its committees, the operation of which is described above. When considering the appointment of Andrew Eastgate, the committee did not seek advice in respect of potential candidates from external executive search consultancies or publicly advertise the role, preferring to make its own enquiries and pursue recommendations.

Corporate Governance
continued

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

Communication with shareholders

The company places considerable importance on communication with shareholders and engages with them on a regular basis. The board aims to present a balanced and understandable assessment of the group's financial position and prospects in its reporting to shareholders and this is outlined in the Financial Review. The company reports formally to shareholders twice a year when its half year and full year results are announced and an interim and an annual report is issued to shareholders.

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. The company seeks to present an accurate and objective view in a manner appropriate for the intended audience. Contact with the major shareholders is principally maintained by the Group Chief Executive and Group Finance Director. 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 Senior Independent Director attended several meetings with shareholders in the year during which a variety of subjects were discussed.

The company's AGM provides an opportunity for the board to communicate with private investors. At the meeting, the company complies with the Code as it relates to voting, the separation of resolutions and the attendance of committee Chairmen. Wherever possible directors attend the AGM and shareholders are invited to ask questions during the meeting and to have the opportunity to meet with the directors following the conclusion of the formal part of the meeting. The group seeks to present an accurate, objective and balanced picture in its annual and interim reports, trading statements, results presentations and city announcements in a style and format which is appropriate to the intended audience. Copies of annual and interim reports, along with other published information and press releases, are available on the company's website at www.headlam.com. The Notice of the AGM and related papers are sent to shareholders at least twenty working days before the AGM and separate resolutions are proposed on each substantial issue. Shareholders at the meeting are advised as to the level of proxy votes received, including the percentage for and against each resolution together with the level of abstentions, following each vote on a show of hands. In line with the Code, details of proxy voting by shareholders, including votes withheld, are made available on request and are placed on the company's website following the AGM.

Details of the 2011 AGM are set out in the Notice of AGM which forms part of these Annual Report and Accounts along with details of the facilities available for proxy votes to be cast electronically. The company offers shareholders the right to withhold their vote, if they so wish, in line with best practice.

Risk management and internal controls

The board recognises that the management of risk through the application of a consistent process during the year as required by Code provision C2 (Internal Control) is key to ensuring that a robust system of internal control is monitored by the business. The principle risks and uncertainties facing the company may include some of those identified on pages 24 and 25 in the Directors' Report. It should be borne in mind that this is not an exhaustive list and that there may be other risks that have not been considered or that the board consider now are insignificant or immaterial in nature, but that may arise and/or have a larger effect than originally expected.

The Code requires directors to review and report annually to shareholders on the effectiveness of the company's systems of internal control which include financial, operational and compliance controls and risk management. The board has overall responsibility for establishing and maintaining the group's systems of internal control and for reviewing its effectiveness whilst the implementation of internal control systems is the responsibility of management. The board continues to apply the internal control provisions of the Code through a continuous process for identifying, evaluating and managing the significant risks the group faces. This process has been in place throughout the year and up to the date of approval of this report, and the group has been in compliance with the provisions set out in section 1, C2, of the Code, including consideration of corporate social responsibility matters.

The objective of the group's risk management processes is to ensure sustainable development throughout the conduct of its business in a way which satisfies its customers, maintains proper relationships with suppliers and contractors, protects against losses from unforeseen causes, provides a safe and healthy workplace, develops environmentally friendly processes, minimises the cost and consumption of increasingly scarce resources, prevents pollution and waste and maintains a positive relationship with the communities in which it does business.

Corporate Governance
continued

Against this background, the systems are designed to meet the group's particular needs and designed to manage rather than eliminate risks. By their nature, they provide only reasonable and not absolute assurance against material misstatement or loss. The board considers that the measures taken, including physical controls, segregation of duties and reviews by management, provide sufficient and objective assurance.

During the year the board maintained its process of hierarchical reporting and review in order to evaluate the effectiveness of the group's systems of financial and non-financial controls. The group has developed a comprehensive series of operating and financial control procedures which are applied at all businesses and the group finance team performs monthly reviews to verify that the businesses are complying with the prescribed operating and financial control procedures. In addition, the board reviews risk management arrangements. Furthermore, 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 by management 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. During the course of its review of the system of internal control, the board has not identified any failings or weaknesses, or been advised of any, which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate. In addition, there were 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.

The group operates a comprehensive planning system, including detailed reviews at all subsidiaries, together with formal reviews and approval of annual plans by the board. Actual performance is reported on a monthly basis measured against plan and prior year including a detailed explanation of major variances and on a daily basis, revenue, gross margin and cash flow, measured against plan and prior year are reported. The company and its subsidiaries have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to fraud. The group has clearly defined guidelines for capital expenditure and investment appraisal. These include annual plans, detailed appraisal and review procedures, authority levels and due diligence requirements when businesses are acquired. Any acquisition or disposal of a business needs formal board approval. The board reports that full procedures are in place to achieve compliance with the internal control aspects of the Code for the next financial period.

The output of these reviews form an important element of management reporting and a process is in place for monitoring the achievement of action plans together with 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 group views the careful management of risk as a key managerial 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 laid out in the group procedures manual, which is periodically updated, and the employment handbook which includes ethical standards expected of personnel. The integrity and competence of personnel is assessed during the recruitment process and monitored throughout employment.

A high standard of health and safety management is promoted at all levels within the group. The group's health and safety approach is supported by training programmes at operating businesses, group health and safety rules and monitoring and auditing to promote a high level of awareness and commitment. Individual businesses are assessed on a periodic basis, and remedial solutions implemented where necessary. Line management retain the responsibility for completion of action plans with progress being monitored and reported.

The Audit committee meets at least twice a year and in accordance with its terms of reference, reviews the effectiveness of the group's systems of internal control. In accordance with the Code the board has undertaken an assessment of the need for a group internal audit function. The board considers that the control systems and procedures undertaken by the group are adequately performed by management and therefore does not currently propose to introduce a group internal audit function but will keep the matter under review.

This process has over the years identified a number of risks where action plans have been developed to eliminate, minimise or mitigate these risks (including the use of insurance where appropriate).

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

Geoff Duggan
Company Secretary
11 March 2011

Remuneration Report

Introduction

This report has been prepared by the Remuneration committee ("the committee") on behalf of the board and in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, the UK Corporate Governance Code and the Listing Rules of the Financial Services Authority.

The report is divided into two parts. The first part, which is not required to be audited, details the role of the committee and commentary on remuneration policy. The second part contains the remuneration review detailing directors' and a former directors' emoluments, share awards and options and pension arrangements that have been audited in accordance with the relevant statutory requirements.

The purpose of this report is to inform shareholders of the company's policies on directors' and senior executive managements' remuneration for the year ended 31 December 2010 and, so far as practicable, for subsequent years as well, and to provide details of the remuneration of individual directors as determined by the committee. This report has been approved both by the committee and the board and, in accordance with the Companies Act 2006, shareholders will be asked to approve the report by way of a resolution that will be proposed at the AGM of the company on 17 June 2011, at which the Chairman of the committee will be available to answer any questions.

Unaudited information

Composition and role of the Remuneration committee

The members of the committee during the period under review, whose experience and other roles are set out in the biographies on page 22, are set out in the table below and comprise the three independent non-executive directors. The members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interest and, as independent non-executive directors, no day to day involvement in running the business. David Grove resigned as a director with effect from 17 March 2010 and Andrew Eastgate joined the committee on 17 May 2010 on his appointment as a non-executive director. The two other members served throughout both the period under review and the prior period.

The committee met four times during the year, members' attendance being as set out below.

Members during the year	Number of meetings attended during the year	Meetings eligible to attend
Current directors		
Mike O'Leary (Chairman)	4	4
Dick Peters	4	4
Andrew Eastgate	2	2
Former director		
David Grove	1	1

The executive directors are invited to attend the committee's meetings, when appropriate, in an advisory capacity, but are not present when their own remuneration is discussed. Meetings are attended by the Company Secretary who acts as secretary to the committee.

During the period under review the committee obtained independent advice from executive reward consultants, Hay Group.

The committee is responsible for setting the framework and policy for the remuneration of the executive directors which it reviews annually for appropriateness and relevance. The terms of reference of the committee are available from the company on request and will be available on the company's website during April 2011.

It is also responsible for determining the specific elements of the executive directors' and senior executive managements' remuneration, performance targets, contractual terms and compensation arrangements. This is to ensure that on termination, contractual terms and payments are fair both to the company and to the individual so that failure is not rewarded and the duty to mitigate loss is recognised. In addition, the committee oversees any major changes in employee benefit structures throughout the group.

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

In setting the remuneration of the executive directors and senior executive management, the committee takes into account the economic environment and financial performance of the group, along with pay and employment conditions of other group employees. In particular, the committee endorsed the proposal made by executive directors that pay rises in respect of executive directors remained frozen at their 2008 levels and that pay rises in respect of the senior executive management were in line with the level of increases applied in 2011 to the wider employee population which averaged 2%.

Remuneration Report
continued

Remuneration policy
The objectives of the committee's remuneration policy are to:

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

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

In deciding the appropriate remuneration strategy for 2011 the committee has taken into account the group's performance over the last year and the current economic environment. The committee will continue to monitor and review the remuneration policy to ensure that the remuneration structure and associated performance measures remain appropriately aligned with the group's strategic objectives. The individual salary, bonus and benefit levels of the executive directors and senior executive management are and will continue to be reviewed annually by the committee.

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

Component	Policy for executive directors and senior executive management	Purpose and link to business strategy
Salary	- Reviewed annually - Benchmarked using data from a variety of published sources	- Market competitive salaries enable the group to recruit and retain the best talent
Annual bonus	- Based on achieving stretching group profit before tax targets - Maximum of 150% of base salary	- Focus on improving profitability, in accordance with the group's strategic priorities - Target setting ensures that maximum bonuses are only available for the delivery of above target growth in earnings
2008 Co-investment Plan	- Deferral of between 15% and 100% of annual bonus - Other funds can be invested under certain circumstances - Up to 2 for 1 matching subject to stretching EPS and TSR targets	- Encourages retention and the making of a personal financial commitment - Assists in building and increasing long term share ownership - Alignment with long-term corporate performance and shareholder returns - Reduction of opportunity in 2010 to reduce the cost to the company
Pension	- The group provides an opportunity for its executive directors and senior executive management to participate in occupational arrangements	- Market competitive arrangements enable the group to recruit and retain the best talent
Other benefits	- Typically company car, medical insurance and life assurance cover	- Provision of market typical benefits to ensure the group attracts and retains the best talent

Remuneration Report
continued

Remuneration structure
Base salaries
As a general policy, base salaries reflect the committee's assessment of the appropriate market rate for comparable positions and levels of responsibility and the individual executive's experience, performance and value to the business. The committee also assesses pay and employment conditions of employees of the group when determining the executive directors' remuneration. The committee reviews base salary annually with any change taking effect from 1 January.

The base salary of the executive directors and of the senior executive management remained unchanged in 2009 and 2010. With the exception of the executive directors, whose base salaries will continue to be unchanged for 2011, the committee has approved an average inflationary increase of 2% to base salaries for the group's workforce. The exception to this increase will be where pay increases need to be granted to any employees whose basic salary is considerably behind the market or to individuals who are promoted to a more senior role.

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

In 2009 the annual performance bonus comprised an annual cash bonus based on the achievement of the group's financial target, with an award of 77% of base salary being paid.

The performance related scheme for 2010 was similarly based on the achievement of a profit before tax target. Increasing profitability and cash management has been an area of major focus for the group over the last twelve months and the maximum bonus was only achievable for over-achievement against the target. In the event of underperformance of financial target, no bonus was to be awarded. Furthermore, the committee determined not to use discretion to make bonus awards for under performance.

For 2010, the committee is satisfied that the profit before tax target was exceeded and accordingly performance-related bonuses, including 22% of base salary in respect of over-achievement, were awarded to the executive directors as shown in the table on page 44.

Bonus ranges for 2010 and 2011 and actual bonus outcome for 2010 as a percentage of salary

Executive Director	Actual bonus level	Maximum bonus opportunity	Target bonus level
Group Chief Executive	97%	150%	75%
Group Finance Director	97%	150%	77%
Chairman	–	–	–

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

For 2011, the annual performance bonus will comprise a cash bonus on the achievement of the group's financial target. On achievement of the profit before tax target a bonus of 75% of base salary would be applicable and on attainment of 90% profit before tax target, a bonus based on 10%, with incremental attainment in between. The maximum of 150% of base salary will only be paid for achievement of performance of 28% or more above the profit before tax target.

The bonus target for 2011 has been set at a level which is more demanding relative to 2010 using benchmarks that reflect both internal business objectives and external expectations. The committee is satisfied that the target is challenging and would represent an increase in group profit relative to 2010.

Share incentive arrangements
The committee is keen to encourage directors and key employees to increase their shareholdings in the company, so aligning their interests with the company's shareholders. 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 are also key in providing a link between rewards to executive directors and senior executive management and sustainable, long-term financial performance. It is also worth noting that the Group Chief Executive and Group Finance Director have significant personal shareholdings which enhance their alignment with investors.

The company has adopted five share plans. In June 2002 the company adopted the Headlam Group Sharesave Scheme which is open to all eligible employees on the same basis, providing a long-term savings and investment opportunity.

Remuneration Report
continued

In June 2008 the company adopted the Headlam Group Co-Investment Plan 2008 ("CIP") and the Headlam Group Performance Share Plan 2008 ("PSP"). Shareholders also authorised the adoption of the Headlam Group Approved Executive Share Option Scheme 2008 and the Headlam Group Unapproved Executive Share Option Scheme 2008, both being market value share option plans ("ESOS").

The CIP and PSP are intended to be the main incentive vehicles for executive directors and senior executive management with awards intended to be made on an annual basis. However, the committee has not yet implemented the PSP and it does not intend to do so during 2011. The ESOS are intended to be used to reward employees below the board and it is not the current intention to grant awards under the ESOS to executive directors. The executive directors are also eligible to participate in the Headlam Group Sharesave Scheme, an all employee SAYE scheme. For those options and awards subject to a performance target, determination that the conditions have been met is made by the committee once the relevant EPS and TSR figures are known for the relevant financial year and targets are tested only once.

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

The CIP provides for the grant of matching share awards in the form of a non-transferable nil-cost option to acquire existing shares. A matching share award may be made to participants of up to twice the number of shares that would have been acquired with the pre-tax amount of bonus or other funds that they are invited to apply to acquire shares.

At the discretion of the committee, participants may be invited to take not less than 15% and up to 100% of their annual bonus in the form of shares, the net amount after income tax and employees national insurance being used to acquire shares. If no annual bonus is paid in a year, the committee may permit investment of other funds but subject to a maximum of 50% of any bonus paid in the preceding year. In the first year that an award is made, the participant may apply shares which they already hold with the requisite market value.

