headlam
group plc

Annual Report and Accounts
for the year ended 31 December 2014

Our actions are the ground we walk on

www.headlam.com
Stock code: Head

Europe's leading floorcovering distributor

About us

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

Our Purpose

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

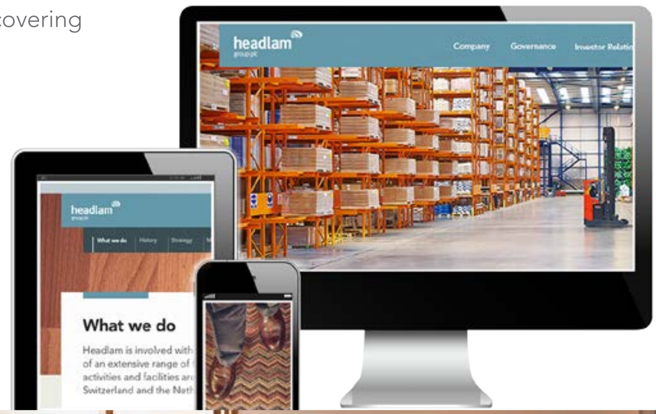
The approach provides Headlam's suppliers with an opportunity to achieve extensive and, in some territories, unparalleled market access backed by cost effective distribution.

In order to offer this level of service to its customers and suppliers, Headlam has developed a diverse and autonomous operating structure that includes 55 businesses across the UK and a further five in continental Europe.

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

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

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



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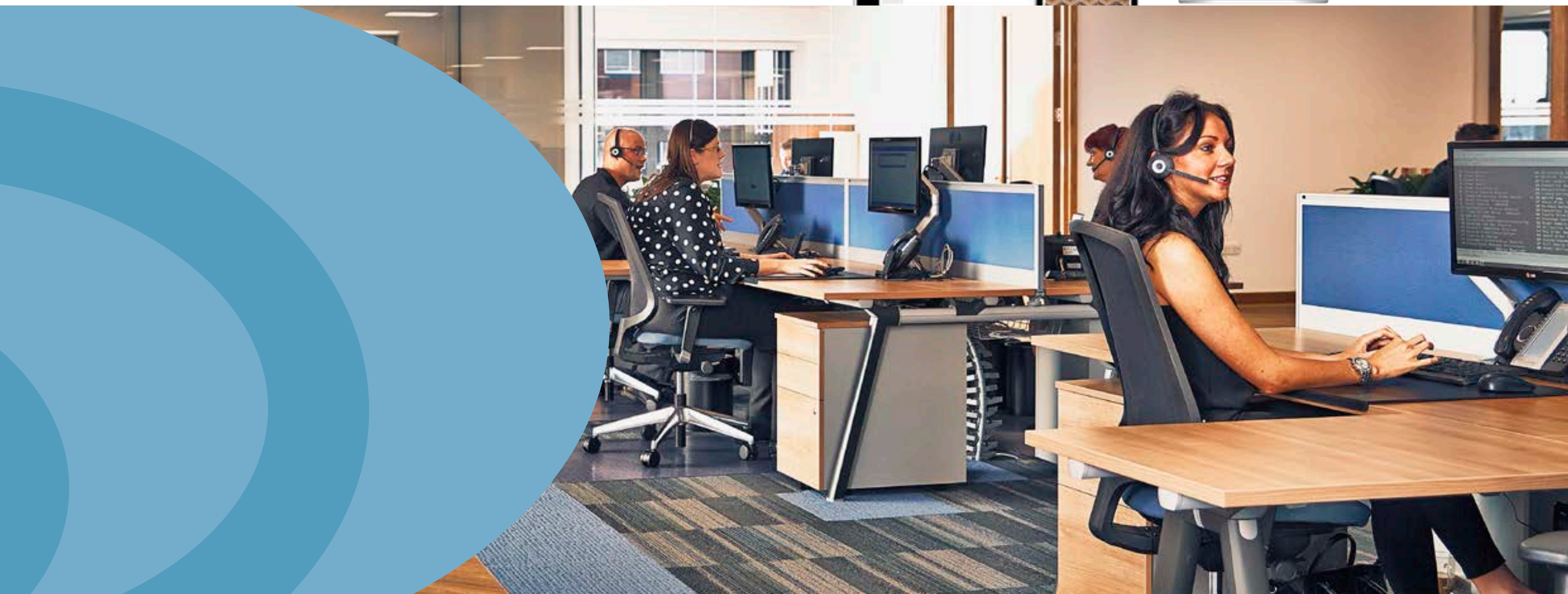
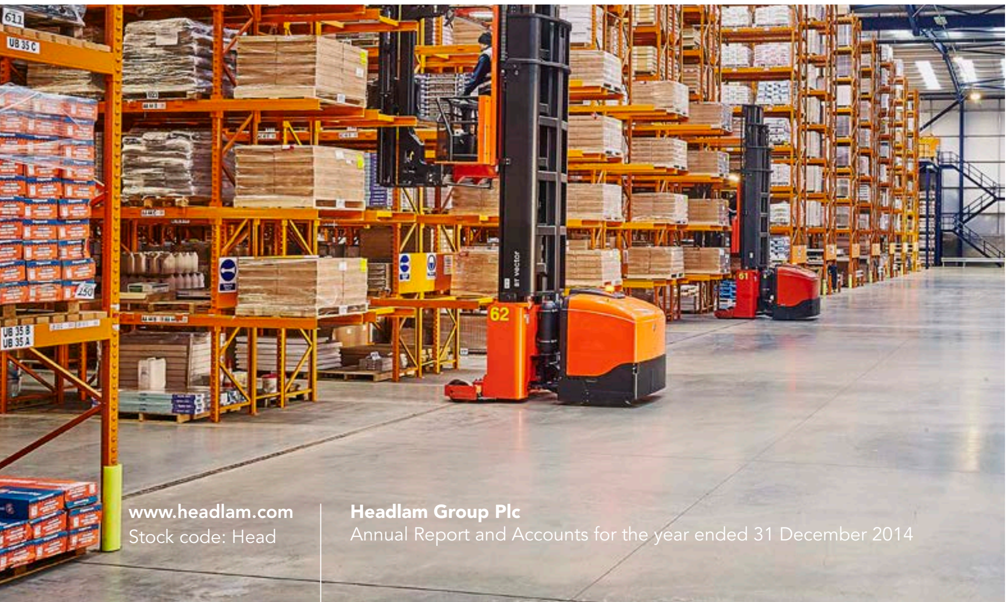




Our 2014 report

STRATEGIC REPORT

GOVERNANCE

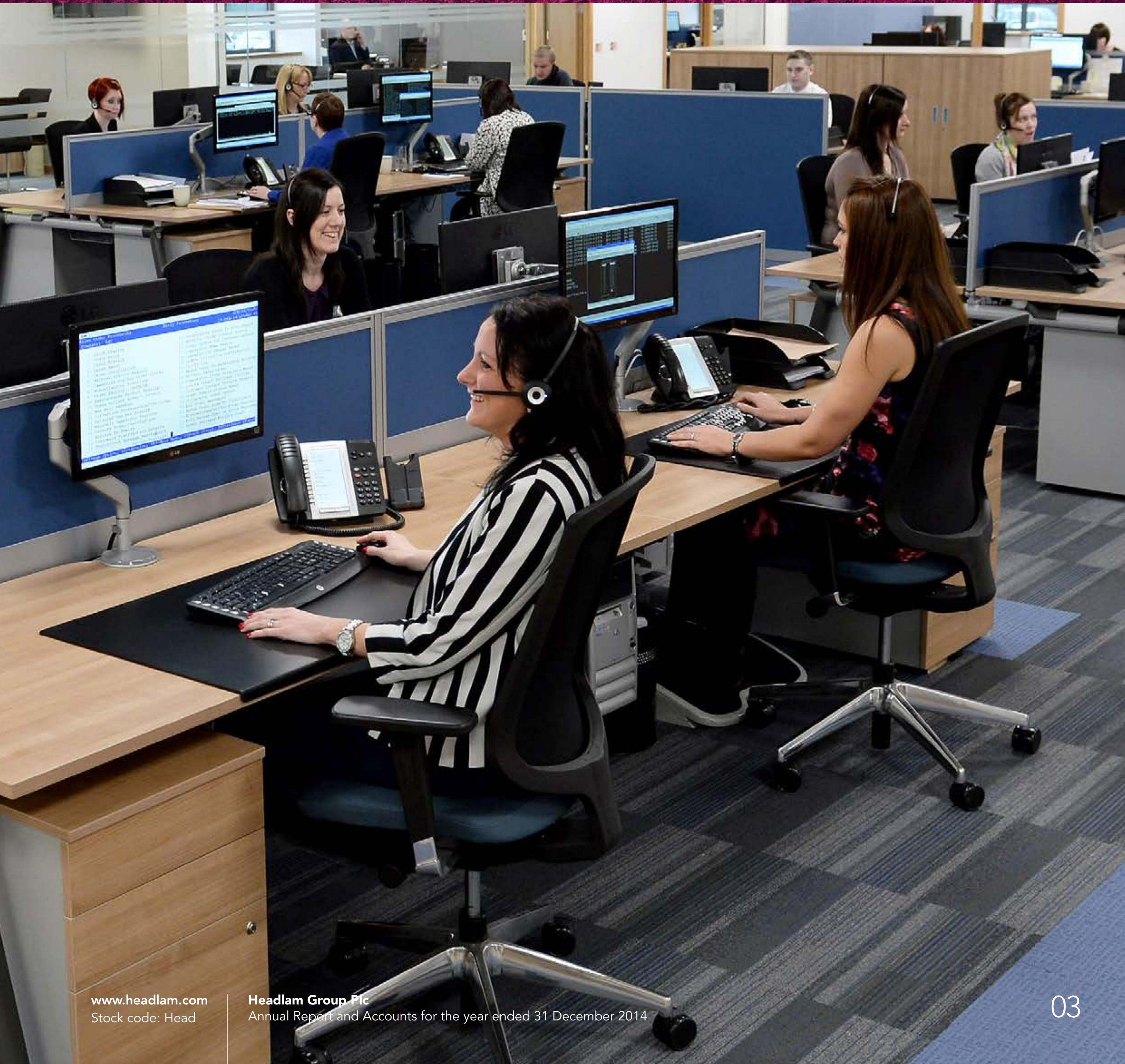
FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