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.

Subject to the satisfaction in full or part of performance targets, an award will normally be exercisable at least three years after the award date however cannot be exercised more than 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. Performance targets are a mix of EPS growth targets and total shareholder return ("TSR") targets against the FTSE 250 index (excluding investment trusts) with 50% of the award determined by the EPS growth targets and 50% by the TSR targets. The committee considers that achieving real EPS growth in the medium term is of paramount importance for the long-term success of the business and has therefore decided to continue to base 50% of the award on this metric. In addition, 50% of the award is based on TSR against a wide range of companies to ensure that directors only receive the maximum payouts available under the plan if the group significantly outperforms the general market.

The committee carefully considered using a specific comparator group rather than a broad index. However, on balance, it considered that due to the nature of the group's operations, it would be difficult to construct an appropriate comparator group. The FTSE 250 index had been chosen as it was a relevant broad based equity index in which the group had over a number of years predominantly been a constituent member. To the extent that future awards contain a TSR target, the FTSE Small Cap index may be selected, if relevant.

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

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

Vesting of the EPS element under the CIP and PSP

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

*The PSP has not been implemented.

Remuneration Report

continued

In October 2010 awards were granted under the CIP to the executive directors and senior executive management which were subject to the TSR and EPS performance targets described above. The awards were determined by reference to prior year bonus with matching share awards of up to 2 for 1, dependent on achievement of the performance targets. As this was the first award made under the scheme there was provision for existing shareholdings to be used by participants for matching purposes as approved by shareholders at the 2010 AGM.

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

Before the 2010 awards were granted under the CIP, the Remuneration committee accepted the recommendation made by the executive directors to reduce the award by 75%, to 25% of salary in order to reduce the cost for the company. The executives were therefore not able to take full advantage of the first year opportunity of using existing shares to fund the arrangement.

The company is therefore proposing an amendment to the rules of the CIP at the AGM on 17 June 2011 to allow executives to use further existing shares for future awards retaining the overall cap of 100% of 2008 base salary, which is consistent with the arrangement originally approved by shareholders. Further details of the proposals can be found in the Notice to the meeting on pages 106 and 112.

The committee believes that the executive director's recommendation to scale back the first year opportunity and the proposed amendment to the rules of the CIP are in the best interests of the company and its shareholders for the following reasons:

- the cost of the award in 2010 is reduced to 25% of base salary.
- the proposals do not increase the overall level of awards to executive directors and other participants in the form of matching shares.
- the CIP is currently the company's only long-term incentive vehicle.
- the committee has not yet implemented the 2008 PSP nor does it intend to do so during 2011 and it has not granted any option awards under the 2008 Option Schemes.
- executive directors are required to commit shares to the CIP in order to receive matching awards of shares. This commitment is greater than established UK market practice for executive directors to be eligible for long-term incentive awards without the need to commit any of their own shares or funds.

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

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

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

Under the rules of the plan, performance targets are to be measured over a fixed period of three years, beginning not earlier than the year in which an award is made. Performance targets are to be a mix of EPS growth targets and total shareholder return ("TSR") against an appropriate index. Subject to committee approval before awards are granted, awards made in the 2008 year were to be split with 50% determined by EPS growth targets and 50% by the TSR targets. The targets that would have applied to the original award are those described on page 39 and are the same as those that apply to any awards under the CIP.

To date there have been no options granted under this scheme. It is not the current intention of the committee to implement the PSP for the executive directors in 2011.

Headlam Group Approved and Unapproved Executive Share Option Schemes 2008

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

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

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

Remuneration Report
continued

Headlam Group Executive Approved and Unapproved Share Option Schemes 1998

As set out in the analysis of share options on page 45, there remain capable of exercise options granted in 2005. The performance targets for options granted under the 1998 Share Option Schemes are based on the extent to which growth in the group's earnings per share ("EPS") exceeds growth in the Retail Prices Index ("RPI") over a three-year performance period, EPS being calculated as fully diluted earnings per share. In respect of the approved scheme EPS growth must exceed RPI growth by 3% pa or more over the three year performance period. In respect of the unapproved scheme, for options up to one times eligible earnings, EPS growth must exceed RPI growth by 3% pa or more over the three year performance period and by 5% or more over the three year performance period for options granted of between one times and two times eligible earnings. The committee felt that these performance conditions were appropriate at the time the options were granted.

Headlam Group Sharesave Scheme 2002

Under the scheme, options may be granted at up to a 20% discount to market price at the date of grant. Options may not normally be exercisable until the option holder has completed their three or five year savings contract. With the exception of non-executive directors, all employees, including the executive directors, are eligible to participate in the scheme. Awards were granted to UK eligible employees, excluding executive directors, during the year.

Dilution

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

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

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

Other benefits

Executive directors receive taxable benefits comprising a company car and fuel, lump sum life assurance for death-in-service cover and non-contributory private medical insurance, which provides benefits similar to those applicable in comparable companies.

Retirement benefits

Tony Brewer currently participates in the Headlam Group Staff Retirement Benefits Scheme, the defined benefit plan operated by the group, on a non-contributory basis. Details regarding participation in the defined benefit pension plan are given on page 44 and 45.

Service contracts

The current policy is for executive directors' service contract notice periods to be normally no longer than twelve months. The service contracts of the executive directors' have no fixed term but provide that either the director or the company may terminate the employment by giving twelve months' written notice and that the company may pay compensation in lieu of notice. The company recognises however that it may be necessary in the case of new executive appointments to offer an initial longer notice period, which would subsequently reduce to one year after the expiry of that period. All future appointments to the board will comply with this requirement.

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

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

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

Details of individual director's remuneration and share incentives are set out on pages 44 to 46.

Remuneration Report
continued

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, 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. Graham Waldron retired as non-executive Chairman of Tandem Group plc on 21 June 2010 and Steve Wilson retired as non-executive Chairman of Synergy Health PLC on 22 September 2010, their fees in the year being £58,333 and £48,879 respectively.

Non-executive directors
The non-executive directors do not have service agreements but instead are appointed for an initial period of three years by letter of appointment which is terminable by either party subject to one month's notice, for which no compensation is payable. Letters of appointment of the non-executive directors are available on application to the Company Secretary. At the end of the initial period, the company discusses with the non-executive director whether they wish to renew their appointment and whether 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, subject to termination as aforesaid. Non-executive directors are typically expected to serve two three-year terms, although the board may invite them to serve for an additional period. All appointments and subsequent re-appointment is subject to approval by shareholders.

Non-executive directors' fees are reviewed by the board annually by reference to prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a positive contribution to the group's affairs. The annual fees were reviewed with effect from 1 January and remained unchanged at £35,000, with an additional £5,000 being paid to the respective chairmen of the Audit and Remuneration committees. Non-executive directors are not involved in any discussion or decision about their own remuneration nor do they participate in any of the company's share schemes, incentive plans or pension schemes. The aggregate limit for fees paid to non-executive directors is laid down in the articles. Mike O'Leary has been designated Senior Independent Director for which he receives no additional fees.

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

Name of director	Date of appointment	Date of last re-election at an AGM
Executive Directors		
Graham Waldron	June 1991	June 2010
Tony Brewer	June 1991	June 2008
Steve Wilson	December 1991	June 2009
Non-executive Directors		
Dick Peters	December 2005	June 2010
Mike O'Leary	March 2006	June 2009
Andrew Eastgate	May 2010	–

Directors' share interests
It is the company's policy that executive directors are required to hold shares in the company equivalent in value to once time's base salary, newly appointed directors being expected to build their holding over a five year period. The executive directors each hold shares that significantly exceed this minimum requirement.

In accordance with Listing Rule 9.8.6R, the beneficial interests of directors and their connected persons, as required by Section 822 of the Companies Act 2006, who held office at the end of the year in the ordinary shares of the company, were:

	Shareholdings at 31 December 2010	Shareholdings at 31 December 2009
Executive Directors		
Graham Waldron	360,638	360,638
Tony Brewer	519,942	519,942
Steve Wilson	400,770	400,770
Non-executive Directors		
Dick Peters	5,000	5,000
Mike O'Leary	–	–
Andrew Eastgate	–	–

There were no changes in the beneficial interests of the directors in the company's shares between 31 December 2010 and 11 March 2011.

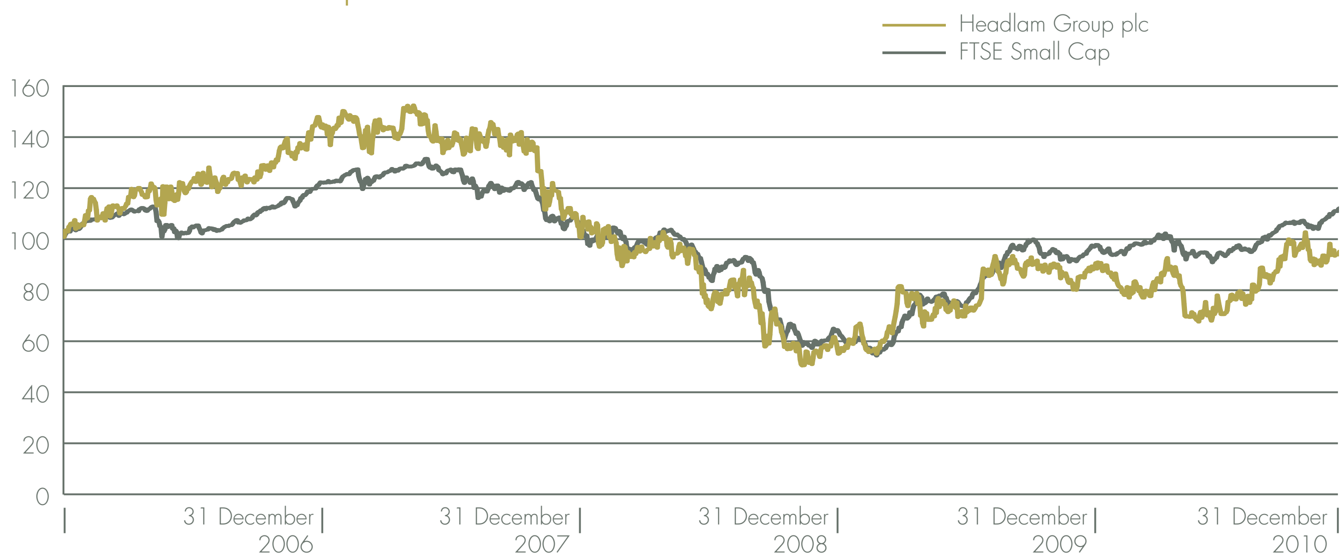
Remuneration Report
continued

Performance graph
The following graph shows the group's performance on a holding of £100 in the company's shares for the five year period to 31 December 2010 measured by total shareholder return ("TSR"), compared with the performance of the FTSE SmallCap index also measured by TSR, which is defined as share price growth, plus re-invested dividends.

The FTSE SmallCap index has been chosen because it provides a basis for comparison against companies in a relevant broad based equity index in which the group is a constituent member. The other points plotted are the values at intervening financial year ends.

Total shareholder return

5 Year Return Index for FTSE Small Cap as at 31 December 2010



Source: Thomson Financial

Audited information
The Remuneration Report from page 36 to page 43 up to this statement has not been audited. From this point until the end of the report on page 46 the disclosures have been audited by the company's auditor, KPMG Audit Plc.

Remuneration Report
continued

Directors' remuneration

The following section provides details of the remuneration, pension and share interests of the directors for their services as directors of the group for the year ended 31 December 2010.

	Salary and fees		Benefits		Performance related pay		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Executive directors								
Tony Brewer	520	520	35	35	504	392	1,059	947
Steve Wilson	376	376	31	28	364	291	771	695
Graham Waldron	115	115	19	26	–	–	134	141
Non-executive directors								
Andrew Eastgate (ii)	22	–	–	–	–	–	22	–
David Grove (i)	8	35	–	–	–	–	8	35
Mike O'Leary	40	40	–	–	–	–	40	40
Dick Peters	40	40	–	–	–	–	40	40
	1,121	1,126	85	89	868	683	2,074	1,898

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

Benefits are in respect of all taxable benefits arising from employment by the company including the provision of a company car and fuel, life assurance cover and private medical insurance. Pension benefits and gains made by executive directors in respect of share options are excluded from the table above.

Pension benefits

Tony Brewer participates in the group's defined benefit pension scheme which provides benefits at a normal retirement age of fifty five based upon pensionable service. The maximum pension payable under the scheme is equivalent to an amount that would not result in any additional tax charge being payable under HMRC rules. There are lump sum death-in-service benefits and pension provisions for members' dependents. Benefit accrual in respect of Steve Wilson ceased on 20 August 2009 on reaching normal retirement age.

Details of executive directors' pension benefits for the year ended 31 December 2010 are shown below:

	Increase in accrued pension during the year £000	Transfer value of increase £000	Accumulated accrued pension at 31 December 2010 £000pa	Change in accrued pension over the year £000pa	Accumulated accrued pension at 31 December 2009 £000pa
Tony Brewer	6	133	74	6	68
Steve Wilson*	–	–	–	–	81

*Steve Wilson transferred his benefits out of the scheme on 14 October 2010 and as such had no benefit in the scheme on 31 December 2010.

Remuneration Report
continued

The increase in the accrued pension during the year excludes any increase due to inflation of the accumulated accrued pension at the start of the year. The change in accrued pension over the year includes any increase due to inflation of the accumulated accrued pension at the start of the year. As the Section 52a Order for 2010 reflects there being no inflation over the year, the increase in accrued pension and change in accrued pension values are equal.

	Transfer value of accrued pension at 31 December 2010 £000	Change in transfer value over the year £000pa	Transfer value of accrued pension at 31 December 2009 £000
Tony Brewer	1,624	244	1,380
Steve Wilson	–	–	2,204

Directors' interests in share option schemes

Matching share awards under the CIP were granted for nil consideration on 7 October 2010 when the price of an ordinary share was 312 pence. The awards are subject to the performance conditions as outlined in the policy section with an exercise price of an aggregate £1 for all the matching award shares.

Details of executive directors' interests in the SAYE scheme, executive share option schemes and CIP are set out below, a description of which is given on pages 39 to 41:

	Options held at 1 January 2010	Options granted during the year	Options cancelled during the year	Options exercised during the year	Options held at 31 December 2010	Exercise price (pence)	Date from which exercisable	Expiry date
Tony Brewer								
1998 USOS (i)	342,858	–	–	–	342,858	420.00	Aug 2008	Aug 2012
1998 ESOS (ii)	7,142	–	–	–	7,142	420.00	Aug 2008	Aug 2015
Sharesave (iii)	7,043	–	–	–	7,043	222.20	Jul 2014	Jan 2015
CIP (iv)	–	98,859	–	–	98,859	nil	Oct 2013	Oct 2020
Steve Wilson								
1998 USOS (i)	242,858	–	–	–	242,858	420.00	Aug 2008	Aug 2012
1998 ESOS (ii)	7,142	–	–	–	7,142	420.00	Aug 2008	Aug 2015
Sharesave (iii)	7,043	–	–	–	7,043	222.20	Jul 2014	Jan 2015
CIP (iv)	–	71,388	–	–	71,388	nil	Oct 2013	Oct 2020
Graham Waldron								
Sharesave (iii)	4,117	–	–	–	4,117	222.20	Jul 2012	Jan 2013

(i) Headlam Group Unapproved Executive Share Option Scheme 1998 (1998 USOS)
Details of the operation of the scheme including the performance conditions attaching to options are provided on page 40.
(ii) Headlam Group Approved Executive Share Option Scheme 1998 (1998 ESOS)
Details of the operation of the scheme including the performance conditions attaching to options are provided on page 40.
(iii) Headlam Group Sharesave Scheme 2002 (Sharesave)
Details of the operation of the scheme are provided on page 41.
(iv) Headlam Group Co-Investment Plan 2008 (CIP)
Details of the operation of the scheme including the performance conditions attaching to options are provided on pages 39 and 40.

The mid market closing price of a Headlam Group plc ordinary share on 31 December 2010, the last trading day of the financial year, was 313.50p and the price range during the year was 225.00p to 345.00p, with an average price of 283.65p.

Remuneration Report
continued

Gains made by directors
The aggregate amount of gains made by executive directors on the exercise of share options was £nil (2009: £nil).

Register of directors interests
The register of interests, which is open to inspection, contains full details of directors' shareholdings and options. There were no changes in the options held by the directors between 31 December 2010 and 11 March 2011.

Savings related share options scheme
The company operates an Inland Revenue approved all employee savings related share option scheme in the UK. The scheme is designed to provide a long-term savings and investment opportunity for employees and is described on page 41. On 21 May 2010, the company granted options under its savings related share option scheme for terms of between three and five years at an option price of 251.00p per share, representing a 20% discount to market price. A total of 118 employees were granted options over a total number of 158,908 shares.

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

Mike O'Leary
Chairman of the Remuneration Committee
11 March 2011

Corporate and Social Responsibility

The company has a duty to our shareholders to consider social and environmental issues that could affect our business. We are committed to managing our business in a socially responsible manner and our aim is to continually improve our management of the social, environmental and economic issues within our control or influence throughout the business and our supply network.

Our programme is designed to address the importance of corporate social responsibility ("CSR") issues that we face, to encourage and facilitate appropriate management behaviour and be aligned with the group's business strategy taking proper account of the morale and welfare of our employees, the satisfaction of our customers and our impact on the environment. The proper management of CSR also makes good business sense resulting in strategic, commercial and reputational benefits.

Like many businesses, our stakeholders are many and diverse, including our shareholders, employees, customers, suppliers, the local community, government and non-governmental organisations. Communication with our stakeholders is considered to be an essential part of our business and we aim to be open and transparent in all that we do.

The group has reviewed its ongoing CSR policy to ensure that it meets the needs of the markets and communities in which it operates. We communicate our results and prospects to our shareholders in an accurate and timely manner using a variety of channels. In addition to the AGM, we communicate through our Annual Report and Accounts, Interim report, Interim Management Statements and trading updates. All of these documents are available on our website at www.headlam.com. Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website. In addition face to face meetings are held with our major institutional shareholders to both assist them with their understanding of the announcements but also to ensure that the board is aware of their views and concerns.

Our commitment to CSR is communicated to employees through our employee handbook and through our group procedures manual. These both include the requirement for employees to undertake to act ethically and responsibly in all of our business dealings with stakeholders and include our ethics, fraud and whistle blowing policies, which are communicated to employees. We do not permit bribery, anti-competition or corrupt practices in any dealings. We are committed to continuous improvements in all aspects of CSR – our policies, our systems, our performance and our reporting.

Our management structure allows the consideration of social and environmental factors by individual businesses within the group and at a group level. We continue to foster our relationships with our external stakeholders. We aim to manage our relationships with our stakeholders and communicate with them professionally and responsibly. Our approach towards charitable donations and our support in local communities is set out in the Director's Report.

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

Health and safety

Health and safety is at the heart of our corporate responsibility. Protecting our employees, contractors and visitors from injury is a fundamental part of our business. We are committed to developing and maintaining a positive health and safety culture in which statutory requirements are viewed as a minimum and continually strive for improvement. The group has developed its health and safety policy over a number of years, applying it to the specific circumstances appertaining to our individual businesses and amending it as changes are considered appropriate.

The policy is endorsed by the board which receives an annual presentation on health and safety matters with updates on a more frequent basis where considered necessary. The annual update includes a detailed review on health and safety issues at each trading location and the progress made in improving our performance where recommendations regarding improvements have been received following annual, or where changes to operations have occurred, more frequent inspections. These reports also outline planned health and safety initiatives intended to improve standards and comment on potential future legislative and best practice developments and challenges.

The policy seeks to ensure that the group's operations are carried out at all times in compliance with the relevant health and safety guidance in the jurisdictions in which we operate and to ensure the health and safety at work of employees and all persons likely to be affected, including contractors, customers, staff and members of the public where appropriate.

All businesses undergo health and safety audits by an external body and the measures by which we judge satisfactory outcome are continually reviewed and the standards raised. Each business in the UK, receives a comprehensive (bespoke to the location) health and safety manual for use as a source of information, guidance and training together with a set of compliance documentation which is reviewed, and updated as necessary, on not less than an annual basis.

In the UK, relevant health and safety information and guidance forms part of our induction process and managers are guided and supported in risk assessment techniques. Good practice guides setting out the important Do's and Don'ts associated with many of the roles and duties undertaken by employees, in conjunction with one to one training, support the job specific training undertaken with employees, including periodic refresher training. During the year employee training packs have been reviewed and their scope expanded.

Health and safety committees are promoted at all sites with representation from the various business departments, meeting on a periodic basis and co-ordinated by the health and safety manager on site.

Corporate and Social Responsibility
continued

The value of employee participation in delivering this commitment is recognised and management teams are encouraged to create a supportive culture. To achieve this we endeavour to ensure that we:

- continue to improve health and safety systems, procedures and guidance
- make personnel aware of this policy
- maintain high standards of health and safety
- maintain a consistent reporting structure
- provide adequate resources

Training in health and safety includes an awareness of impending changes in relevant legislation and other specialist subjects. The consistent approach taken throughout the group, with the group policy being tailored and introduced into recently acquired businesses, improves our governance. Courses provided by external assessors complement in house forklift truck training undertaken on a one to one basis. During the year, local management responsible for health and safety successfully completed the Institute of Safety and Health Managing Safely Course.

Our commercial drivers attended a day's training in compliance with the continuing professional competence scheme ("CPC"), which was introduced in 2010 and supervised by an external training provider. The scheme introduced a requirement for five days CPC training in a five year period, which the group has chosen to undertake on a one day a year basis. The subject matter in 2010 included an update on tachograph regulations, daily vehicle checks, manual handling, including the use of equipment provided, and what to do in the event of an accident. CPC training in 2011 will include drivers working time and associated tachograph usage, defensive driving and fuel efficient techniques.

Good relationships are maintained with Health and Safety and Environmental Health regulators in the areas in which we operate with positive and prompt responses to any findings and/or observations following compliance inspections.

The continual development of our policies and procedures has resulted in some minor modifications to our control and inspection procedures. Whilst we continue to aim for lower levels, the current low frequency of accidents experienced reflects the success of our health and safety policies. In 2010 there were eighteen reportable accidents made to the Health and Safety Executive, none of which resulted in serious injury, with no prosecutions for breaches of health and safety or enforcement actions in the year. We investigate all reportable accidents and in the minority of instances where improvement is required, changes are implemented in a timely manner.

Whilst management is committed to providing a safe working environment with the appropriate working practices and training, this can only be achieved if employees equally give their commitment to a rigorous health and safety culture. We continue to undertake periodic refresher training to ensure that this is kept at the forefront. Investment in automated dispatch sortation equipment has significantly reduced manual handling where they have been installed.

Audit, inspection and accident report findings are reviewed with action plans produced as necessary to ensure continual improvement in our management of health and safety.

Our people

Good relations and communications with employees are essential to the continued success of our business and we seek to provide an environment in which our people can flourish and succeed. Our employees' wellbeing and professional development is central to recruiting and retaining high performing individuals. Our people seek to deliver their best for the business, which combined with a fair and responsible way of doing business, generates a common ambition to add value.

The group remains committed to providing a workplace that is safe and environmentally sound and which complies with applicable laws and regulations. The group expects employees to respect confidential information, company time and assets and believes in open and honest communication, fair treatment and equal opportunities. The group supports the fundamental principles of good governance.

The board values two-way communication between the business unit management and employees on all matters affecting the welfare of the business including regular senior management visits to operating units.

The group's Annual Report and Accounts is available to staff which provides employees with a greater awareness of the group's performance as well as the financial and economic factors that affect it. In addition, those employees who are eligible are also able to benefit from the group's performance through participation in share schemes, including a savings related share scheme.

It is the group's policy that employment opportunities, training, career development and promotion should be available to all, irrespective of age, gender, ethnic origin, religion or disability. Due consideration is given to applications for employment, having regard to the particular aptitudes and abilities of the applicants. We treat our responsibilities under the Disability Discrimination Act seriously. Any employee who develops a disability during employment is given the opportunity to retrain for alternative employment where practicable, given the nature of the group's activities.

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them and on the various factors affecting the performance of the group. It is the group's continued practice to maintain employee participation and involvement in matters which affect their interests through formal and informal meetings.

Corporate and Social Responsibility
continued

Recruitment, training and development is designed to ensure the group has suitably skilled and qualified employees to meet the operational needs of the business and offer the opportunity for employees to develop and grow. The group is firmly committed to developing the potential of its people and regularly reviews its succession planning processes. Training is delivered primarily through internal resources with assistance from external providers as and when required. Employee turnover remains low resulting in a stable employee base. We participate in work experience placement schemes.

The group considers it important that its employees provide for their retirement and accordingly provides opportunities for them to participate in retirement plans. A group life assurance scheme provides death in service benefits.

Environmental

We continue to reduce each of CO_2 emissions, fuel consumption and vehicle emissions, the amount of waste sent to landfill, the amount of packaging and water consumption. We have continued to improve recycling rates and encourage the use of pollution prevention initiatives.

As a wholesale distributor of floorcoverings and associated products, we operate a number of distribution facilities in the UK, France, Switzerland and the Netherlands. Whilst we operate specialist tables for the cutting of up to five metre broadloom carpets, we process rather than manufacture. We are therefore not a significant consumer of electricity, gas or water, the consumption of which we seek to reduce through the introduction on repair, renewal or installation of energy or water efficient techniques and equipment. Our electrical requirement is predominantly in respect of fork lift truck battery charging, the operation of the cutting tables and associated mechanical handling and compressed air equipment, office and warehouse lighting and office equipment. Our requirement for gas is predominantly in respect of office heating and limited localised radiant heating within the warehouse. Water consumption is predominantly is respect of employee welfare and commercial vehicle washing. The majority of our water charges are in respect of fixed water rates relating to water discharge from business locations. Actual cost of electricity, gas and water charges in 2010 amounted to 0.22% of revenue. Group electricity consumption, where supplied through half hourly meters, required registration under the carbon reduction commitment scheme that came into effect in 2010, but not compliance. The introduction of automated meter reading is being considered in respect of sites with non-half hourly water meters.

When we invest in new facilities, we incorporate modern energy efficient construction techniques and products. It is expected that future projects will incorporate renewable energy solutions and intelligent lighting systems. Due to the nature of our business and with our proactive approach when planning and developing new facilities, we believe that our activities generally have a low impact on the environment, with no environmental legal or compliance issues arising during the year.

The group has a policy to replace the commercial and motor vehicles it operates every five and three years respectively, so improving operational efficiencies and reducing operating costs and vehicle emissions. In line with European Emissions Directives, Euro 4 emission standards for commercial vehicles were introduced in October 2006. This aims to improve the levels of Carbon Monoxide, Hydrocarbon, Nitrogen Oxide and particulate emissions that cause harm to the environment. As a result of the five yearly replacement cycle, all of our commercial vehicles comply with Euro 4 emissions standards. Our fleet requirements are evaluated on a continual basis so as to ensure the optimum design of transport to maximise capacity and improve aerodynamics. In relation to company cars, a number of our businesses have either completed or have committed to completing smarter driving courses with the aim of improving energy efficient driving.

Our operations predominantly create waste materials in the form of protective plastic wrapping, cardboard and wooden pallets. We continue to sort the plastic and cardboard in discreet types and, with the use of baler units that we have invested in over the last few years, dispatch these to specialist re-processing agents. This has allowed us to significantly reduce the amount of our waste going to landfill and the number of vehicles on the road to collect our waste.

Wooden pallets are recycled where possible or sent to specialist re-processors. In addition we recycle the cardboard poles that are used in the centre of rolls of carpet and vinyl until they are no longer capable of being re-used. In these ways we have further reduced the amount of waste that is sent to landfill sites. Guidance on waste management is issued to the managers of the individual businesses to increase awareness of the need to control waste.

Where appropriate, wrapping and packing materials are sourced from manufacturers where a high proportion of recycled materials are used.

We have reviewed containment and inspection regimes in higher risk areas such as fuel and lubrication stores, compressors and fork lift truck battery charging areas, following which fire risk protection was improved through increased training and awareness and the installation of special containers remote from the main buildings for the storage of flammable products.

We seek to maintain good relationships with national and local regulatory organisations such as the Environment Agency and Environmental Health Departments in the UK. We regularly review regulatory issues and processes are in place to keep up to date. Staff training in health, safety and environmental matters, the frequency and cost associated with which is growing, is important and is reviewed annually as part of normal appraisal processes.

The group continues to use paper recycling and shredding initiatives and has introduced recycling bins for the segregation of aluminium cans, plastics and general waste, having a beneficial impact on the amount recycled.

Corporate and Social Responsibility
continued

Achieving sustained growth and profitability

There are a number of key areas whilst seeking to achieve the group's goal of sustained growth and profitability in future years, which will assist in attaining the financial objectives at the same time as meeting our corporate social responsibility obligations.

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

We place great importance on effectively managing our operations to minimise the likelihood of adverse impact. We proactively manage our facilities to minimise energy consumption utilising energy efficient lighting and heating. Our new sites are subjected to an environmental assessment prior to any construction taking place. This allows solutions to any identified environmental issues to be incorporated into the planning process, the most recent proposals including the application of underground heat pumps, rain water attenuation and the potential of solar power. Recognising that development can be potentially damaging, we seek to minimise energy consumption during the construction of new premises and the effects on the environment. Wherever possible, subject to the operating constraints of the business, existing trees and vegetation are retained and augmented as necessary. Existing sites are maintained in a tidy condition to minimise ecological impact.