Ordering

4,701,662
UK ORDERS PLACED IN 2014

Strategic Report



Chairman's Introduction

It is pleasing to be able to report that the group has made good progress during the year, delivering a further increase in revenue and improvement in profitability.

Overview

In the UK, the trading momentum established during the first half of the year continued through the second half with the improvement in organic growth supplemented by the fine full year performances from the businesses acquired during the previous year. Of particular satisfaction was the manner in which the UK businesses responded during the final quarter of the year, with like for like growth of 3.9%, delivering another strong performance on top of the impressive result achieved during the final quarter of 2013.

On the Continent, when measured in local currency, the revenue performance from our French business was slightly ahead of last year whilst our Dutch businesses achieved reasonable progress in what continues to be a difficult market. The businesses in both territories registered an improvement in underlying earnings. However, the market weakness evident in the first half in Switzerland continued during the second half resulting in a further reduction in annual revenue and profit. As was the case during the first half, the decline in the Swiss performance was sufficient to weaken the collective result from our Continental businesses which was down quite markedly on the previous year.

Whilst the result from our Continental businesses in recent years has been disappointing, the group's overall result for the year, once again, provides further evidence in support of the board's decision to commit to additional investment to expand and improve our facilities as exemplified by the project to extend the Coleshill national distribution hub which was completed and became fully operational in January 2014.

The commitment to investment, along with the decision to continue with our strategy and maintain our structure, has positioned the group in a place where it can quickly and profitably take advantage of an improvement in market activity.

Earnings and dividend

Earnings per share increased by 16.7% to 28.6p compared with last year's underlying result of 24.5p mainly as a result of the group's profit before tax of £30.3 million, improving by 14.6% on last year's underlying profit before tax of £26.4 million.

The board is proposing to increase the final dividend by 15.5% from 10.65p to 12.30p resulting in a total dividend for the year of 17.50p, which represents an increase of 14.4% on 2013. The final dividend, if approved by shareholders at the Annual General Meeting ("AGM"), will be paid on 1 July 2015 to shareholders on the register at close of business on 5 June 2015.

Governance and board

We continue to promote a culture of openness and transparency and encourage participation and contribution from all our board members. The board recognises the value derived from good governance and the setting of high standards and the confidence this brings to our shareholders, management, employees, suppliers and customers.

Employees and shareholders

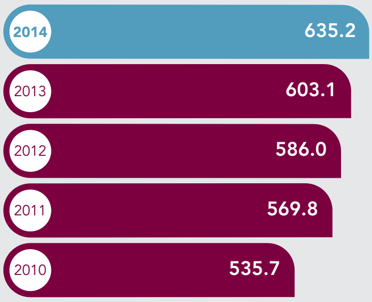
Once again, our employees' attitude, determination and focused contribution have been pivotal to the continued success of the group.

Thank you to all our employees across the group for their dedication and hard work and our shareholders for their insightful observations and continuing support.

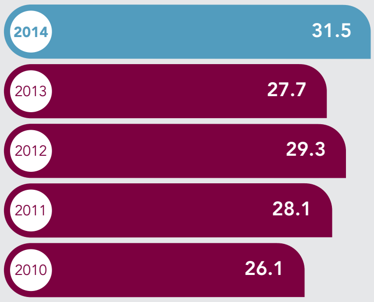
Dick Peters
Chairman
5 March 2015

Performance Highlights

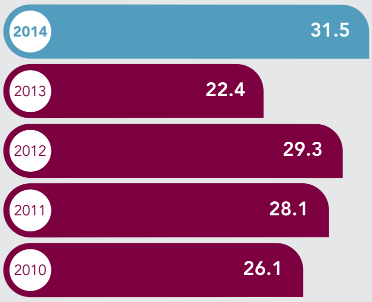
FINANCIAL HIGHLIGHTS



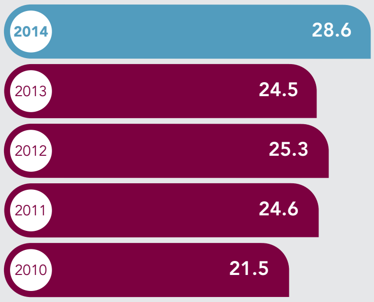
Revenue £million



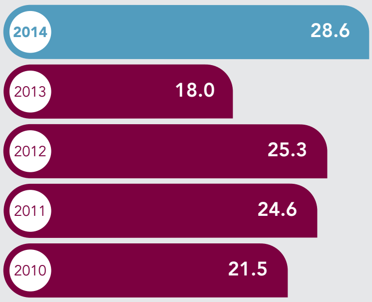
Underlying Operating Profit £million



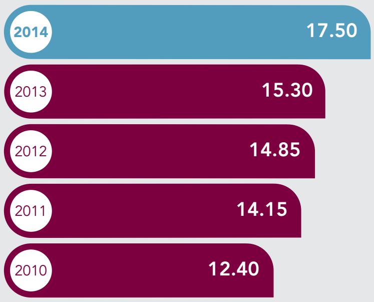
Operating profit £million



Underlying Earnings Per Share pence



Earnings Per Share pence



Dividends Paid and Proposed pence

Revenue £million
£635.2 +5.3%
2013: £603.1

Underlying Operating Profit £million
£31.5 +13.7%
2013: £27.7*

Operating Profit £million
£31.5 +49%
2013: £21.1

Underlying Earnings Per Share pence
28.6p +16.7%
2013: 24.5p*

Earnings Per Share pence
28.6p +58.9%
2013: 18.0p

Dividends paid and proposed pence
17.50p +14.4%
2013: 15.30p

The group repaid **£10.0 million** on its committed facilities, reducing the drawdown to £20.0 million on a facility of £40.0 million, and ended the year with net funds of **£24.7 million** (2013: £14.0 million).

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

OPERATIONAL HIGHLIGHTS

— Further gains achieved in UK market share with like for like revenues increasing by 5.9% exceeding the estimated market growth of 2.4%

— Continental European markets remain weak and the trading environment for our Continental businesses continues to be difficult

— Final dividend up 15.5% from 10.65 pence to 12.30 pence

— Further bolt-on acquisitions during the year and early 2015 and the service centre network is extended to 27 with the addition of sites in Stoke, Norwich, Hayes and Leicester

What our Customers are Looking for:

Product, Range & Value

Market presence in independent floorcovering retailers and contractors continues to be enhanced through our ongoing product development with suppliers, resulting in the launch of 3,263 new products, supported by 575,275 point of sale items.