We recognise that our business operations will be around for many years, having an impact on future generations, and to this end we work with local authorities to design new facilities which not only comply with guidelines but seek to blend in with their surroundings through the careful use of quality materials, landscaping and design features. We support the desire to see development take place in sustainable locations and we work with transport consultants to formulate green travel plans incorporating car sharing schemes and provision for bicycles when designing new facilities.

Independent Auditors Report

to the members of Headlam Group plc

We have audited the Financial Statements of Headlam Group plc for the year ended 31 December 2010. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- information given in the Corporate Governance Statement set out on pages 29 to 35 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company Financial Statements and the part of the directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; 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 21, in relation to going concern;
- the part of the Corporate Governance Statement on pages 29 to 35 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review and
- certain elements of the report to shareholders by the board on directors' remuneration.

D Turner
Senior Statutory Auditor

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

11 March 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Revenue	2	535,690	533,793
Cost of sales		(370,731)	(371,533)
Gross profit		164,959	162,260
Distribution expenses		(102,016)	(100,698)
Administrative expenses		(36,877)	(36,804)
Operating profit	2	26,066	24,758
Finance income	6	4,637	3,764
Finance expenses	6	(5,697)	(6,458)
Net finance costs		(1,060)	(2,694)
Profit before tax	3	25,006	22,064
Taxation	7	(7,127)	(6,168)
Profit for the year attributable to the equity shareholders		17,879	15,896
Dividend paid per share	22	11.00p	19.70p
Earnings per share			
Basic	9	21.5p	19.1p
Diluted	9	21.5p	19.1p

All group operations during the financial years were continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	Group 2010 £000	Group 2009 £000
Profit for the year attributable to the equity shareholders		17,879	15,896
Other comprehensive income:			
Foreign exchange translation differences arising on translation of overseas operations		1,094	(1,808)
Actuarial gains and losses on defined benefit plans	20	356	(10,042)
Effective portion of changes in fair value of cash flow hedges		(1)	(157)
Transfers to profit or loss on cash flow hedges		225	781
Income tax on other comprehensive income		9	2,854
Other comprehensive income/(expense) for the year		1,683	(8,372)
Total comprehensive income attributable to the equity shareholders for the year		19,562	7,524

Statements of Financial Position

at 31 December 2010

	Note	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Assets					
Non-current assets					
Property, plant and equipment	10	97,215	96,530	77,968	75,082
Intangible assets	11	13,210	13,210	–	–
Investments in subsidiary undertakings	12	–	–	86,703	86,392
Deferred tax assets	13	896	4,731	213	3,769
		111,321	114,471	164,884	165,243
Current assets					
Inventories	14	105,694	99,637	–	–
Trade and other receivables	15	102,240	101,149	27,924	27,153
Cash and cash equivalents	16	44,758	45,737	23,369	27,473
Assets held for sale	17	362	2,275	362	1,387
		253,054	248,798	51,655	56,013
Total assets		364,375	363,269	216,539	221,256
Liabilities					
Current liabilities					
Bank overdraft	16	–	(758)	–	–
Other interest-bearing loans and borrowings	18	(225)	(900)	–	–
Trade and other payables	19	(149,476)	(143,216)	(38,552)	(41,405)
Employee benefits	20	(2,586)	(2,506)	(2,586)	(2,506)
Income tax payable	8	(4,201)	(8,615)	(1,485)	(2,982)
		(156,488)	(155,995)	(42,623)	(46,893)
Non-current liabilities					
Other interest-bearing loans and borrowings	18	(34,011)	(34,392)	(30,000)	(30,000)
Employee benefits	20	(10,138)	(20,253)	(8,745)	(19,323)
		(44,149)	(54,645)	(38,745)	(49,323)
Total liabilities		(200,637)	(210,640)	(81,368)	(96,216)
Net assets		163,738	152,629	135,171	125,040
Equity attributable to equity holders of the parent					
Share capital	22	4,268	4,268	4,268	4,268
Share premium		53,512	53,512	53,512	53,512
Other reserves	22	(6,571)	(7,896)	7,616	7,385
Retained earnings		112,529	102,745	69,775	59,875
Total equity		163,738	152,629	135,171	125,040

These financial statements were approved by the board of directors on 11 March 2011 and were signed on its behalf by:

Tony Brewer
Director

Steve Wilson
Director

Company Number: 460129

Statement of Changes in Equity

for the year ended 31 December 2010

Group	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009	4,268	53,512	88	7,105	(848)	(13,057)	110,066	161,134
Total comprehensive income for the year	–	–	–	(1,808)	624	–	8,708	7,524
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	316	316
Deferred tax on share options	–	–	–	–	–	–	9	9
Dividends to equity holders	–	–	–	–	–	–	(16,354)	(16,354)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	–	(16,029)	(16,029)
Balance at 31 December 2009	4,268	53,512	88	5,297	(224)	(13,057)	102,745	152,629
Balance at 1 January 2010	4,268	53,512	88	5,297	(224)	(13,057)	102,745	152,629
Total comprehensive income for the year	–	–	–	1,094	224	–	18,244	19,562
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	448	448
Share options exercised by employees	–	–	–	–	–	7	–	7
Deferred tax on share options	–	–	–	–	–	–	224	224
Dividends to equity holders	–	–	–	–	–	–	(9,132)	(9,132)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	7	(8,460)	(8,453)
Balance at 31 December 2010	4,268	53,512	88	6,391	–	(13,050)	112,529	163,738

Statement of Changes in Equity

for the year ended 31 December 2010

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Special reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009	4,268	53,512	88	20,578	(848)	(13,057)	81,803	146,344
Total comprehensive income for the year	–	–	–	–	624	–	(5,890)	(5,266)
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	316	316
Dividends to equity holders	–	–	–	–	–	–	(16,354)	(16,354)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	–	(16,038)	(16,038)
Balance at 31 December 2009	4,268	53,512	88	20,578	(224)	(13,057)	59,875	125,040
Balance at 1 January 2010	4,268	53,512	88	20,578	(224)	(13,057)	59,875	125,040
Total comprehensive income for the year	–	–	–	–	224	–	18,584	18,808
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	448	448
Share options exercised by employees	–	–	–	–	–	7	–	7
Dividends to equity holders	–	–	–	–	–	–	(9,132)	(9,132)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	7	(8,684)	(8,677)
Balance at 31 December 2010	4,268	53,512	88	20,578	–	(13,050)	69,775	135,171

Cash Flow Statements

for the year ended 31 December 2010

	Note	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Cash flows from operating activities					
Profit before tax for the year		25,006	22,064	4,534	218
Adjustments for:					
Depreciation, amortisation and impairment		5,519	6,524	1,936	1,783
Net settlement gain on enhanced transfer value exercise		(176)	–	(176)	–
Finance income	6	(4,637)	(3,764)	(4,402)	(3,850)
Finance expense	6	5,697	6,458	5,062	5,656
Profit on sale of property, plant and equipment		(314)	(102)	(222)	(71)
Share-based payments	20	448	316	47	3
Operating profit before changes in working capital and other payables		31,543	31,496	6,779	3,739
Change in inventories		(5,770)	6,618	–	–
Change in trade and other receivables		(1,405)	3,028	(437)	(148)
Change in trade and other payables		6,947	2,511	(2,664)	530
Cash generated from the operations		31,315	43,653	3,678	4,121
Interest paid		(1,344)	(2,272)	(731)	(1,458)
Tax (paid)/received		(7,506)	(7,425)	890	(1,568)
Additional contributions to defined benefit plan		(2,706)	(2,607)	(2,706)	(2,407)
Enhanced transfer value exercise payments		(7,488)	–	(7,488)	–
Net cash flow from operating activities		12,271	31,349	(6,357)	(1,312)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		3,167	664	2,142	508
Interest received		834	846	427	613
Dividends received		–	–	14,526	1,375
Acquisition of property, plant and equipment	10	(6,995)	(7,313)	(5,717)	(3,405)
Net cash flow from investing activities		(2,994)	(5,803)	11,378	(909)
Cash flows from financing activities					
Proceeds from the issue of treasury shares		7	–	7	–
Proceeds from borrowings		–	1,152	–	–
Repayment of borrowings		(866)	–	–	–
Dividends paid	22	(9,132)	(16,354)	(9,132)	(16,354)
Net cash flow from financing activities		(9,991)	(15,202)	(9,125)	(16,354)
Net (decrease)/increase in cash and cash equivalents		(714)	10,344	(4,104)	(18,575)
Cash and cash equivalents at 1 January		44,979	35,193	27,473	46,048
Effect of exchange rate fluctuations on cash held		493	(558)	–	–
Cash and cash equivalents at 31 December	16	44,758	44,979	23,369	27,473

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

Notes to the Financial Statements
continued

1 ACCOUNTING POLICIES

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

Statement of compliance
Both the company's Financial Statements and the group's Financial Statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). On publishing the company's Financial Statements here together with the group Financial Statements, the company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved Financial Statements.

The company and group Financial Statements were authorised for issuance on 11 March 2011.

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

The company and group Financial Statements are prepared on the historical cost basis with the exception of derivative financial instruments 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 are prepared on a going concern basis as described in the Financial Review on page 21.

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

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

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

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

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

At the latest review, carried out at 31 December 2010, the carrying value of UK freehold and long leasehold land and buildings exceeded market value (on an existing use basis) by £11,300,000. 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 and with the exception of one property, which has been impaired by £466,000, no further impairment was considered necessary.

Goodwill impairment
The outcome of the group's annual impairment test for goodwill is dependent on the forecast cash flows of each cash-generating unit together with key management assumptions including profit growth and discount rates. No impairment resulted from the annual impairment test for 2010.

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

Employee benefits
The deficit relating to the group's defined benefit plans is assessed annually in accordance with IAS 19 and after taking independent actuarial advice. The principle assumptions are set out in note 20. The amount of the deficit is dependent on plan asset and liability values and the actuarial assumptions used to determine the deficit.

Notes to the Financial Statements
continued

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

(c) Impact of newly adopted accounting standards
In the current year, the group has adopted the following new standards and interpretations:

- IFRS 3 (revised 2008), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the year ending 31 December 2010 but are not currently relevant for the group.

- Amendments to IFRS 2 – Group cash-settled Share-based Payment Transactions
- Amendments to IAS 39 – Eligible Hedged Items
- Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distribution of Non-Cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers

In addition to the above, amendments to a number of standards under the 2009 annual improvement project to IFRS, which are mandatory for the year ended 31 December 2010, have been adopted in the year. None of these amendments have had a material impact on the group's Financial Statements.

(d) IFRS not yet applied
The following standards and interpretations have been endorsed but are not yet effective and therefore have not yet been applied by the group in these Financial Statements:

- Amendments to IAS 32 'Classification of Rights Issues' – requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' – deals with how entities should measure equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement'.
- AS 24 'Related parties' – effective for periods commencing on or after 1 January 2011 – provides an exemption to all government related entities which is not applicable to the group, however the revised standard also amends the definition of a related party, which will be applicable.

In addition to the above amendments to a number of standards and interpretations under the 2010 annual improvement project will become mandatory for the year ending 31 December 2011.

The group has considered the impact of these new standards and interpretations in future periods on profit, earnings per share and net assets. None of the above standards or interpretations are expected to have a material impact.

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

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

The financial statements of subsidiaries are included in the group's Consolidated 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 Consolidated 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 and expenses 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.

Notes to the Financial Statements
continued

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

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

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

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

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

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

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

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

Derivative financial instruments
The group holds derivative financial instruments to hedge its foreign currency and 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 broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

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

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over their estimated useful lives. Land is not depreciated. 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%

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.

Notes to the Financial Statements
continued

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

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

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

Other intangibles
Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less cumulative amortisation and impairment losses.

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

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

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

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

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

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

Impairment
The carrying amounts of the group's assets other than inventories and deferred tax assets, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

The recoverable amount for goodwill is estimated at each Statement of Financial Position date.

For the purposes of impairment testing assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows from other groups of assets.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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.

Notes to the Financial Statements
continued

Calculation of recoverable amount
The recoverable amount of assets, with the exception of the group's receivables, is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Share-based payment transactions
The company and group operate various equity settled share option schemes under the approved and unapproved executive schemes and a savings related scheme.

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

Further details of the share plans are given in the Remuneration Report on pages 38 to 41.

The performance is assessed by reference to the group's published results.

Notes to the Financial Statements
continued

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 share prices not achieving the threshold for vesting.

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

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

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

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

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

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

Net financing costs
Net financing costs comprise interest payable, finance charges on shares classified as liabilities, finance leases, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments as outlined in the accounting policy relating to derivative financial instruments and hedging described above.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

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

Dividends
Final dividends proposed by the board and unpaid at the end of the year are not recognised in the Financial Statements. Interim and final dividends are recognised when they are paid.

Taxation
Income tax comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Notes to the Financial Statements
continued

2 SEGMENT REPORTING

The group has 54 operating segments which represent the individual trading operations throughout the UK (49 segments) and Continental Europe (5 segments). Each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each 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 for decisions on resource allocation and to assess performance.

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

	UK		Continental Europe		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Revenue						
External revenues	432,815	429,646	102,875	104,147	535,690	533,793
Depreciation	2,503	2,834	747	733	3,250	3,567
Reportable segment result	24,662	23,106	2,553	2,487	27,215	25,593
Reportable segment assets	226,518	223,044	50,267	49,636	276,785	272,680
Capital expenditure	784	926	553	2,197	1,337	3,123
Reportable segment liabilities	(129,365)	(123,088)	(20,111)	(20,662)	(149,476)	(143,750)

During the year there are no inter-segment revenues for the reportable segments (2009: £nil).

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

	2010 £000	2009 £000
Profit for the year		
Total profit for reportable segments	27,215	25,593
Impairment of assets	(466)	(1,211)
Unallocated (expense)/income	(683)	376
Operating profit	26,066	24,758
Finance income	4,637	3,764
Finance expense	(5,697)	(6,458)
Profit before taxation	25,006	22,064
Taxation	(7,127)	(6,168)
Profit for the year	17,879	15,896

Notes to the Financial Statements
continued

2 SEGMENT REPORTING continued

	2010 £000	2009 £000
Assets		
Total assets for reportable segments	276,785	272,680
Unallocated assets:		
Properties, plant and equipment	86,332	83,583
Deferred tax assets	896	4,731
Assets held for sale	362	2,275
Total assets	364,375	363,269
Liabilities		
Total liabilities for reportable segments	(149,476)	(143,750)
Unallocated liabilities:		
Employee benefits	(12,724)	(22,759)
Other interest-bearing loans and borrowings	(34,236)	(35,292)
Income tax payable	(4,201)	(8,615)
Derivative liabilities	–	(224)
Total liabilities	(200,637)	(210,640)

	Reportable segment totals £000	Group items £000	Consolidated totals £000
Other material items 2010			
Capital expenditure	1,337	5,658	6,995
Depreciation	3,250	1,803	5,053
Impairment of assets	–	466	466
	4,587	7,927	12,514
Other material items 2009			
Capital expenditure	3,123	4,190	7,313
Depreciation	3,567	1,746	5,313
Impairment of assets	–	1,211	1,211
	6,690	7,147	13,837

Each segment is a continuing operation.