New Products Launched in the UK

2011 — 3,501
2012 — 2,855
2013 — 3,016

2014
3,263

Number of Orders from UK customers

2011 — 3,877,835
2012 — 3,973,251
2013 — 4,331,886

2014
4,701,662

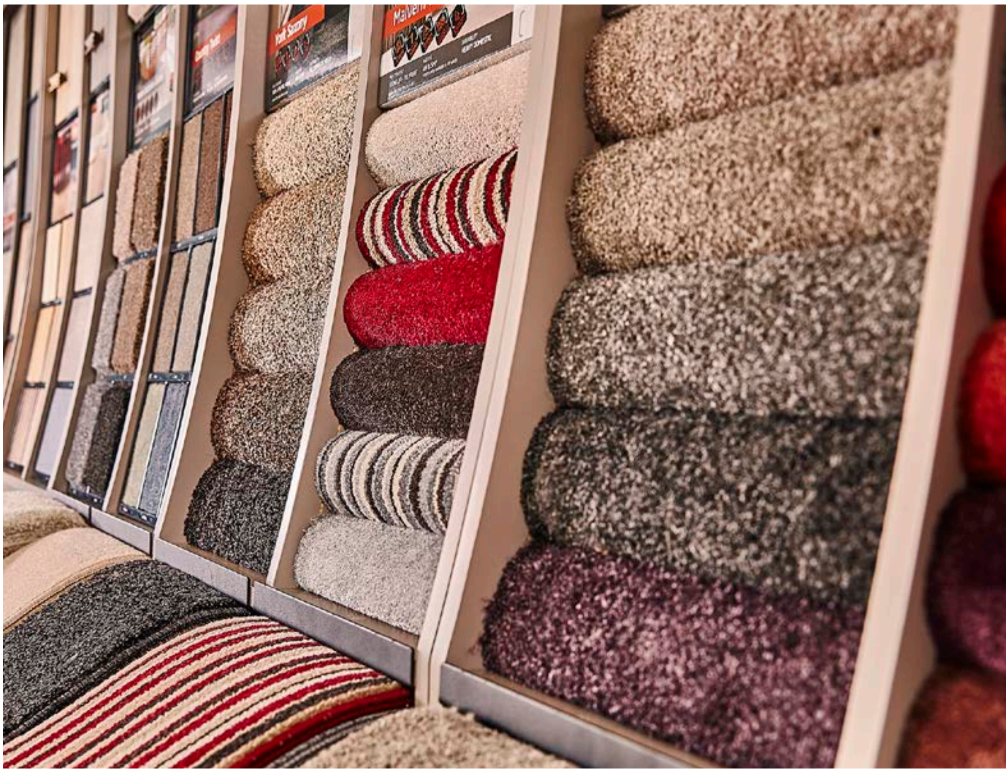
Active Customer Accounts in the UK

2011 — 43,347
2012 — 44,086
2013 — 45,720

2014
50,355

Lifestyle Floors, which continues to take a more prominent market position, now has a huge presence in independent floorcovering retailers providing point of sale for each of the key residential product categories of carpet, vinyl, wood, laminate and luxury vinyl tile. With the constant launch of new products through Lifestyle Floors and our other business activities, we will continue to provide the independent floorcovering retailer and contractor with a comprehensive selection of product initiatives into the UK market.

lifestyle FLOORS | More choice. More style. More value.



What our Customers are Looking for:

Knowledge &Expertise

During the last five years when markets and trading have been particularly difficult, we decided to retain the group's structure in order to maintain our service levels.

Management Training Hours in the UK
3,458

Sales Team Training Hours in the UK
4,613

Driver CPC Training Hours in the UK
2,856

It is now particularly encouraging that the regional and national multi-product businesses, which historically have been the foundation of the group's success, are recovering from their recent subdued performances and are now once again providing a platform for growth and contributing to the group's improving performance.

The second phase of our Management Training Programme for general and sales management has now been completed. Sales representatives are currently undertaking their phase two training, all of which is intended to improve communication, individual motivation, preparation and ultimately an improved service and business development with our customers.

What our Customers are Looking for:

Operational Excellence & Infrastructure

Further bolt-on acquisitions during the year and early 2015, and the Service Centre network is extended to 27 with the addition of sites in Stoke, Norwich, Hayes and Leicester.

This will result in 42 collection points in the UK to assist in the servicing of our customers' requirements, and there are plans to open additional service centres in strategic geographical locations to further extend the service proposition for our customers.

55
UK Businesses

18
UK Distribution Centres

27
UK Service Centres

42
UK Collection Points

What our Customers are Looking for:

Technology

The Customer Relationship Management App ("CRM"), utilised on our management and sales representatives' iPads, continues to advance and is now a hugely beneficial facility, particularly for our 424 sales personnel.

Group Capital Expenditure

£6.5m

UK Customer Visits

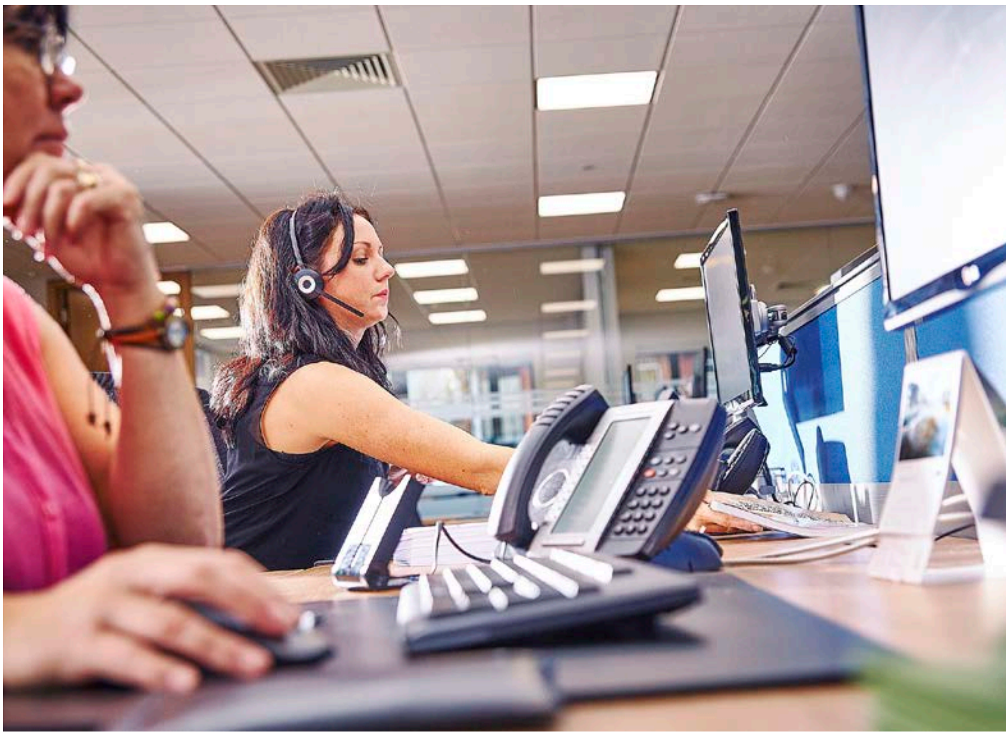
532,592

Number of UK Sales Personnel

424

They collectively make over 530,000 visits each year to customers and the iPad CRM, in conjunction with the training programmes, ensures that our sales representatives are fully prepared when visiting a customer, with clearly focused objectives, and are able to measure their achievement whilst interacting with their sales manager.

We are now intending to proceed with the development of a new purpose-built 145,000 square feet distribution facility in the south-east of England for our regional multi-product business, Faithfulls. The enlarged facility, to be located in Ipswich, will allow Faithfulls to extend its product offering, increase its service and enhance its historically strong customer relationships.



Chief Executive's Review

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

Our strategy

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

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

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

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

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

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

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

Performance

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

Once again, it is pleasing to record that the growth in UK revenue during 2014, as has consistently been the case for a number of years, outperformed growth in the UK floorcovering market, with the like for like growth of 5.9% exceeding the estimated market growth of 2.4%.

The increases in like for like revenue derived from our residential and commercial product in the UK were broadly similar, with residential up by 5.8% on the previous year and commercial up by 6.2%. The revenue mix between residential and commercial floorcoverings in the UK has generally remained at the same level for a number of years and 2014 maintained the balance at 68% and 32% respectively.

On the Continent, adverse economic headwinds continue to influence performance and the overall trading result has registered further decline during the year. However, we still believe that more can be made of the opportunities to develop each individual business notwithstanding the market issues in each individual territory. On a brighter note, gross margins are being protected and costs managed diligently. As ever, additional revenue would transform the operating fortunes of these businesses.

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

Investments

Over the five-year period from 2010 to 2014 we have used the group's balance sheet strength, allied with its positive cash flow, to invest £36.2 million in property, plant and equipment, with a further £18.0 million expenditure forecast for 2015 and 2016. This level of capital expenditure has been running, on average, at a rate of 1.5 times depreciation.

The investment in infrastructure has been and is aimed at supporting our expansion plans, as illustrated by our intention to construct a new distribution facility in Ipswich, and enables us to manage our supply chain and inventory requirements more efficiently, as demonstrated by the recent extension to the Coleshill distribution hub.

Once the Ipswich distribution facility is fully operational, the group will have a well invested portfolio of four national distribution hubs and 14 regional distribution centres in the UK as well as four distribution centres on the Continent. These facilities should be able to satisfy the group's capacity requirements and growth expectations for a number of years and the requirement for further investment in additional or replacement distribution facilities ought to fall away.

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

During the year we continued to expand the number of service centres we operate across the UK and they now number 27. The provision of a customer collection point is also offered within our distribution centres, thereby bringing the number of collection points, or trade counters, in the UK to 42. There are still some locations where we do not currently have a presence and that would benefit from the opening of a service centre and we anticipate expanding our coverage in the future, subject to the availability of suitable sites.

Acquisitions

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

During the year we completed the acquisition of two small bolt-on businesses, one of which, RPS, was transferred into our existing distribution facility in Nottingham and the other, Myttons, has provided us with the opportunity to establish a service centre in Norwich. During January 2015 we added another business, Matty's Wholesale Carpets, and integrated its operations into our distribution facility in Coleshill. Unlike a number of recent acquisitions where the businesses acquired have been losing market position, Matty's Wholesale Carpets has been a very successful business and should prove to be immediately earnings enhancing.

The acquisitions completed during 2013 are now operationally integrated and contributing an earnings enhancing performance to the group's profitability.

Prospects

The momentum created through 2014 has continued into January and February, where strong like for like growth in the corresponding period last year has been surpassed.

As we enter March, our UK businesses are well placed to take advantage of improving market conditions with a comprehensive array of product launches and marketing initiatives.

Whilst our businesses in Continental Europe continue to experience difficult markets, we are confident that the Group, overall, will achieve further progress during the year.

Tony Brewer
Group Chief Executive
5 March 2015

Business Model

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

Supply chain management

Headlam distributes a wide range of products, sourced from a variety of floorcovering suppliers located around the globe, to its customer base who, in the main, are independent floorcovering retailers and contractors.

Robust structure creating value for the long term

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

Read more on how we manage our risks (see pages 28 and 29)

Key resources in place

Headlam's collection of businesses, assembled over many years, has allowed the group to continually outperform the floorcovering market through various economic cycles. This has been very evident in recent years when conditions have proved to be particularly demanding and during which time the group has consistently maintained its ability to achieve an increased market share.

Product Range and Value
Knowledge and Expertise
Operational Excellence and Infrastructure
Technology

Read more on what our customers are looking for (see pages 6 to 13)

Diversified businesses

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

PRODUCT MIX:
68% Residential 32% Commercial

Read more on our marketplace (see pages 18 to 20)

Creating the essential link

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

→ **Order**
→ **Selection**
→ **Process**
→ **Deliver**

Read more on page 17

Strong relationships delivering consistent revenue streams

Essential to the group's ongoing success are its strong relationships with suppliers, which have developed over many years, at both senior level and within each of our operating businesses. The collaborative effort that exists between our senior and individual management teams and suppliers is aimed at ensuring that our businesses remain at the forefront of all new products introduced into our particular markets.

1 Ordering

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

2 Selection

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

3 Processing

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

4 Deliveries

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

What our Marketplace Looks Like

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

Overview

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

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

How we service the market

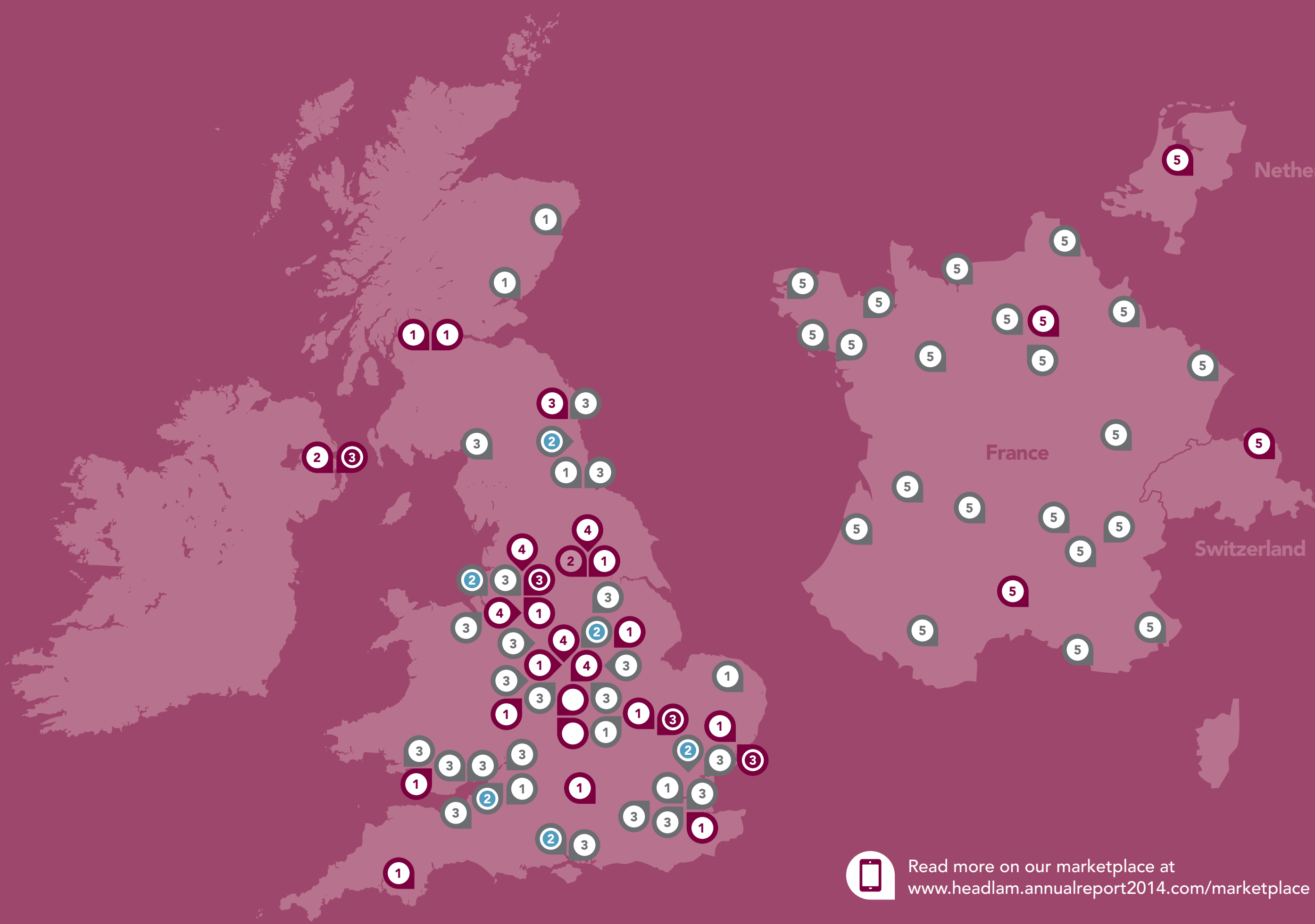
The UK operating structure is based on five business sectors each aimed at maximising market penetration and supporting different aspects of the floorcovering market.

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

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

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

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



Read more on our marketplace at
www.headlam.annualreport2014.com/marketplace

OPERATING STRUCTURE	1	2	3	4	5
Distribution Centre	11	1	1	1	4
Service Centre	10	—	17	—	21
Distribution Hub	—	1	—	3	—
Trans-shipping Location	—	6	—	—	—
Shared Distribution Centre	2	—	4	1	—

1 Regional Multi-product Distribution

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

2 National Multi-product Distribution

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

3 Regional Commercial Distribution

Our Regional Commercial Distribution currently includes 23 operations based in five distribution and 17 service centres.

4 National Residential Specialist Products

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

National Commercial Specialist Products

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

5 European Multi-product Distribution

Our Continental European operations incorporate five businesses. In the Netherlands our three businesses are located in one distribution centre. In France our single business operates from two distribution centres and 21 service centres, and our business in Switzerland operates from one distribution centre.

Our actions are the ground we walk on

Financial Review

UK turnover comfortably outperformed the underlying market, which was estimated to have grown by 2.4%.

Revenue

During the year, group revenue increased by £32.2 million to £635.2 million. As shown in the table below, UK turnover comfortably outperformed the underlying market, which was estimated to have grown by 2.4%. The Continental performance was a story of further contraction, which when translated into sterling amounted to a 7.3% decline during the year, albeit when measured in constant currency the reduction was less severe at 2.2%.

	2014 £000	2013 £000	Change £000	Change %
UK	**548,393**	509,340	39,053	7.7
Continental Europe	**91,606**	93,711	(2,105)	–2.2
Translation Effect	**(4,757)**	–	(4,757)	–
Group	**635,242**	603,051	32,191	5.3

The UK growth was attributable to a solid like for like performance amounting to 5.9% during the year coupled with a contribution from acquisitions, which in total amounted to £14.9 million of which £9.2 million was an incremental increase on the previous year.

Gross margin

The group's gross margin declined during the year from 30.1% to 30.0%. Whilst pricing competition continues to be a factor in all our markets, the characteristics of this competitive environment have not changed appreciably compared with the prior year. Product mix remains broadly constant from one year to the next and the slight decline in the year is more a factor of the Continental European businesses, which collectively enjoy a slightly higher margin compared with the UK, contributing less to the 2014 performance compared with 2013.

Expenses

Distribution and administrative expenses increased by £151,000 during the year. However, as illustrated below, when the non-underlying items arising in 2013 relating to the impairment of intangible and tangible fixed assets, which totalled £5,352,000, are added back, the year on year increase amounts to £5,503,000 or 3.6%.

	£000
Expenses for the year ended 31 December 2014	159,078
Expenses for the year ended 31 December 2013	158,927
Less: Non-underlying items	(5,352)
Adjusted 2013 expenses	153,575
Year on year increase excluding non-underlying items	5,503

The two key components of the increase were the incremental expenses arising because of the acquisitions, which amounted to £1,807,000 and a £4,438,000 rise in employee costs occurring primarily as a result of performance related incentive awards.

Operating profit

Operating profit for 2014 increased by 13.7% compared with the operating profit for 2013 after adjusting for the non-underlying items. The operating margin for 2014 increased to 5.1% compared with 4.6% achieved in the prior year after adjusting for the non-underlying items.

	£000
2014 operating profit	31,462
2013 operating profit	22,328
Add back: Non-underlying items	5,352
Adjusted 2013 operating profit	27,680
Year on year operating profit increase excluding non-underlying items	3,782

Earnings and dividend

Basic earnings per share for 2014 of 28.6p improved by 16.7% on the underlying basic earnings of 24.5p for 2013. The result was derived from a 14.6% increase in profit before tax augmented by a reduction in the effective tax rate during the year which reduced from 23.25% to 21.5%.