Notes to the Financial Statements
continued

2 SEGMENT REPORTING continued

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

	UK		Continental Europe		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Revenue						
Residential	297,606	295,960	51,992	53,617	349,598	349,577
Commercial	135,209	133,686	50,883	50,530	186,092	184,216
	432,815	429,646	102,875	104,147	535,690	533,793

3 PROFIT BEFORE TAX

The following are included in profit before tax:

	2010 £000	2009 £000
Depreciation on property, plant and equipment	5,053	5,313
Impairment of assets	466	1,211
Profit on sale of property, plant and equipment	314	102
Operating lease rentals		
Plant and machinery	8,994	9,001
Land and buildings	1,708	1,951

Auditor's remuneration:

	2010 £000	2009 £000
Audit of these Financial Statements	62	60
Amounts received by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	145	156
All other services	21	2
	228	218

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
continued

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	
	2010	2009
By sector:		
Floorcoverings	2,011	2,023
Central operations	9	9
	2,020	2,032
By function:		
Sales and distribution	1,859	1,865
Administration	161	167
	2,020	2,032

The aggregate payroll costs were as follows:

	£000	£000
Wages and salaries	62,734	63,012
Equity settled share based payment expense	448	316
Social security costs	8,160	8,375
Pension costs	3,438	2,817
	74,780	74,520

5 DIRECTORS' EMOLUMENTS

	2010 £000	2009 £000
Directors emoluments	2,074	1,898
Equity settled share based payment expense	39	2

Further details of directors' emoluments, share options and pension entitlement are given in the Remuneration Report on pages 36 to 46.

Notes to the Financial Statements
continued

6 FINANCE INCOME AND EXPENSE

	2010 £000	2009 £000
Interest income:		
Bank interest	642	641
Other	179	62
Return on defined benefit plan assets	3,816	3,061
Finance income	4,637	3,764
Interest expense:		
Bank loans, overdrafts and other financial expenses	(1,122)	(1,376)
Net change in fair value of cash flow hedges transferred from equity	(125)	(880)
Interest on defined benefit plan obligation	(4,450)	(4,202)
Finance expenses	(5,697)	(6,458)

7 TAXATION

Recognised in the income statement

	2010 £000	2009 £000
Current tax expense:		
Current year	3,756	7,121
Adjustments for prior years	(697)	(601)
	3,059	6,520
Deferred tax expense:		
Origination and reversal of temporary differences	3,762	(360)
Effect of change in UK tax rate	40	–
Adjustments for prior years	266	8
	4,068	(352)
Total tax in income statement	7,127	6,168

Tax relating to items credited/(charged) to equity

	2010 £000	2009 £000
Current tax on:		
Income and expenses recognised directly in equity	–	–
Deferred tax on:		
Share options	224	9
Deferred tax on other comprehensive income:		
Defined benefit plans	72	2,791
Cash flow hedge	(63)	63
Total tax reported directly in reserves	233	2,863

Notes to the Financial Statements
continued

7 TAXATION continued

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. As such, the deferred tax balances outstanding at the Statement of Financial Position date are stated at 27%. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the group's future current tax charge and reduce the group's deferred tax assets and liabilities accordingly.

Reconciliation of effective tax rate

	2010		2009	
	%	£000	%	£000
Profit before tax		25,006		22,064
Tax using the UK corporation tax rate	28.0	7,001	28.0	6,178
Effect of change in UK tax rate	0.2	40	–	–
Non-deductible expenses	2.5	635	3.0	658
Effect of tax rates in foreign jurisdictions	(0.5)	(118)	(0.3)	(75)
Over provided in prior years	(1.7)	(431)	(2.7)	(593)
Total tax in income statement	28.5	7,127	28.0	6,168

8 CURRENT TAX LIABILITIES

The group's current tax liability of £4,201,000 (2009: £8,615,000) 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 £1,485,000 (2009: £2,982,000) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

9 EARNINGS PER SHARE

	2010 £000	2009 £000
Earnings		
Earnings for the purposes of basic earnings per share being profit attributable to equity holders of the parent	17,879	15,896

	2010	2009
Number of shares		
Issued ordinary shares at 1 January	85,363,743	85,363,743
Effect of shares held in treasury	(2,246,489)	(2,248,647)
Weighted average number of ordinary shares for the purposes of basic earnings per share	83,117,254	83,115,096
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	83,117,254	83,115,096
Dilutive effect of share options	113,570	94,622
Weighted average number of ordinary shares for the purposes of diluted earnings per share	83,230,824	83,209,718

At 31 December 2010, the company held 2,245,603 shares in treasury and these are excluded from the calculation of earnings per share.

Notes to the Financial Statements
continued

10 PROPERTY, PLANT AND EQUIPMENT

Group	Land & buildings £000	Plant & equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2009	91,775	26,128	5,236	123,139
Additions	4,126	3,187	–	7,313
Disposals	(536)	(1,816)	–	(2,352)
Effect of movements in foreign exchange	(778)	(563)	(420)	(1,761)
Transfer to use	4,816	–	(4,816)	–
Transfer to assets held for sale	(3,961)	–	–	(3,961)
Balance at 31 December 2009	95,442	26,936	–	122,378
Balance at 1 January 2010	95,442	26,936	–	122,378
Additions	5,653	1,284	58	6,995
Disposals	(755)	(829)	–	(1,584)
Effect of movements in foreign exchange	605	73	–	678
Transfer to assets held for sale	(491)	–	–	(491)
Balance at 31 December 2010	100,454	27,464	58	127,976
Depreciation				
Balance at 1 January 2009	10,789	12,609	–	23,398
Depreciation charge for the year	1,736	3,577	–	5,313
Disposals	(104)	(1,686)	–	(1,790)
Effect of movements in foreign exchange	(321)	(437)	–	(758)
Transfer to assets held for sale	(315)	–	–	(315)
Balance at 31 December 2009	11,785	14,063	–	25,848
Balance at 1 January 2010	11,785	14,063	–	25,848
Depreciation charge for the year	1,794	3,259	–	5,053
Asset impairment	466	–	–	466
Disposals	(224)	(718)	–	(942)
Effect of movements in foreign exchange	414	51	–	465
Transfer to assets held for sale	(129)	–	–	(129)
Balance at 31 December 2010	14,106	16,655	–	30,761
Net book value				
At 1 January 2009	80,986	13,519	5,236	99,741
At 31 December 2009 and 1 January 2010	83,657	12,873	–	96,530
At 31 December 2010	86,348	10,809	58	97,215

At 31 December 2010 the cost less accumulated depreciation of long leasehold property held by the group was £8,693,000 (2009: £8,873,000).

Notes to the Financial Statements
continued

10 PROPERTY, PLANT AND EQUIPMENT continued

Company	Land & buildings £000	Plant & equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2009	82,127	594	–	82,721
Additions	3,290	115	–	3,405
Disposals	(516)	(64)	–	(580)
Transfer to group company	–	(44)	–	(44)
Transfer to assets held for sale	(1,890)	–	–	(1,890)
Balance at 31 December 2009	83,011	601	–	83,612
Balance at 1 January 2010	83,011	601	–	83,612
Additions	5,653	6	58	5,717
Disposals	(755)	(11)	–	(766)
Transfer to assets held for sale	(491)	–	–	(491)
Balance at 31 December 2010	87,418	596	58	88,072
Depreciation				
Balance at 1 January 2009	6,915	528	–	7,443
Depreciation charge for the year	1,392	38	–	1,430
Disposals	(88)	(61)	–	(149)
Transfer to group company	–	(36)	–	(36)
Transfer to assets held for sale	(158)	–	–	(158)
Balance at 31 December 2009	8,061	469	–	8,530
Balance at 1 January 2010	8,061	469	–	8,530
Depreciation charge for the year	1,431	39	–	1,470
Asset impairment	466	–	–	466
Disposals	(224)	(9)	–	(233)
Transfer to assets held for sale	(129)	–	–	(129)
Balance at 31 December 2010	9,605	499	–	10,104
Net book value				
At 1 January 2009	75,212	66	–	75,278
At 31 December 2009 and 1 January 2010	74,950	132	–	75,082
At 31 December 2010	77,813	97	58	77,968

At 31 December 2010 the cost less accumulated depreciation of long leasehold property held by the company was £8,693,000 (2009: £8,873,000).

Notes to the Financial Statements
continued

11 INTANGIBLE ASSETS – GROUP

	Goodwill £000	Customer lists £000	Total £000
Cost			
Balance at 1 January 2009 and 31 December 2009	13,210	4,142	17,352
Balance at 1 January 2010 and 31 December 2010	13,210	4,142	17,352
Amortisation			
Balance at 1 January 2009 and 31 December 2009	–	4,142	4,142
Balance at 1 January 2010 and 31 December 2010	–	4,142	4,142
Net book value			
At 1 January 2009 and 31 December 2009	13,210	–	13,210
At 1 January 2010 and 31 December 2010	13,210	–	13,210

Cumulative impairment losses recognised in relation to goodwill is £nil (2009: £nil).

Impairment tests for cash-generating units containing goodwill

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 are a sub-classification of the group's operating segments.

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

	Reported Segment	2010 £000	2009 £000
Joseph, Hamilton & Seaton	UK	4,348	4,348
Crucial Trading	UK	1,369	1,369
Belcolor AG	Continental Europe	3,342	3,342
LMS SA	Continental Europe	3,197	3,197
Other	UK	954	954
		13,210	13,210

Notes to the Financial Statements

continued

11 INTANGIBLE ASSETS – GROUP continued

Impairment

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

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

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2009, and applying the following key assumptions.

Key assumptions

Cash flows were projected based on past experience, actual operating results and the approved 2011 business plan. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.5% beyond the 2011 business plan.

The main assumptions within the operating cash flows used for 2011 include the achievement of future sales volumes and prices for all key product lines, control of purchase prices, achievement of budgeted operating costs and no significant adverse foreign exchange rate movements. These assumptions have been reviewed in light of the current economic environment.

The directors have estimated the discount rate by reference to an industry average weighted average cost of capital. This has been adjusted to include an appropriate risk factor to reflect current economic circumstances and the risk profile of the CGU's. A post tax weighted average cost of capital of 9.5% (2009: 9.5%) has been used for impairment testing, adjusted to 10.5% (2009: 10.5%) for Continental Europe to reflect the differing risk profile of that segment. The post tax discount rate has been applied to the post tax cash flows.

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

Sensitivity analysis

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

The recoverable amount of the LMS SA CGU has been determined as £9,440,000, which exceeds the carrying value by £382,000. A 0.32% increase in the discount rate or a 0.37% decrease in the growth rate, with all other assumptions remaining constant and after incorporating any consequential effects of that change on the other variables used to measure the recoverable amount, would result in the recoverable amount of the CGU equating to its carrying value. The directors consider that the assumptions used in determining the recoverable amount are appropriate and, at this time, support the carrying value of the CGU.

Other than disclosed above, any other reasonable change to the key assumptions would be unlikely to generate a different impairment test outcome to the one that is included in these Financial Statements.

Notes to the Financial Statements
continued

12 INVESTMENTS IN SUBSIDIARIES

Summary information on investments in subsidiary undertakings is as follows:

	£000
Cost	
Balance at 1 January 2009	88,239
Share options granted to employees of subsidiary undertakings	313
Balance at 31 December 2009	88,552
Balance at 1 January 2010	88,552
Disposals during the year	(2,250)
Share options granted to employees of subsidiary undertakings	401
Balance at 31 December 2010	86,703
Impairment	
Balance at 1 January 2009 and 31 December 2009	2,160
Balance at 1 January 2010	2,160
Disposals during the year	(2,160)
Balance at 31 December 2010	–
Carrying value	
At 1 January 2009	86,079
At 31 December 2009	86,392
At 31 December 2010	86,703

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

The principal trading subsidiaries are listed on page 103.

Notes to the Financial Statements
continued

13 DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

	Assets		Liabilities		Net	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Property, plant and equipment	–	–	(3,683)	(3,976)	(3,683)	(3,976)
Intangible assets	–	52	(223)	(241)	(223)	(189)
Employee benefits	3,891	6,350	–	–	3,891	6,350
Other items	911	2,546	–	–	911	2,546
Tax assets/(liabilities)	4,802	8,948	(3,906)	(4,217)	896	4,731
Set-off of tax	(3,906)	(4,217)	3,906	4,217	–	–
	896	4,731	–	–	896	4,731

Movement in deferred tax during the year

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

Movement in deferred tax during the prior year

	1 January 2009 £000	Recognised in income £000	Recognised in equity £000	31 December 2009 £000
Property, plant and equipment	(3,698)	(278)	–	(3,976)
Intangible assets	(158)	(31)	–	(189)
Employee benefits	4,009	(450)	2,791	6,350
Other items	1,363	1,111	72	2,546
	1,516	352	2,863	4,731

Unrecognised deferred tax assets and liabilities
At the Statement of Financial Position date the group has unused capital losses of £10,379,000 (2009: £9,266,000) available for offset against future chargeable gains. No deferred tax asset has been recognised in respect of this amount as the directors do not anticipate incurring significant chargeable gains in the foreseeable future.

Notes to the Financial Statements
continued

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	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Property, plant and equipment	–	–	(3,271)	(3,348)	(3,271)	(3,348)
Employee benefits	3,217	6,067	–	–	3,217	6,067
Cash flow hedge	–	63	–	–	–	63
Other items	267	987	–	–	267	987
Tax assets/(liabilities)	3,484	7,117	(3,271)	(3,348)	213	3,769
Set-off of tax	(3,271)	(3,348)	3,271	3,348	–	–
	213	3,769	–	–	213	3,769

Movement in deferred tax during the year

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

Movement in deferred tax during the prior year

	1 January 2009 £000	Recognised in income £000	Recognised in equity £000	31 December 2009 £000
Property, plant and equipment	(2,865)	(483)	–	(3,348)
Employee benefits	3,594	(540)	3,013	6,067
Cash flow hedge	–	–	63	63
Other items	712	275	–	987
	1,441	(748)	3,076	3,769

Unrecognised deferred tax assets and liabilities
At the Statement of Financial Position date the company has unused capital losses of £10,379,000 (2009: £9,266,000) available for offset against future chargeable gains. No deferred tax asset has been recognised in respect of this amount as the directors do not anticipate incurring significant chargeable gains in the foreseeable future.