Total dividends paid and proposed for 2014 have increased by 14.4% from 15.3p to 17.5p. Dividend cover remains at just above 1.6 times.

Employee benefits

The liability attaching to employee benefits is as follows:

	2014 £000	2013 £000
Current liabilities	**2,933**	2,842
Non-current liabilities	**18,803**	12,780
Total	**21,736**	15,622

The year on year increase in the deficit of £6,114,000 represents 39.1% deterioration over the course of twelve months. The key driver behind the change is the escalation of liabilities in both the UK and Swiss defined benefit pension plans which, in both arrangements, have been driven by falling bond yields.

Financial Review

Cash flow

Net cash flow from operating activities

Net cash flow from operating activities increased during the year by £3.2 million from £24.0 million to £27.2 million with the contributory factors shown in the table below.

	£000
2013 net cash flow from operating activity	24,027
Operating profit	3,782
Depreciation	115
Profit on asset disposals	147
Share based payments	404
Working capital	(1,274)
Interest paid	88
Taxation	(13)
Additional pension contributions	(83)
	27,193

As can be seen from above, the two principal contributors to the year on year movement are the increase in operating profit of £3.8 million and the additional working capital investment of £1.3 million.

During the year the additional pension contributions which fund the UK defined benefit pension plan amounted to £3.0 million. Following the triennial actuarial valuation of the UK plan at 31 March 2014, the additional contributions for 2015 will be £3.0 million but for 2016 they will fall to £2.1 million and thereafter increase annually at a rate of 3.3% until further review as part of the triennial valuation in 2017.

Cash flows from investing and financing activities

The table below summarises the cash flow movements from investing and financing activities during the year. Whilst the overall cash outflow from the activities was broadly the same in 2013 and 2014, the difference amounting to £0.5 million, the emphasis in the two years was quite different. During the year investing activity was considerably reduced compared with 2013, giving rise to a positive cash flow variance of £9.1 million. However, financing activity centred on the reduction of borrowings giving rise to an increased cash outflow of £9.6 million.

	£000
2013 cash flows from investing activity	(14,149)
2013 cash flows from financing activity	(12,280)
	(26,429)
Movement in investing activity:	
Net investment in tangible fixed assets	7,212
Interest received	233
Acquisitions	1,643
	9,088
Movement in financing activity:	
Treasury share issues	785
Repayment of borrowings	(9,987)
Dividends paid	(389)
	(9,591)
Net movement	(503)
2014 cash flows from investing activity	(5,061)
2014 cash flows from financing activity	(21,871)
	(26,932)

In isolation, 2014 is an illustration of the group's capacity to reduce its requirement for debt as the need for investment in large capital projects comes to the end of its current cycle.

Net debt

Group net funds at the end of the year increased by £10.5 million compared with the previous year, from £14.0 million to £24.5 million, as detailed in the table below.

	At 1 January 2014 £000	Cash flows £000	Foreign exchange translation £000	**At 31 December 2014 £000**
Cash at bank and in hand	47,477	261	(149)	**47,589**
Debt due within one year	(218)	–	14	**(204)**
Debt due after one year	(33,239)	10,210	211	**(22,818)**
	14,020	10,471	76	**24,567**

Funding and going concern

The group maintains sufficient banking facilities to fund its operations and investments and, as at 31 December 2014, the utilisation of the group's total facilities was as shown in the table below. 73.2% of the group's facilities were undrawn.

	Drawn £000	Undrawn £000	Total facility £000
Less than one year	–	42,883	42,883
Over one year and less than five years	21,019	20,000	41,019
Over five and less than seven years	2,003	–	2,003
	23,022	62,883	85,905

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

Steve Wilson
Group Finance Director
5 March 2015

Key Performance Indicators

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

1

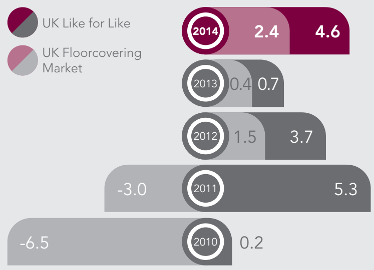
Like For Like Revenue Growth

Measurement

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

Why

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



Like For Like Revenue Growth % **4.6**
2013: 0.7

Data on UK floorcovering market obtained from AMA Research Limited – December 2014

2

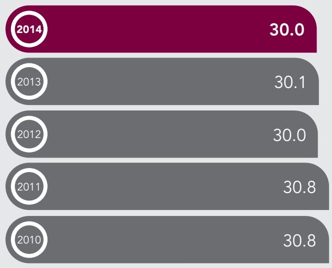
Gross Profit Margin

Measurement

The ratio of gross profit to revenue.

Why

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



Gross Profit Margin % **30.0**
2013: 30.1

3

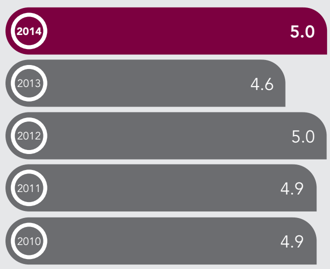
Underlying Operating Profit Margin

Measurement

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

Why

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



Underlying Operating Profit Margin % **5.0**
2013: 4.6

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

4

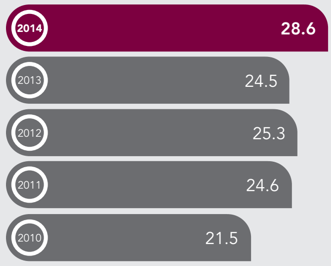
Underlying Earnings Per Share R

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

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

R We use this measure as one of the key components of executive remuneration – see table on pages 55 to 57.

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



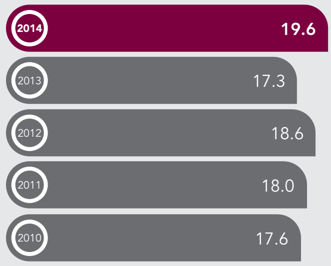
Underlying Earnings Per Share p **28.6**
2013: 24.5

5

Return on Capital Employed

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

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



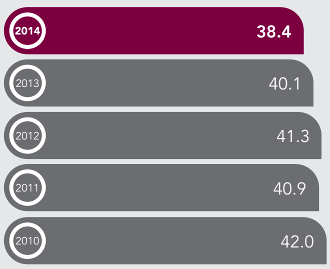
Return on Capital Employed % **19.6**
2013: 17.3

6

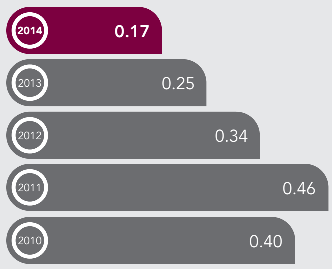
Credit Taken by UK Customers and Receivables Impairment Loss Percentage

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

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



UK Credit Taken days **38.4**
2013: 40.1



Receivables Impairment Loss % **0.17**
2013: 0.25

Managing our Risk

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

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

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

Area of risk	Description	Potential impact	Mitigation
People	The group's ability to deliver continued success is very dependent upon its people.	An inadequate pool of suitably qualified and talented people can disrupt business development and undermine the group's ability to deliver sustainable growth.	Recruitment, training and development are aimed at ensuring the group has suitably skilled and qualified people to meet the current and future operational needs of its businesses. Furthermore, the group is committed to creating opportunities for individuals to progress their careers.
Employee benefits	The costs associated with funding the group's defined benefit plans could increase due to a decline in investment returns and bond yields, inflation pressures and increased mortality.	An increasing deficit could result in the need to provide increased financial support.	As a result of the triennial actuarial valuation of the UK plan undertaken at 31 March 2011, the group agreed to maintain its deficit reduction contributions until December 2015, at which point the plan deficit should have been removed. However, whilst the finalisation of the 2014 valuation is expected to be completed soon, the likely hood is that a plan deficit will persist, albeit at a slightly lower level of £10,883,000 and that additional contributions will continue over the medium term.
Legislation and regulation	The group's operations are regulated by a variety of laws and regulations, the principal ones relating to health and safety, the environment, employment, commerce, corporate, financial reporting and taxation.	Failure to comply could lead to serious civil or criminal proceedings, causing disruption to the group's operations and leading to financial loss and reputational damage.	The group manages its obligations through a framework of set policies and procedures and, where appropriate, engages the services of competent third-party advisers.

Our Responsibilities

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

Policy

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

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

People

Equal opportunities

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

Communications

The continued success of our business relies on good relations and communications with employees and on the provision of a safe and environmentally sound workplace, which complies with applicable laws and regulations, providing an environment in which people can flourish and succeed. Our employees' wellbeing and professional development is a key element to recruiting and retaining high-performing individuals.

Our people seek to deliver their best for the business, which, combined with a fair and responsible way of doing business, generates a common ambition to add value. We expect employees to respect confidential information, company time and assets, and believe in open and honest communication, fair treatment and equal opportunities, all of which support the fundamental principles of good governance.

We encourage the involvement and participation of employees in matters that affect their interests through formal and informal meetings, and value their communication with management, both senior and at the business unit. Employees continue to be informed on matters affecting them and on the various factors affecting the performance of the group. Eligible employees are able to benefit from the group's performance through participation in share schemes, including a savings-related share scheme. Considering it important for its employees to make provision for their retirement, the group offers opportunities for participation in retirement plans, also providing death in service benefits through a group life assurance scheme.

Training

Employees are encouraged to take advantage of our training and development opportunities, which is an important part of our strategy for success. Training is delivered through internal resources, a significant proportion of which is on a one-to-one basis, and external providers. In 2015 we have continued the bespoke training programme for our managers and sales representatives, further detail of which has been provided earlier in this Annual Report.

Our actions are the ground we walk on

We require our employees to act ethically and responsibly in accordance with the policies and procedures within our employment handbook, which covers our policies on ethics, bribery, fraud and whistleblowing. Utilising the services of an external trainer, continuing professional competence training for commercial vehicle drivers was undertaken during the year with further training scheduled for 2015.

Our externally sourced driver training team continues to deliver the driver Certificate of Professional Competence (CPC) to all of our commercial drivers ensuring that the statutory requirement of 35 hours' CPC training for every driver by September 2014 was achieved, a total of 408 drivers each receiving seven hours' training in 2014. Training is facilitated using our distribution facilities with course material including customer service, health and safety, hazard perception, city safe and highway code. The 2015 training programme is following a similar approach to that in 2014 albeit with different subject matter. We continue to offer the opportunity for class 2 driver training to drivers where changes in business need require a heavy goods vehicle to be used.

Health and safety

The health and safety of employees and individuals likely to be affected by our business, including contractors, customers, staff and members of the public where appropriate, is treated with the utmost importance. We are committed to developing and maintaining a positive and effective health and safety culture. It is our policy to seek to ensure that the group's operations are carried out at all times in compliance with the relevant health and safety guidance in the jurisdictions in which we operate.

Our health and safety policy, which is endorsed by the board, is tailored to each of our business operations and the circumstances in which they operate. It is amended to reflect changes in procedures and processes and any modifications to our control and inspection procedures. The board receives a detailed presentation on health and safety issues, covering each trading location, on an annual basis, with interim updates as considered necessary. These include comments on improvements following inspections of the UK businesses undertaken by our advisers. Each of the UK businesses receives an updated bespoke comprehensive health and safety manual for use

Our Responsibilities

as a source of information, guidance and training together with a set of compliance documentation at least once a year. Each of our businesses has a Health and Safety Committee comprising representatives from the various business departments. These meet on a periodic basis and are coordinated by the on-site health and safety manager. Management teams are encouraged to create a supportive health and safety culture and recognise the value of employee participation.

The report to the board includes our businesses in Europe, which operate in accordance with the health and safety legislation and inspection practices in their respective countries. Inspections undertaken by our third-party adviser form the basis on which we determine our standards and are continually reviewed and improved. Additional inspections are undertaken where changes to operations have occurred or new premises occupied. These are complemented by annual inspections of racking systems carried out by independent externally appointed assessors and, in the UK, risk inspections undertaken by our insurers at several of our businesses.

Health and safety is an important part of employee induction, at which time we ensure that all employees are aware of our policies and of the commitment that is expected of them towards their safety. Managers, to whom the day-to-day responsibility for health and safety is delegated and who are best placed to monitor and control safety, are guided and supported by our third-party advisers in risk assessment techniques. Job-specific training, including periodic refresher training, is supported by good practice guides which set out the important features associated with many aspects of the roles and duties undertaken by employees. Good practice guides are reviewed annually to ensure they remain relevant to the business; they include an awareness of impending changes in relevant legislation and other specialist subjects. The local business managers with responsibility for health and safety have completed the Institute of Occupational Safety and Health "Managing Safely" course.

Our businesses maintain good relationships with health and safety and environmental health regulators with positive and prompt responses to any findings or observations following compliance inspections. In 2014 there were 9 reportable incidents, compared to 18 in 2013, none of which had resulted in a serious injury or fatality. All reportable accidents are investigated and in the minority of instances where improvement is required, changes are implemented in a timely manner. There were no prosecutions for breaches of health and safety or enforcement actions in the year.

Containment and inspection regimes in higher risk areas, such as fuel and lubrication stores, compressors and fork lift truck battery charging areas, are kept under review; fire risk protection has been improved, training and awareness increased and special containers sited at least five metres from the main buildings for the storage of flammable products. Bespoke provision for such aspects of the business are incorporated within the design of the new distribution facilities.

Environmental

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

Water

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

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

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

Electricity

Electricity consumption is predominantly in respect of fork lift truck battery charging, the operation of specialist cutting tables used to cut lengths from full and part rolls of broadloom products, associated mechanical handling and compressed air equipment, office and warehouse lighting and office equipment.

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

The actual cost of electricity and gas in 2014 amounted to 0.2% of revenue, which is the same as in the prior year.

UK Property Energy Costs

0.2%

of Revenue

Gas

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

Owing to the nature of our business and with our proactive approach when planning and developing new facilities, we believe that our activities generally have a low impact on the environment, with no environmental legal or compliance issues arising during the year.

Carbon reporting

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

Fuel type	**2014** **CO_2/tonnes**	2013 CO_2/tonnes
Electricity and gas	**5,209**	5,710
Commercial vehicle and car fuel	**29,546**	28,205
Total	**34,555**	33,915
Tonnes per £1 million turnover	**55**	56

The increases have been incurred in respect of volume related factors.

In late March 2014 a trans-shipping facility in Aberdeen became operational, facilitating improved efficiency in deliveries to the north east of Scotland, resulting in reduced fuel costs and, as a consequence, lower CO_2 emissions.

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

Waste

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

We continue to increase the percentage that we recycle baling plastics and cardboard, and stacking unwanted pallets for dispatch to specialist re-processing agents, when it is economic to do so. This has reduced the quantity of our waste going to landfill sites. Guidance on waste management is issued to the managers of the individual businesses to increase awareness of the need to control and reduce waste. Where possible, wrapping and packing materials are sourced from manufacturers using a high proportion of recycled materials.

Selection

57.7 million ft^3
UK WAREHOUSE CAPACITY

Governance

Processing

37,527 UK CUT LENGTH PROCESSING PER WEEK

Board of Directors

R W Peters
Non-executive Chairman

Dick was appointed a non-executive director in December 2005. He was formerly Senior Partner for the East Midlands practice of Deloitte & Touche in Nottingham. He is a BSc in Mathematics and Statistics and is a fellow of the Institute of Chartered Accountants. He has considerable experience of auditing large companies, both UK and overseas, transactional support and project management activities. He is a director and Chairman of Headlam Pension Trustees Limited. He was appointed Chairman on 1 September 2013 following the resignation of Graham Waldron, at which time he resigned as Chairman of the Audit Committee, to be succeeded by Andrew Eastgate.

Committees – Audit, Nominations, Remuneration

A J Brewer
Group Chief Executive

Tony was appointed an executive director in June 1991, becoming Managing Director of the Floorcoverings Division in January 1992, and was appointed Group Chief Executive in November 2000. He has 37 years' experience in the floorcovering industry.

Committees – Nominations

S G Wilson
Group Finance Director

Steve was appointed Group Finance Director in December 1991. He was the non-executive Chairman of Synergy Health plc until his retirement from their board on 22 September 2010 and is a fellow of the Institute of Chartered Accountants. With effect from 31 January 2014, Steve was appointed a non-executive director of Conviviality Retail Plc.

M K O'Leary
Senior Independent Director

Mike was appointed a non-executive director of Headlam in March 2006. He was joint COO at Misys plc between 1986 and 2000, running both their UK Insurance Division and US Healthcare Division. He was CEO of Huon Corporation and also Marlborough Stirling plc. He has undertaken a portfolio of non-executive roles since 2005 and, in addition to his role at Headlam, is currently non-executive Chairman of EMIS Group plc. Mike was appointed a non-executive director of ENSCO Limited in July 2014 and a non-executive director of Epwin Group plc on 1 March 2015.

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

A K Eastgate
Non-executive Director

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

Committees – Audit (Chairman), Nominations, Remuneration

Senior Executive Management

G M Duggan
Company Secretary

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

A R Judge
Commercial Director, Coleshill and Tamworth businesses

Tony joined the company in May 1992, is the Managing Director of all businesses operating from the Coleshill and Tamworth distribution centres and has operational responsibility for the Thatcham and Stockport businesses. Tony has 34 years' experience in the floorcovering industry.

K R Yates
Managing Director, Mercado

Keith joined Mercado in April 1983 and was subsequently appointed its Managing Director in 1996. In addition he has operational responsibility for the businesses in Scotland. Keith has 32 years' experience in the floorcovering industry.

M W McMaster
Commercial Director, selected UK Operations

Mike joined the company in July 1984 and was appointed to the senior executive management in January 2009 with operational responsibility for 17 of the UK businesses. Mike has 44 years' experience in the floorcovering industry.

Corporate Governance Report

CHAIRMAN'S MESSAGE ON CORPORATE GOVERNANCE

On behalf of the board, we are pleased to present the Corporate Governance Report for the year ended 31 December 2014.