Notes to the Financial Statements
continued

14 INVENTORIES

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Finished goods and goods held for resale	105,694	99,637	–	–

Cost of sales consists of the following:

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Material cost	366,782	366,761	–	–
Processing cost	3,949	4,772	–	–
	370,731	371,533	–	–

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade receivables	78,878	79,104	–	–
Prepayments and accrued income	4,132	3,869	30	66
Other receivables	19,119	18,176	612	267
Amounts due from subsidiary undertakings	–	–	27,282	26,820
Derivative assets used for hedging:				
Other derivatives at fair value	111	–	–	–
	102,240	101,149	27,924	27,153

£2,160,000 (2009: £2,493,000) was recognised as an impairment loss in the Consolidated Income Statement in respect of trade receivables.

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

	2010 £000	2009 £000
UK	1,859	2,107
Continental Europe	301	386
	2,160	2,493

Notes to the Financial Statements
continued

16 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Cash and cash equivalents per Statement of Financial Position	44,758	45,737	23,369	27,473
Bank overdrafts	–	(758)	–	–
Cash and cash equivalents per cash flow statements	44,758	44,979	23,369	27,473

17 ASSETS HELD FOR SALE

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Assets classified as held for sale:				
Property, plant and equipment	362	2,275	362	1,387

At the year end the company held a freehold property in Bishop Auckland, UK that is being actively marketed for sale, is available for immediate disposal and is expected to be disposed of during 2011.

At the year ended 31 December 2009, the group held freehold properties in Leeds, UK, and Zutphen, the Netherlands, that were being actively marketed for sale and these were subsequently disposed of during 2010. These properties became surplus to the group's requirements following the relocation of the occupying businesses to new purpose built facilities in 2008 and 2009 respectively. The properties were disposed of for their revised carrying value following an impairment review in 2009.

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

18 OTHER INTEREST-BEARING LOANS AND BORROWINGS

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

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Current liabilities				
Interest-bearing loan	225	900	–	–
	225	900	–	–
Non-current liabilities				
Interest-bearing loans	34,011	34,392	30,000	30,000
	34,011	34,392	30,000	30,000

Notes to the Financial Statements
continued

18 OTHER INTEREST-BEARING LOANS AND BORROWINGS continued

Included within the interest-bearing loans is an amount directly attributable to borrowing costs of £nil (2009: £113,000).

The group has undrawn borrowing facilities expiring in one year or less which, at 31 December 2010, amounted to £45,418,000 (2009: £44,465,000). 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 %	2010 £000	Interest rate %	2009 £000
UK	2.28	35,000	2.48	35,000
Netherlands	2.11	1,285	1.78	1,333
France	1.72	5,570	1.31	5,017
Switzerland	1.40	3,563	1.70	3,115
		45,418		44,465

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

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade payables	114,225	106,494	104	52
Taxation and social security	11,111	10,717	1,825	1,718
Non-trade payables and accrued expenses	24,140	25,761	3,565	6,008
Amounts due to subsidiary undertakings	–	–	33,058	33,403
Derivative liabilities used for hedging:				
Other derivatives at fair value	–	20	–	–
Designated hedges	–	224	–	224
	149,476	143,216	38,552	41,405

Included within non-trade payables and accrued expenses is an amount of £31,000 for accrued interest on unsecured bank loans (2009: £131,000).

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

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS

Pension plans

During the year, the group operated a UK and Swiss defined benefit plan and defined contribution plans in the UK, France and the Netherlands. The Headlam Group plc Staff Retirement Benefits Scheme is the principal defined benefit plan which provides benefits to UK employees that have been admitted into the scheme. The scheme is self-administered and its assets are held independently of the company's finances. The scheme is funded partly by contributions from members and partly by contributions from the company at rates advised by professionally qualified actuaries. The latest actuarial valuation was carried out as at 31 March 2008 using the projected unit method. The main annual rate assumptions used by the actuary were, increase in salaries 4.7%, increase of pensions in payment 3.2%, discount rate before retirement 6.5%, discount rate after retirement 4.75% and inflation 3.2%. Assets were taken at their audited market value at the valuation date. This valuation also used revised mortality assumptions. These revised assumptions have been derived to take account of the characteristics of plan members and include a greater allowance for future increases in longevity compared with the assumptions previously adopted.

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

Included within the total staff costs as disclosed in note 4 are costs relating to the group's defined contribution plans. The pension cost for the year represents contributions payable by the group to the plans and amounted to £1,848,000 (2009: £1,524,000). Contributions amounting to £125,000 (2009: £118,000) in respect of December 2010 payroll were paid in January 2011.

The total group cost of operating the plans during the year was £3,438,000 (2009: £2,817,000) and, at 31 December 2010, there was an amount of £366,000 (2009: £336,000) owed to the plans, being employer and employee contributions due for December 2010, which was paid in January 2011.

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

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

	Consolidated Income Statement £000	Cash flow Statement £000
Enhanced transfer value contribution made to UK scheme	–	2,959
Enhanced transfer value lump sum payments made direct to members (including associated tax and social security costs)	(4,529)	4,529
IAS 19 Settlement gain	4,705	–
Effect of enhanced transfer value exercise	176	7,488

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

Pension plans continued

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Present value of funded defined benefit obligations	(80,889)	(88,253)	(71,713)	(81,412)
Fair value of plan assets	68,451	65,803	60,382	59,583
Net obligations	(12,438)	(22,450)	(11,331)	(21,829)
Recognised liability for defined benefit obligations	(12,438)	(22,450)	(11,331)	(21,829)
Other long-term employee benefits (note 21)	(286)	(309)	–	–
Total employee benefits	(12,724)	(22,759)	(11,331)	(21,829)
Analysed as:				
Current liabilities	(2,586)	(2,506)	(2,586)	(2,506)
Non-current liabilities	(10,138)	(20,253)	(8,745)	(19,323)
Total employee benefits	(12,724)	(22,759)	(11,331)	(21,829)

Following the actuarial valuation of the Headlam Group plc Staff Retirement Benefits Scheme as at 31 March 2008, a recovery plan was agreed between the Trustees of the scheme and the company to fund the deficit. In accordance with the recovery plan, payments were made to the scheme during 2010 of £2,499,000 which, in accordance with the recovery plan, increase to £2,586,000 in 2011. It was agreed that recovery payments, which commenced on 1 January 2009 and will cease on 31 March 2018, were to increase by 3.2% each year. The next actuarial valuation is due at 31 March 2011 and the opportunity will be used to reassess the recovery plan.

In addition to the recovery payments, company contributions as at the date of the last valuation have been fixed at 24.7% of pensionable salaries at that date, with no allowance made in respect of subsequent leavers. This represented an additional contribution amounting to £207,000 during 2010 (2009: £188,000).

During 2011, the group and company expect to pay regular ongoing contributions of approximately £4,122,000 to the UK defined benefit plan of which £2,586,000 relates to the agreed recovery payments, the balance being estimated service costs.

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

Pension plans continued

Movements in present value of defined benefit obligation

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
At 1 January	88,253	69,441	81,412	62,443
Current service cost	1,579	1,268	1,277	868
Interest cost	4,450	4,202	4,235	4,013
Actuarial losses	2,839	16,125	2,467	16,320
Benefits paid	(13,009)	(2,457)	(13,202)	(2,480)
Contributions by members	401	357	218	223
Past service costs	11	25	11	25
Settlements	(4,705)	–	(4,705)	–
Effect of movements in foreign exchange	1,070	(708)	–	–
At 31 December	80,889	88,253	71,713	81,412

Movements in fair value of plan assets

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
At 1 January	65,803	55,139	59,583	49,534
Expected return on plan assets	3,816	3,061	3,556	2,859
Actuarial gains	3,195	6,083	3,274	5,559
Contributions by employer:				
Future service contributions	1,595	1,471	1,288	1,281
Past service deficit contributions	2,499	2,419	2,499	2,419
Additional past service deficit contributions	207	188	207	188
Contributions for enhanced transfer values	2,959	–	2,959	–
Contributions by members	401	357	218	223
Benefits paid	(13,009)	(2,457)	(13,202)	(2,480)
Effect of movements in foreign exchange	985	(458)	–	–
At 31 December	68,451	65,803	60,382	59,583

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

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

	Group 2010 £000	2009 £000
Current service cost	1,579	1,268
Past service cost	11	25
Interest on defined benefit plan obligation	4,450	4,202
Expected return on defined benefit plan assets	(3,816)	(3,061)
Total	2,224	2,434

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

	Group 2010 £000	2009 £000
Administrative (income)/expenses	(3,115)	1,293
Net financing costs	634	1,141
	(2,481)	2,434

Actuarial gains and losses in the Statement of Comprehensive Income:

	Group 2010 £000	2009 £000
Actuarial losses on defined benefit obligation	(2,839)	(16,125)
Actuarial gain on plan assets	3,195	6,083
	356	(10,042)

Cumulative actuarial gains and losses reported in the Statement of Comprehensive Income since 1 January 2004, the transition date to IFRS, are £15,429,000 (2009: £15,785,000). Cumulative actuarial gains and losses reported in the company's Statement of Comprehensive Income are £14,363,000 (2009: £15,170,000).

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

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

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Equities	36,517	36,107	34,879	34,844
Government debt	17,449	15,995	17,449	15,995
Corporate bonds	6,998	7,171	3,141	4,198
Annuities	4,587	4,371	4,587	4,371
Other	2,900	2,159	326	175
	68,451	65,803	60,382	59,583
Actual return on plan assets	7,665	9,144	6,830	8,418

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

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

	Group 2010 %	Group 2009 %	Company 2010 %	Company 2009 %
Discount rate	5.1	5.6	5.4	5.8
Future salary increases	4.7	5.0	5.1	5.3
Future pension increases	3.2	3.5	3.6	3.8
Inflation rate	3.3	3.6	3.6	3.8
Expected rate of return on plan assets	5.7	6.1	6.0	6.3
Mortality table assumptions:				
UK pre-retirement	AC00 (Ultimate) table	AC00 (Ultimate) table	AC00 (Ultimate) table	AC00 (Ultimate) table
UK post-retirement – future pensioners	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	103%(M)/110%(F) of the PCA00 tables with medium cohort projections
UK post-retirement – current pensioners	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	103%(M)/110%(F) of the PCA00 tables with medium cohort projections	103%(M)/110%(F) of the PCA00 tables with medium cohort projections
Swiss scheme	EVK 2000	EVK 2000	–	–

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

Pension plans continued

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

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Non-pensioner male	23.4	23.3	23.4	23.3
Pensioner male	21.5	21.3	21.5	21.3
Non-pensioner female	25.3	25.2	25.3	25.2
Pensioner female	23.4	23.3	23.4	23.3

History of plans

The history of the plans for the current and prior periods is as follows:

Statement of Financial Position

Group	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of defined benefit obligation	(80,889)	(88,253)	(69,441)	(71,350)	(73,160)
Fair value of plan assets	68,451	65,803	55,139	60,308	56,220
Deficit	(12,438)	(22,450)	(14,302)	(11,042)	(16,940)

Company	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of defined benefit obligation	(71,713)	(81,412)	(62,443)	(66,953)	(69,736)
Fair value of plan assets	60,382	59,583	49,534	56,098	52,704
Deficit	(11,331)	(21,829)	(12,909)	(10,855)	(17,032)

Experience adjustments

Group	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
On plan liabilities	(588)	(1,787)	83	482	(618)
On plan assets	3,195	6,083	(11,798)	507	1,518
As a percentage of plan liabilities	(0.7%)	(2.0%)	0.1%	0.7%	(0.8%)
As a percentage of plan assets	4.7%	9.2%	(21.4%)	0.8%	2.7%

Company	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
On plan liabilities	(522)	(1,402)	(24)	(14)	(642)
On plan assets	3,274	5,559	(10,785)	313	1,403
As a percentage of plan liabilities	(0.7%)	(1.7%)	(0.0%)	(0.0%)	(0.9%)
As a percentage of plan assets	5.4%	9.3%	(21.8%)	0.6%	2.7%

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

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 21 May 2010 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 39 and 40.

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

Share-based payments – Group and company continued

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employees entitled	Number of instruments 2010	2009	Vesting conditions	Contractual life of options
Approved 1998 scheme granted to key management 14 April 2003	40,404	46,404	Movement of the group's basic earnings per share exceeding RPI over the relevant period	14/04/06 – 14/04/13
Unapproved 1998 scheme granted to key management 14 April 2003	–	2,596	Movement of the group's basic earnings per share exceeding RPI over the relevant period	14/04/06 – 14/04/10
Unapproved 1998 scheme granted to key management 22 August 2005	1,242,864	1,242,864	Movement of the group's basic earnings per share exceeding RPI by 3%-5% pa over the relevant period	22/08/08 – 22/08/12
Approved 1998 scheme granted to key management 22 August 2005	57,136	57,136	Movement of the group's basic earnings per share exceeding that of RPI by 3% pa over the relevant period	22/08/08 – 22/08/15
Five year sharesave scheme granted to other employees 25 May 2006	40,980	45,152	Continuous service	01/07/11 – 01/01/12
Three year sharesave scheme granted to other employees 8 May 2008	57,784	73,098	Continuous service	01/07/11 – 01/01/12
Five year sharesave scheme granted to other employees 8 May 2008	50,121	57,740	Continuous service	01/07/13 – 01/01/14
Three year sharesave scheme granted to other employees 19 May 2009	409,119	481,635	Continuous service	01/07/12 – 01/01/13
Five year sharesave scheme granted to other employees 19 May 2009	384,105	400,441	Continuous service	01/07/14 – 01/01/15
Three year sharesave scheme granted to other employees 21 May 2010	77,920	–	Continuous service	01/07/13 – 01/01/14
Five year sharesave scheme granted to other employees 21 May 2010	66,406	–	Continuous service	01/07/15 – 01/01/16
Headlam Group Co-investment Plan 2008 granted to key management 8 October 2010*	468,828	–	If the real earnings per share growth is over 3%pa – 50% vesting, over 6%-100% vesting. TSR – if company is ranked at median or above – 50%, upper quartile –100%	08/10/13 – 08/10/20
Total share options	2,895,667	2,407,066		

*Further details on pages 39 and 40 of the Remuneration Report.