The stewardship and governance of your company is the responsibility of the board of directors, part of which includes the setting of the company's strategic aims and values. Additionally it oversees the executive management, who carry out the operational running of the business, and reports to shareholders on the company's performance in compliance with the revised requirements of the 2012 UK Corporate Governance Code (the "Code") to make the Annual Report fair, balanced and understandable. The company is also required to comply with corporate governance rules contained in the FCA Disclosure and Transparency Rules as well as certain related provisions in the Companies Act 2006.

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

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

In this report we set out how the principles of the Code are applied, report on the company's compliance with the Code's provisions and provide an explanation where the provisions have not been complied with. The Code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

As applicable to the company, the board considers that it has complied with the provisions of the Code throughout the year ended 31 December 2014 and up to the date of this report. The Code is available on the Financial Reporting Council's website (www.frc.org.uk).

The basis on which the group generates and preserves value over the longer term and the strategy for delivering the objectives of the group are to be found in the Strategic Report on pages 2 to 33.

Dick Peters
Chairman
5 March 2015

Corporate Governance Report

The directors bring strong judgement to the board's deliberations and the size, diversity and balance of skills and experience of the board is considered appropriate for the requirements of the business.

Board of directors

The board is collectively responsible to shareholders for the proper management and success of the group. Its role is to provide entrepreneurial leadership within a framework of control which:

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

As at 31 December 2014 the board consisted of two executive directors, Tony Brewer, Group Chief Executive, and Steve Wilson, Group Finance Director, and three independent non-executive directors, Dick Peters, Chairman, Mike O'Leary and Andrew Eastgate.

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

The directors' roles and membership of the committees are as set out on pages 36 and 37 in the directors' biographies. The biographies also document each director's significant other commitments and any changes to these commitments that occurred during the year.

Directors' attendance during the year at board meetings is set out on page 42, and meetings of the Audit, Nominations and Remuneration Committees is given in the relevant committee report.

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

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

The roles and responsibilities of the Chairman and Group Chief Executive are clearly divided and periodically reviewed by the board. Whilst collectively they are responsible for the leadership of the group, the Chairman's primary responsibility is for leading the board and ensuring its effectiveness. The Group Chief Executive is responsible for implementing strategy, running the businesses in accordance with the objectives and policies agreed by the board and for the executive management of the group.

The Chairman communicates frequently with the non-executive and executive directors, and the non-executive directors have the opportunity to meet with and discuss any issues or concerns with the Chairman at any time throughout the year. Matters that are not specifically reserved for the board and its committees under their terms of reference or for shareholders in general meeting are delegated to the Group Chief Executive.

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

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

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

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

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

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

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

Board information, induction, training and professional development

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

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

Corporate Governance Report

The board reviews the key activities of the business, receiving papers and presentations from executives and senior management generally a week in advance of the meeting. The Company Secretary is responsible to the board in respect of board procedures and is available to individual directors. In conjunction with the Chairman, the Company Secretary ensures that information distributed to the board is sufficient, clear and accurate, circulated in a timely manner, and is appropriate to enable the board to discharge its duties. All directors are equally accountable for the proper stewardship of the group's affairs. However, the non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully discussed and critically examined.

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

Board meetings and attendance

The board usually meets nine times a year at times that ensure the latest operating information is available for review and sufficient focus can be given to matters under consideration. During the year there is ample opportunity for the Chairman to meet with the non-executive directors without the executive directors being present, should this be deemed appropriate. In addition, directors have contact between meetings and, on occasions, visit trading locations in order to maintain contact with the group's business. A record of directors' attendance at board meetings held during the year is set out below and committee meeting attendance is given in the relevant committee report.

Tony Brewer	9/9
Stephen Wilson	9/9
Dick Peters	8/9
Mike O'Leary	9/9
Andrew Eastgate	9/9

In addition to the nine principal board meetings held during 2014 there were two meetings which approved the 2014 Interim and 2013 Annual Report and Accounts. These meetings are constituted by a committee of the board formed for that sole purpose comprising the Group Chief Executive and Group Finance Director, having considered the views of the whole board beforehand.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the company or any of its subsidiary undertakings, other than a third-party indemnity provision between each director and the company, and service contracts between each executive director and the company. The company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained in the company's articles of association. This provision extends to include the directors of Headlam Group Pension Trustees Limited, a corporate trustee of the company's occupational pension schemes, in respect of liabilities that may attach to them in their capacity as directors of that corporate trustee. These provisions were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts and interests in the shares of the company are set out in the Directors' Remuneration Report.

Directors' conflicts of interest

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

Induction and training

The induction of newly appointed directors includes background information about the group, directors' responsibilities, board meeting procedures, a number of other governance-related issues and procedures for dealing in company shares. A briefing on the general group strategy, including visits to group businesses, is provided by the Group Chief Executive. Training and development in the year took various forms, including visits to group businesses and attendance at courses run by professional bodies on various commercial and regulatory matters. Directors receive regular updates appropriate to the business throughout the year aimed at developing and refreshing their knowledge and capabilities. All directors are considered to be suitably qualified, trained and experienced so as to be able to participate fully in the work of the board. To assist with the independent conduct of their function and, if required, in connection with their duties, a process is in place for the non-executive directors to obtain professional advice at the company's expense.

Performance evaluation

The Code recommends that an evaluation of the effectiveness of the board and its committees is conducted annually and that this process is externally facilitated at least every third year. This year, for the first time, the evaluation process was externally facilitated, having been carried out internally in prior years.

The evaluation, conducted by KPMG, involved a questionnaire designed to assess current board processes and procedures, its composition, allocation of priorities and management of risk with the aim of assisting the Chairman in framing the future focus of the board.

A report was prepared for the board on its effectiveness, the conclusion of which was that the board was sound, well-rounded and very functional and that the board operated effectively. The atmosphere is collegiate but appropriately challenging and there are no significant areas of concern. Whilst the report highlighted the quality of information to shareholders, it was recognised that improvements could be made. Accordingly, Buchanan's were appointed to undertake a shareholder audit, following evaluation of which they were appointed to undertake financial and investor relations support. The review also identified areas for the board to consider, including induction training and development of board members, the balance between monitoring past performance and considering the future of the business, focus on the execution of strategy and consideration of succession planning, recruitment and culture.

The board is of the opinion that each director continues to make an effective and valuable contribution and demonstrates commitment to their role.

Fair, balanced and understandable assessment

In accordance with the Code's requirement that the board should consider whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, reviews are undertaken by the finance team as part of the year-end process. The board receives drafts of the Annual Report and Accounts to allow sufficient time to review and provide an opportunity for challenge and discussion, ahead of approving the final documents. In addition, the external auditor reviews the consistency between the narrative reporting and financial disclosures.

Communication with shareholders

The company places considerable importance on communication with shareholders. When reporting to shareholders, the board aims to present a balanced and understandable assessment of the group's financial position and prospects, reporting twice a year, when its half year and full year results are announced and respectively an interim and annual report is issued to shareholders. Additionally as necessary, the company issues a trading update in advance of the interim and final results announcements. Further information regarding business developments is available to investors on the group's website: www.headlam.com.

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

Corporate Governance Report

The Group Chief Executive and Group Finance Director have met with the company's brokers during the year to ensure they are aware of the current views of major shareholders and of any material issues they may have. These reports include summaries on the market's reaction to results announcements and the subsequent meetings between management and investors. External brokers' reports on the company are circulated to all directors. Whilst the Senior Independent Director and the other non-executive directors are invited to attend presentations to analysts and institutional shareholders, in particular the annual and interim results presentations, they did not attend any meetings with shareholders in the year. In February 2015, Buchanan was appointed financial and investor relations adviser with the objective of improving communication with stakeholders.

Board committees

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

Audit Committee

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

Further information on the activities of the committee is given in the Audit Committee Report on pages 47 to 52 which should be read in conjunction with this report.

Remuneration Committee

The Remuneration Committee is comprised of the three non-executive directors and was chaired during the year by Mike O'Leary.

It establishes, on behalf of the board, the remuneration policy, approves specific arrangements for the Chairman and the executive directors, and reviews and comments upon the proposed arrangements for senior management so as to ensure consistency within the overall remuneration policy and group strategy. Further information on the activities of the committee is given in the Directors' Remuneration Report on pages 53 to 67 which should be read in conjunction with this report.

The Directors' Remuneration Report also describes how the principles of the Code are applied in respect of remuneration matters and includes a statement on the company's policy on directors' and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements. The committee has an agenda linked to events in the group's financial calendar, normally meeting at least twice a year, including meetings before the annual and interim results announcements.

The committee met twice in the year, the three members each attending all meetings, during which it discharged its responsibilities as set out in its terms of reference and schedule of business for the year. The Chief Executive may, by invitation, attend Remuneration Committee meetings, except when his own remuneration is discussed. During the period no director was – and procedures are in place to ensure that no director is – involved in deciding or determining their own remuneration. A resolution to approve the Directors' Remuneration Report will be proposed at the AGM.

Nominations Committee

The Nominations Committee is comprised of the three non-executive directors and the Group Chief Executive and was chaired during the year by Mike O'Leary.