Notes to the Financial Statements

continued

20 EMPLOYEE BENEFITS continued

Share-based payments – Group and company continued

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

	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
Outstanding at the beginning of the year	336.6	2,407,066	379.5	2,115,855
Exercised during the year	222.2	(3,044)	–	–
Granted during the year	63.5	627,736	222.2	895,909
Lapsed during the year	244.0	(136,091)	320.1	(604,698)
Outstanding at the end of the year	281.9	2,895,667	336.6	2,407,066
Exercisable at the end of the year	413.8	1,340,404	411.4	1,357,234

The weighted average share price for options exercised during the year was 281.2p, there were no options exercised during 2009.

Share options outstanding at the year end have an exercise price in the range of 215.0p to 420.0p and a weighted average contractual life of 3.7 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using the Black-Scholes option pricing model.

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 2010 are shown below:

2010	3 year Co-investment plan 2008	3 year Sharesave options	5 year Sharesave options
Number of options	468,828	86,307	72,601
Fair value at measurement date	279.6p	93.1p	96.9p
Share price at 31 December	313.5p	313.5p	313.5p
Exercise price	–	251p	251p
Expected volatility (expressed as weighted average volatility used in the modelling under the Black-Scholes model)	45.7%	45.7%	43.5%
Option life (expressed as weighted average life used in the modelling under the Black-Scholes model)	3 years	3 years	5 years
Expected dividends	3.7%	5.1%	5.1%
Risk-free interest rate (based on UK Gilts)	0.9%	1.3%	2.3%

Notes to the Financial Statements
continued

20 EMPLOYEE BENEFITS continued

Share-based payments – Group and company continued
Details of share options granted during 2009 are shown below:

2009	3 year Sharesave options	5 year Sharesave options
Number of options	495,468	400,441
Fair value at measurement date	76.2p	67.4p
Share price at 31 December	300.3p	300.3p
Exercise price	222.2p	222.2p
Expected volatility (expressed as weighted average volatility used in the modelling under the Black-Scholes model)	48.6%	42.2%
Option life (expressed as weighted average life used in the modelling under the Black-Scholes model)	3 years	5 years
Expected dividends	7.6%	7.6%
Risk-free interest rate (based on UK Gilts)	2.1%	2.8%

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

	Group		Company		Subsidiaries	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Share options granted in 2006 under the SAYE 3 year scheme	–	30	–	1	–	29
Share options granted in 2006 under the SAYE 5 year scheme	35	36	–	–	35	36
Share options granted in 2008 under the SAYE 3 year scheme	93	101	–	–	93	101
Share options granted in 2008 under the SAYE 5 year scheme	63	67	–	–	63	67
Share options granted in 2009 under the SAYE 3 year scheme	102	63	3	1	99	62
Share options granted in 2009 under the SAYE 5 year scheme	30	19	1	1	29	18
Share options granted in 2010 under the SAYE 3 year scheme	16	–	–	–	16	–
Share options granted in 2010 under the SAYE 5 year scheme	9	–	–	–	9	–
Shares granted in 2010 under the Co-investment Plan 2008	100	–	43		57	–
Total expense recognised	448	316	47	3	401	313

21 OTHER LONG TERM EMPLOYEE BENEFITS – GROUP

During the year, the group operated an employment indemnity scheme in connection with a foreign subsidiary 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 2010 is £286,000 (2009: £309,000).

Notes to the Financial Statements
continued

22 CAPITAL AND RESERVES

Share capital

	Ordinary shares 2010	Ordinary shares 2009
Number of shares		
On issue at 1 January and 31 December – fully paid	85,363,743	85,363,743

	2010 £000	2009 £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 2010, there were 2,245,603 (2009: 2,248,647) shares held in treasury. Dividends are not payable on these shares and they are excluded from the calculation of earnings per share. The shares held in treasury represent 2.6% of the issued share capital with a nominal value of £112,000.

In the period from 31 December 2010 to 11 March 2011 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

	2010 £000	2009 £000
Interim dividend for 2009 of 3.70p paid 2 January 2010	3,072	–
Final dividend for 2009 of 7.30p paid 1 July 2010	6,060	–
Interim dividend for 2008 of 5.60p paid 2 January 2009	–	4,649
Final dividend for 2008 of 14.10p paid 1 July 2009	–	11,705
	9,132	16,354

The final proposed dividend of 8.57p per share (2009:7.30p per share) will not be provided for until authorised by shareholders at the forthcoming AGM.

Interim dividends of 3.83p per share (2009: 3.70p per share) are provided for when the dividend is paid.

The total value of dividends proposed but not recognised at 31 December 2010 is £10,294,000 (2009: £9,132,000).

Notes to the Financial Statements
continued

22 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 compromises the cost of the company's shares held by the group.

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

23 FINANCIAL INSTRUMENTS

The main financial risks arising in the normal course of the group's business are credit risk, liquidity risk, and market risks arising from interest rate risk and foreign currency risk. This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risks and the group's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

Credit risk and credit quality
Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the group's trade receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset and as at the Statement of Financial Position date, in the directors' opinion there were no significant concentrations of credit risk likely to cause financial loss to the group.

The group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all new customers requiring credit and these are frequently reviewed by management to limit exposure. Businesses must obtain 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.

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Credit risk and credit quality continued
The credit control procedures described above, coupled with the diversified nature of the group's trade receivables, lead the directors to believe that there is limited credit risk exposure and that the credit quality of these assets is robust.

Other receivables comprise amounts due to the group which historically have been received within 3 months of the year end. The directors have considered the inherent risk profile of other receivables at the year end and are of the view that this historical experience will prevail for the foreseeable future and accordingly consider the credit quality of these assets to be robust.

Cash and cash equivalents represent deposits with reputable financial institutions in the UK and Continental Europe. Notwithstanding the deteriorating economic circumstances during 2008 and 2009 and the consequential impact on the financial services sector, the directors consider the credit quality of cash and cash equivalents to be robust.

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

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade and other receivables (note 15)	102,240	101,149	27,924	27,153
Cash and cash equivalents (note 16)	44,758	45,737	23,369	27,473
	146,998	146,886	51,293	54,626

The fair values of the above financial assets at both 31 December 2010 and 2009, 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	
	2010 £000	2009 £000	2010 £000	2009 £000
UK	64,944	63,231	–	–
Continental Europe	13,934	15,873	–	–
	78,878	79,104	–	–

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Credit risk and credit quality continued
The ageing of trade receivables at the Statement of Financial Position date was:

	2010		2009	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	74,808	–	74,760	–
Past due 0 - 30 days	3,313	(554)	3,718	(505)
Past due 31 - 120 days	3,684	(2,373)	3,427	(2,296)
	81,805	(2,927)	81,905	(2,801)

The company had trade receivables of £nil (2009:£nil).

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

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Balance at 1 January	2,801	3,078	–	–
Impairment loss	2,160	2,493	–	–
Amounts utilised	(2,031)	(2,690)	–	–
Effect of movements in foreign exchange	(3)	(80)	–	–
Balance at 31 December	2,927	2,801	–	–

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 0.40% (2009: 0.47%).

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 2010 cash and cash equivalents covered the amounts of borrowings maturing in the next twelve months with a net positive liquidity of £44,533,000 (2009: £44,079,000). Details of the total facilities that the group has access to are given in note 18.

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Liquidity risk continued
The following are the contractual maturities of financial liabilities:

31 December 2010 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	34,236	(35,623)	(729)	(30,527)	(1,256)	(3,111)
Trade and other payables	138,365	(138,365)	(138,365)	–	–	–
	172,601	(173,988)	(139,094)	(30,527)	(1,256)	(3,111)

31 December 2009 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						
Bank overdraft	758	(768)	(768)	–	–	–
Unsecured bank loans	35,292	(37,166)	(1,404)	(714)	(31,588)	(3,460)
Trade and other payables	132,255	(132,255)	(132,255)	–	–	–
Derivative financial liabilities						
Interest rate swaps used for hedging	224	(224)	(224)	–	–	–
Forward exchange contracts used for hedging	20	(20)	(20)	–	–	–
	168,549	(170,433)	(134,671)	(714)	(31,588)	(3,460)

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Liquidity risk continued

31 December 2010 Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	2-5 years £000
Non-derivative financial liabilities					
Unsecured bank loans	30,000	(30,587)	(391)	(30,196)	–
Trade and other payables	38,552	(38,552)	(38,552)	–	–
	68,552	(69,139)	(38,943)	(30,196)	–

31 December 2009 Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	2-5 years £000
Non-derivative financial liabilities					
Unsecured bank loans	30,000	(30,913)	(365)	(365)	(30,182)
Trade and other payables	41,181	(41,181)	(41,181)	–	–
Derivative financial liabilities					
Interest rate swaps used for hedging	224	(224)	(224)	–	–
	71,405	(72,318)	(41,770)	(365)	(30,182)

The value of the group's financial liabilities as detailed above at 31 December 2010 and 2009 were not materially different to the carrying value. Fair values were calculated using market rates, where available. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Liquidity risk continued
The table below sets out the group's accounting classification of each class of financial assets and liabilities at 31 December 2010 and 2009.

31 December 2010	Available for sale £000	Designated hedges £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	44,758	–	–	–	44,758
Borrowings due within one year	–	–	–	(225)	(225)
Borrowings due after one year	–	–	–	(34,011)	(34,011)
Trade payables	–	–	–	(114,225)	(114,225)
Trade receivables	–	–	–	78,878	78,878
Derivative assets	–	–	111	–	111
	44,758	–	111	(69,583)	(24,714)

31 December 2009	Available for sale £000	Designated hedges £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	45,737	–	–	–	45,737
Bank overdrafts	–	–	–	(758)	(758)
Borrowings due within one year	–	–	–	(900)	(900)
Borrowings due after one year	–	–	–	(34,392)	(34,392)
Trade payables	–	–	–	(106,494)	(106,494)
Trade receivables	–	–	–	79,104	79,104
Derivative liabilities	–	(224)	(20)	–	(244)
	45,737	(224)	(20)	(63,440)	(17,947)

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.

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Interest rate risk
The company and group are exposed to interest rate fluctuations on their borrowings and cash deposits. Borrowings are principally held in sterling and euros at both fixed and floating rates, deposits are in sterling, euros and Swiss francs at floating rates.

Floating rate borrowings are linked to the London Interbank Offered Rate and Euribor Over Night Index Average. The group adopts a policy of reviewing its floating rate exposure to ensure that if interest rates rise the effect on the group's income statement is manageable. In accordance with this policy, and in order to manage it's exposure to UK interest rates, the group entered into two interest rate swaps in 2008 to fix £30 million of its sterling denominated borrowings. The first interest rate swap matured in October 2009 and the second matured in April 2010. These interest rate swaps have been designated as a hedging instrument and accounted for as a cash flow hedge in accordance with the requirements of IAS 39.

The fair values of these interest rate swaps are included in the Statement of Financial Position as a derivative liability of £nil (2009:£224,000).

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

	Group Carrying amount		Company Carrying amount	
	2010 £000	2009 £000	2010 £000	2009 £000
Variable rate instruments				
Financial assets	44,758	45,737	23,369	27,473
Financial liabilities	(34,236)	(36,050)	(30,000)	(30,000)
	10,522	9,687	(6,631)	(2,527)

There were no fixed rate instruments held by the group at 31 December 2010 (2009: £nil).

Sensitivity analysis
A change of 100 basis points in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	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 2010								
Variable rate instruments	105	(105)	–	–	(66)	66	–	–
31 December 2009								
Variable rate instruments	197	(197)	–	–	75	(75)	–	–

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

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

The group and company uses forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in sterling. 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 2010 amounted to £111,000 (2009: liability £20,000).

For the twelve month period to 31 December 2010, 9.8% (2009: 10.0%) of the group's operating profit was derived from overseas subsidiaries and at 31 December 2010, 23.7% (2009: 22.5%) of the group's operating net assets related to overseas subsidiaries. Hedge accounting, following the adoption of IFRS, has not been applied to these operations.

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

The group's exposure to foreign currency risk was as follows:

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

		Group			Company	
2009	Euro amount £000	Other amount £000	Total £000	Euro amount £000	Other amount £000	Total £000
Trade and other receivables	279	144	423	56	12	68
Cash and cash equivalents	319	387	706	234	1	235
Trade and other payables	(1,064)	(666)	(1,730)	–	–	–
	(466)	(135)	(601)	290	13	303

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

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 2009.

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Euro	(53)	(47)	17	29
Other	(5)	(14)	2	1

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

Fair values hierarchy
The financial instruments carried at fair value are 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 had no interest rate swaps used for hedging at the Statement of Financial Position date (2009: fair valued in accordance with level 2). Forward currency contracts were fair valued in accordance with level 2 (2009: level 3).

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

Trade receivables, trade payables and cash and cash equivalents – Fair values are assumed to approximate to cost due to the short term maturity of the instrument.

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

Notes to the Financial Statements
continued

23 FINANCIAL INSTRUMENTS continued

Capital management
The group views its finance capital resources as 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.

The board encourages employees of the group to hold the company's ordinary shares and operates a number of employee share option schemes. The company has acquired a number of its own shares under a share buy-back programme, which at the present time, it does not intend to do in the foreseeable future, 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, as it has this year, return capital to shareholders, issue new shares or sell assets to reduce debt.

No changes were made to the capital management objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

24 OPERATING LEASES

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

Group

	2010 Land and buildings £000	2010 Plant and machinery £000	2010 Total £000	2009 Land and buildings £000	2009 Plant and machinery £000	2009 Total £000
Less than one year	748	6,407	7,155	423	1,153	1,576
Between one and five years	1,994	9,932	11,926	2,738	16,546	19,284
More than five years	2,313	26	2,339	3,406	17	3,423
	5,055	16,365	21,420	6,567	17,716	24,283

Company

	2010 Land and buildings £000	2010 Plant and machinery £000	2010 Total £000	2009 Land and buildings £000	2009 Plant and machinery £000	2009 Total £000
Less than one year	18	6	24	18	7	25
Between one and five years	74	–	74	74	6	80
More than five years	1,396	–	1,396	1,414	–	1,414
	1,488	6	1,494	1,506	13	1,519

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 2010, total operating lease expense of £10,702,000 was recognised in the Consolidated Income Statement (2009: £10,952,000).

Notes to the Financial Statements
continued

25 CAPITAL COMMITMENTS

Group
During the year ended 31 December 2010, the group entered into contracts to purchase property, plant and equipment for £421,000 (2009: £225,000). These commitments are expected to be settled in the following financial year.

Company
During the year ended 31 December 2010, the company entered into contracts to purchase property, plant and equipment for £nil (2009: £nil).

26 RELATED PARTIES

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

Transactions with key personnel
The group's key personnel are the executive and non-executive directors and senior executive management as identified on page 22.

As at 31 December 2010, directors of the company and their immediate relatives controlled 1.5% of the voting shares of the company (2009:1.6%).

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 key management personnel in either the current or preceding year. The cost charged to administrative expenses relating to share plans of key personnel amounted to £39,000 (2009: £2,000).

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

Transactions with other group companies

	Highest during the year £000	Balance at 31 December 2010 £000	Highest during the year £000	Balance at 31 December 2009 £000
Amounts due from subsidiaries	27,282	27,282	26,820	26,820
Amounts due to subsidiaries	(33,058)	(33,058)	(33,403)	(33,403)

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.

Notes to the Financial Statements
continued

26 RELATED PARTIES continued

Related party transactions reported in the income statement

	For year ended 31 December 2010 £000	For year ended 31 December 2009 £000
Rental income	6,291	5,942
Dividends received	14,526	1,375
Recharge of operating expenses	2,294	1,659
Interest income	242	259
Pension recharge	239	236

27 SUBSEQUENT EVENTS

The directors have given due consideration to any events occurring in the period from the reporting date to the date these Financial Statements were authorised for issue and have concluded that there are no material adjusting or non-adjusting events to be disclosed in these Financial Statements.

Principal Trading Subsidiaries

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

All of these subsidiaries are wholly owned and are principally engaged as a distributor of floorcoverings and associated products.

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

Financial Record

	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000
Trading results					
Revenue	509,899	544,718	557,296	533,793	535,690
Operating profit	43,941	46,013	41,722	24,758	26,066
Profit before net financing costs	3,941	46,013	41,722	24,758	26,066
Net financing costs	(383)	(841)	(1,602)	(2,694)	(1,060)
Profit on ordinary activities before tax	43,558	45,172	40,120	22,064	25,006
Taxation	(13,067)	(13,534)	(11,433)	(6,168)	(7,127)
Profit on ordinary activities after taxation	30,491	31,638	28,687	15,896	17,879
Shareholder value					
Paid dividend per share	18.00p	20.15p	23.10p	19.70p	11.00p
Proposed dividend per share	20.15p	23.10p	19.70p	11.00p	12.40p
Earnings per share	35.1p	37.1p	34.5p	19.1p	21.5p
Net assets					
Non-current assets					
Property, plant and equipment	85,032	92,097	99,741	96,530	97,215
Intangible assets	13,210	13,210	13,210	13,210	13,210
Deferred tax assets	5,517	2,106	1,516	4,731	896
	103,759	107,413	114,467	114,471	111,321
Current assets					
Inventories	94,217	101,491	107,597	99,637	105,694
Trade and other receivables	91,284	100,830	105,942	101,149	102,240
Cash and cash equivalents	41,861	16,805	35,193	45,737	44,758
Assets held for sale	–	–	–	2,275	362
	227,362	219,126	248,732	248,798	253,054
Total assets	331,121	326,539	363,199	363,269	364,375
Current liabilities					
Bank overdraft	(1,010)	(103)	–	(758)	–
Other interest-bearing loans and borrowings	(267)	–	(4,506)	(900)	(225)
Trade and other payables	(149,422)	(154,320)	(143,369)	(143,216)	(149,476)
Employee benefits	(1,102)	(1,491)	(2,428)	(2,506)	(2,586)
Income tax payable	(10,184)	(10,747)	(9,546)	(8,615)	(4,201)
	(161,985)	(166,661)	(159,849)	(155,995)	(156,488)
Non-current liabilities					
Other interest-bearing loans and borrowings	–	–	(30,000)	(34,392)	(34,011)
Employee benefits	(16,124)	(9,837)	(12,216)	(20,253)	(10,138)
	(16,124)	(9,837)	(42,216)	(54,645)	(44,149)
Total liabilities	(178,109)	(176,498)	(202,065)	(210,640)	(200,637)
Net assets	153,012	150,041	161,134	152,629	163,738

Notice of AGM

Notice is hereby given that the sixty third Annual General Meeting of Headlam Group plc will be held at the group's distribution facility located at Gorsey Lane, Coleshill, Birmingham, B46 1LW on Friday 17 June 2011 at 10.00 a.m. for the following purposes.

As ordinary business

1. To receive, consider and adopt the Annual Report and Accounts, the Directors' Report and the Independent Auditor's Report for the year ended 31 December 2010.

2. To declare a final dividend for the year ended 31 December 2010 of 8.57 pence per ordinary share.

3. To elect as a director Andrew Eastgate who was appointed since the date of the last Notice of AGM ("Notice") and who is retiring in accordance with the company's articles.

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

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

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

7. To approve the director's Remuneration Report for the year ended 31 December 2010.

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 12 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 £1,122,500 for a period expiring (unless previously renewed, varied or revoked by the company in general meeting) at the end of the 2012 AGM (or, if earlier, at the close of business on 30 June 2012), and save that the company may before such expiry make an offer or agreement which would or might require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after expiry of this authority and the directors may allot shares and grant rights in pursuance of any such offer or agreement as if this authority had not expired;

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

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

9. **Dis-application of pre-emption rights**

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

   (a) expires (unless previously renewed, varied or revoked by the company in general meeting) at the end of the 2012 AGM if passed (or, if earlier, at the close of business on 30 June 2012), 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 AGM
continued

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

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

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

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

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

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

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

(d) the authority conferred by this resolution shall expire at the conclusion of the 2012 AGM or, if earlier, at the close of business on 30 June 2012 (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 2012 or 30 June 2012, whichever is the earlier.

12. Headlam Group Co-Investment Plan 2008
that the Remuneration committee be and it is hereby authorised to adopt the amendments to the Headlam Group Co-Investment Plan 2008 (the "Co-Investment Plan") shown in the version of the Co-Investment Plan rules which have been produced to the meeting and initialled by the Chairman (for the purposes of identification) and a summary of the main provisions of which amendments is set out in the explanatory notes on page 112 and to do all such acts and things as may be necessary or expedient to give effect to the same.

By order of the board

Geoff Duggan
Company Secretary
11 March 2011

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

Notice of AGM
continued

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

1. Entitlement to appoint proxies.
A member entitled to attend and vote at the meeting is also entitled to appoint a proxy or proxies to attend, speak and vote instead of him. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the company. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting. To appoint more than one proxy, a member must complete a photocopy of the enclosed proxy card or obtain additional forms from Capita Registrars, telephone 0871 6640300 (calls cost 10p per minute plus network charges). Lines are open 8.30am – 5.30pm Monday to Friday. Please also indicate by ticking the relevant box if the proxy appointment is one of multiple appointments being made. Multiple proxy appointments should be returned together in the same envelope. Enter in the box provided the number of shares in relation to which your proxy is authorised or leave the box blank to authorise your proxy to act in relation to your full voting entitlement.

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

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

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

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

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

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

Notice of AGM
continued

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 15 June 2011 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. Nominated person
If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy nomination rights (a "Nominated Person") you may, under an agreement between you and the member of the company who has nominated you, have a right to be appointed (or have someone else appointed) as a proxy for the meeting. If you do not have such a proxy appointment right, or you do but do not wish to exercise it, you may have a right to give instructions to the member who has appointed you as to the exercise of voting rights. If you are a Nominated Person, the statement of the rights of members in relation to the appointment of proxies above does not apply. Such rights can only be exercised by a registered member of the company.

7. Issued share capital
As at 11 March 2011 the company's issued share capital, including treasury shares, consisted of 85,363,743 ordinary shares of 5p ("shares"). Of these 2,243,572 shares were held in treasury, the voting rights and entitlement to dividend of which were automatically suspended. Accordingly the total number of voting rights in the company as at that date was 83,120,171.

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

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

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

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

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

(a) by writing to the Company Secretary at the company's registered office address at Gorsey Lane, Coleshill, Birmingham, B46 1LW; or

(b) by writing to : Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA.

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 2010 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.

Notice of AGM
continued

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

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

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

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

Explanatory Notes

This year's AGM will be held at the group's distribution facility in Coleshill, Birmingham on Friday 17 June 2011 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 12 (inclusive) are proposed as special resolutions which means that for each of those resolutions to be passed, at least three quarters of the votes cast must be cast in favour of the resolution.

Resolution 1 – Annual Report and Accounts

The company is required by law to present to shareholders at the AGM its audited accounts and the directors and independent auditors' reports for the financial year ended 31 December 2010. Shareholders are invited to vote to receive and adopt the Annual Report and Accounts for the year ended 31 December 2010.

Resolution 2 – Declaration of dividend

The directors recommend the payment of a final dividend of 8.57p on each of the ordinary shares entitled thereto, which together with the interim dividend of 3.83p, gives a total dividend of 12.40p for the year ended 31 December 2010. Subject to approval of the declaration of the final dividend at the AGM, the final dividend will be paid on 1 July 2011 to the holders of ordinary shares whose names are recorded on the register of members at the close of business on 3 June 2011.

Resolution 3 – Election of Andrew Eastgate as a director

Andrew Eastgate was appointed to the board on 17 May 2010, before the 2010 AGM but after the Notice of the 2010 AGM had been sent to shareholders and, in accordance with the company's articles, offers himself for election at the forthcoming AGM. Andrew was formerly a partner in Pinsent Masons and head of the corporate practice in Birmingham. Andrew has a broad experience of advising quoted companies, particularly in connection with transactions and compliance issues. In accordance with the recommendations of the combined code relating to non-executive directors, the board believes that Andrew Eastgate 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, 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 – Re-appointment of Auditor

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

Resolution 6 – Agreement of Auditor remuneration

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

Resolution 7 – Directors' Remuneration Report

Shareholders are being asked to approve the 2010 director's Remuneration Report, which is set out on pages 36 to 46 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.

Explanatory Notes
continued

Special Business – Resolutions 8 to 12
Resolution 8 – Authority to allot shares
Shareholders are being asked to pass the necessary resolution to grant to the directors a general authority, for the purpose of section 551 of the Companies Act 2006, to allot relevant securities. On this occasion the proposed general authority is to allot up to an aggregate nominal amount of £1,122,500 representing 22,450,000 ordinary shares (27% of the company's ordinary share capital (excluding treasury shares) in issue at 11 March 2011 (the latest practical date prior to the publication of this report)). As at 11 March 2011, the company held 2,243,572 treasury shares, which represented approximately 2.70% of the company's issued share capital (excluding treasury shares), which the company can cancel or hold for sale or use to meet the obligations under the company's employee share schemes.

This authority will lapse at the conclusion of the AGM to be held in 2012, or, if earlier, on 30 June 2012. Your directors have no current intention of exercising this authority except in connection with the company's employee share schemes.

Resolution 9 – Dis-application of pre-emption rights
Shareholders are being asked to pass a resolution to empower the directors to allot equity securities, or sell treasury shares, for cash as if section 561 of the Companies Act 2006 (which gives shareholders certain pre-emption rights on the issue of shares or rights to subscribe for or convert securities into shares) did not apply to any such allotment. The authority allows the issue or sale of shares of up to an aggregate nominal amount of £1,122,500 representing 22,450,000 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 11 March 2011). The authority will lapse at the conclusion of the AGM to be held in 2012 or, if earlier, on 30 June 2012.

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

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

Resolution 10 – Purchase of own shares
The directors believe that it is in the interests of the company and its members to continue to have the flexibility to purchase its own shares and this resolution seeks authority from members to do so. The directors intend only to exercise this authority where, after considering market conditions prevailing at the time, they believe that the effect of such exercise would be to increase the earnings per share and be in the best interests of shareholders generally. The effect of such purchases would either be to cancel the number of shares in issue or the directors may elect to hold them in treasury pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations"), which came into force on 1 December 2003. The Regulations enable certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by a company in accordance with the Companies Act 2006. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under a company's employee share scheme. Once held in treasury, a company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the company's assets may be made to the company in respect of the treasury shares.

This resolution renews the authority given at the AGM held on 25 June 2010. The authority is in respect of 10% of the company's issued ordinary share capital as at 11 March 2011 and will lapse at the conclusion of the AGM to be held in 2012 or, if earlier, on 30 June 2012. 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 22 to the Financial Statements.

Explanatory Notes
continued

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, regulations came into force on 3 August 2009 to implement the Shareholder Rights Directive in the UK. These regulations require a shareholder resolution to be passed to authorise general meetings to be held on 14 days' notice. Without the passing of resolution 11, the minimum notice period under the regulations would be 21 days. If resolution 11 is passed by the shareholders, the regulations would only allow the company to call a general meeting on 14 days' notice if it were to make a system of electronic voting available to its shareholders in respect of the meeting in question. The directors consider it to be in the best interest of shareholders to pass resolution 11, which is a repeat of the same resolution passed at last year's AGM, in order to prevent being constrained by the regulations implementing the directive. It will be necessary for a similar resolution to be put to shareholders at each subsequent AGM. It is intended that this flexibility will only be used for non-routine business and where merited in the interests of shareholders as a whole.

Resolution 12 – Headlam Group Co-Investment Plan 2008
The Headlam Group Co-Investment Plan 2008 (the "Co-Investment Plan") was approved by the company's shareholders at the AGM on 20 June 2008 at which time it was envisaged that at the date of the first award in 2008, existing shareholdings up to a maximum of one times base salary, could be used for the purposes of matching. As no awards were made in 2008, certain amendments were sought and approved at the 25 June 2010 AGM such that this authority to use existing shareholdings up to a value of one times base salary could be applied in respect of the first award made under the Co-Investment Plan. Whilst the first awards were made in 2010, these were for 25% of base salary.

Approval is sought to amend the Plan rules such that existing shareholdings may be used in subsequent awards for matching purposes subject to an aggregate of one times base salary.

The directors believe that the decision to scale back the first year opportunity and the proposed amendment to the rules of the Co-Investment Plan are in the best interests of the company and its shareholders for the following reasons:

- the cost of the award in 2010 is reduced to 25% of base salary.
- the proposals do not increase the overall level of awards to executive directors and other participants in the form of matching shares.
- the Co-Investment Plan is currently the company's only long-term incentive vehicle.
- the committee has not yet implemented the 2008 Performance Share Plan nor does it intend to do so in 2011 and it has not granted any option awards under the 2008 Option Schemes.
- executive directors are required to commit shares to the Co-Investment Plan in order to receive matching awards of shares. This commitment is greater than established UK market practice for executive directors to be eligible for long-term incentive awards without the need to commit any of their own shares or funds.

The rules of the Plan marked to show the proposed amendment will be available for inspection at the registered office of the company 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 at the place of the AGM for at least 15 minutes prior to the meeting and throughout the meeting.

Shareholder Information

Shareholder helpline
The company's shareholder register is maintained by Capita Registrars ("Capita"), who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases or sales of company shares. If you have a question about your shareholding in the company you should contact: Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA. email: ssd@capitaregistrars.com, telephone 0871 664 0300 (calls cost 10p plus network extras). Lines are open 8.30am – 5.30pm Monday to Friday.

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

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

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

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

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

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

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

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

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

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

Designed and produced by corporate**prm**, Edinburgh and London. www.corporateprm.co.uk

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Registration
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