The committee leads the process for identifying, and makes recommendations to the board on, candidates for appointment as directors and Company Secretary, giving full consideration to succession planning and the leadership needs of the group. It also makes recommendations to the board on the composition and Chairmanship of the Audit and Remuneration Committees. It keeps under review the structure, size and composition of the board, including the balance of skills, knowledge, experience and independence of the non-executive directors, and makes recommendations to the board with regard to any changes.

The committee meets when required and met twice in the year, with all members in attendance. Only members of the committee are entitled to be present at meetings but other directors may be invited by the committee to attend. The board has agreed the procedures to be followed by the committee in making appointments to the various positions on the board and as Company Secretary.

The committee has access to such information and advice, both from within the group and externally, at the cost of the company, as it deems necessary. This may include the appointment of external executive search consultants, where appropriate. No director is involved in any decisions regarding their re-appointment or re-election.

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

Items discussed by the committee during the year to enable it to discharge its duties in accordance with its terms of reference included the proposals to re-elect Steve Wilson and Dick Peters under the retirement by rotation provisions.

The committee, in conjunction with the board, receives updates from the Group Chief Executive on succession and development planning for senior positions within the group. Changes to directors' commitments are reported to the committee as they arise and are considered on their individual merits. Appointments to the committee are made by the board.

Risk management and internal controls

The board recognises that the management of risk through the application of a consistent process is essential to ensuring a robust system of internal control. The principal risks and uncertainties facing the company have been identified in the Managing our Risk report on pages 28 and 29.

The group's risk management processes seek to ensure sustainable development throughout the conduct of its business in a way which:

- satisfies its customers;
- maintains proper relationships with suppliers and contractors;
- provides a safe and healthy workplace;
- develops environmentally aware processes;
- minimises the cost and consumption of increasingly scarce resources; and
- maintains a positive relationship with the communities in which it operates.

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

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

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

Corporate Governance Report

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

These detailed reviews are an important aspect of management reporting in the identification of new and emerging risks. An ongoing process of risk management and internal control in accordance with the Code has been in place for the financial year under review and up to the date of this report, the careful management of risk considered to be a key activity in delivering business opportunities.

The ethos of the group, delegation of responsibility and other control procedures together with accounting policies and procedures are communicated through the group and employment handbook, supported by the group's anti-bribery policy. The integrity and competence of personnel is assessed during the recruitment process and monitored throughout employment.

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

The reports on corporate governance and of the Audit Committee contained within have been approved by the board and are signed on its behalf by

G Duggan

Geoff Duggan
Company Secretary
5 March 2015

Audit Committee Report

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

Composition

The committee is comprised of the three non-executive directors and is chaired by Andrew Eastgate. The Company Secretary acts as secretary to the committee.

Committee meetings

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

Role of the committee

The committee is responsible for monitoring and reviewing:

- the effectiveness of the group's systems of internal control and risk management and control over financial reporting;
- updates from executive directors and senior executive management on key financial control matters;
- the consistency of and any changes to the group's accounting policies, the application of appropriate accounting standards and methods used to account for significant or unusual transactions;
- the integrity of the interim and annual financial statements, including a review of the significant financial reporting judgements contained therein;
- the effectiveness of the external audit process;
- the external auditor's plan for the audit of the group's accounts, confirmation of the external auditor's independence and of the individuals carrying out the audit, confirmation of the proposed audit fee, approving the audit terms of engagement and management's response to any major external audit recommendations;
- reports from the external auditor on the group's systems of internal control, including a summary of and commentary on the business risks and internal control processes, and reporting to the board on the results of this review;
- the company's relationship with the external auditor and management's response to any major external audit recommendations;
- the appointment, re-appointment or dismissal of the external auditor;
- non-audit services and fees;
- the application of the board's policy on non-audit work performed by the group's external auditor together with the non-audit fees payable to the external auditor;
- the appropriateness of an internal audit function; and
- the group's overall approach to securing compliance with laws, regulations, governance and company policies in areas of risk arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting and other matters including the group's policies and practices concerning business conduct and ethics.

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

Audit Committee Report

Key activities of the committee during the year

The committee works to specific agendas for each meeting, developed from its terms of reference, with items that the committee considers at each meeting in addition to any specific matters arising and topical items on which the committee has chosen to focus.

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

Internal controls and risk	External auditor	Accounting, tax and financial reporting
Considered reports from the external auditors on their assessment of the control environment.	Considered and approved the audit approach and scope of the audit work to be undertaken by the external auditor and the fees for the same.	Reviewed the half year and annual financial statements and the significant financial reporting judgements.
Assessed the effectiveness of the group's internal control environment.	Reviewed reports on audit findings.	Considered the liquidity risk and the basis for preparing the group half yearly and full year accounts on a going concern basis and reviewed the related disclosures in the Annual Report and Accounts.
Assessed the need for a group internal audit function.	Considered the independence of the external auditor and their effectiveness, taking into account: • non-audit work undertaken by the external auditor and compliance with the policy; • feedback from management; and • the committee's own assessment.	Reviewed disclosures in the Annual Report and Accounts in relation to internal controls, risk management, principal risks and uncertainties and the work of the committee.
Reviewed matters reported to the whistleblowing hotline.	Considered the recommendations in the UK Corporate Governance Code regarding the tender of the external audit contract.	Reviewed the Annual Report and considered whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's performance, business model and strategy.
	Considered and approved letters of representation issued to the external auditor.	
	Met privately with the external auditor to discuss their audit findings and the nature of the audit relationship.	

Significant issues considered by the committee

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

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

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

Impairment of goodwill

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

The group's CGUs represent individual operating businesses, either in the UK or in Continental Europe. As set out in note 12 to the financial statements, all CGUs to which goodwill is allocated, in accordance with the requirements of IFRS, are tested for impairment on an annual basis.

This year, the impairment reviews for the CGUs to which goodwill is allocated did not result in an impairment loss. The review in 2013 recognised an impairment loss, details of which are set out in note 4 to the financial statements.

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

Management also brought to the attention of the committee the sensitivity analysis to be disclosed in note 12 to the financial statements with regard to the recoverable amount of the CGUs' goodwill.

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

Impairment of property

As set out in note 11 to the financial statements, the carrying value of freehold and long leasehold property in the group's statement of financial position as at 31 December 2014 amounted to £93.4 million.

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

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

The review in 2013 recognised an impairment loss in respect of the Netherlands, details of which are set out in note 4 to the financial statements.

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

The committee interrogated management's key assumptions to understand their impact on the CGUs' recoverable amounts. The committee was satisfied that the significant assumptions used for determining the recoverable amount of the relevant CGUs had been appropriately scrutinised, challenged and were sufficiently robust. The committee was further satisfied with the impairment disclosures set out in note 4 to the financial statements.

Inventory valuation

As set out in the statement of financial position, inventory amounts to £116.6 million and represents the group's second-largest asset class. Inventory is held across a broad and diverse product range which is subject to a risk that changes in consumer tastes and demand result in some inventory lines becoming slow-moving or obsolete, such that the recoverable amount is less than the carrying value.

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

The committee reviewed the valuation basis and challenged management's assumptions.

Other matters considered by the committee

Valuation of employee benefit liabilities

In the UK, the group operates a defined benefit pension plan, further details of which are set out in note 20 to the financial statements. At 31 December 2014, the scheme had assets of £86.9 million and liabilities, measured on an IAS 19 basis, of £106.3 million, with a net deficit of £19.4 million.

As set out in note 1 to the financial statements, the plan liabilities are calculated by estimating the amount of benefit that employees have earned for their service in current and future periods. This estimation requires making certain assumptions, notably in relation to inflation rates, mortality rates and the discount rate to apply to determine present value. The selection of these assumptions is subjective and small changes in these assumptions can materially impact the net IAS 19 deficit reported in the statement of financial position. The assumptions adopted by management are set out in note 20 to the financial statements.

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

The committee reviewed management's assumptions and were satisfied that they had been appropriately scrutinised, challenged and were robust. The committee also reviewed the sensitivity analysis set out in note 20 to the financial statements and consider it to be appropriate.

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

Misstatements

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

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

Internal audit

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

External audit

The committee reviews annually the appointment of the external auditor and, based on the committee's recommendation, the board agreed to recommend to shareholders at the AGM in 2014 the re-appointment of the external auditor for a period of one year. The current overall tenure of the external auditor dates from 1992. Any decision to open the external audit to tender is taken on the recommendation of the committee. There are no contractual obligations that restrict the company's current choice of external auditor.

Following a review of KPMG's performance and independence in 2014, including compliance with rules on non-audit services, the committee was satisfied with the external auditor's effectiveness and independence and has recommended to the board that KPMG be re-appointed as the company's external auditor for the year ending 31 December 2015. The committee will continue to review the performance of the external auditor on an annual basis and consider their independence and objectivity taking into account all appropriate guidelines.

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

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

In addition, the fees and objectivity of the external auditor were considered by the committee. The committee recognises that there are occasions when it is advantageous to use the external auditor to undertake non-audit services, where they are best placed to do so. The policy states that non-audit fees paid to the external auditor should not exceed 250% of the audit fee, except in the case of significant events. The Chairman of the committee is required to authorise non-audit work above a pre-agreed threshold. A breakdown of audit and non-audit fees is provided in note 3 to the financial statements.

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

Audit Committee Report

Audit tender

The committee has reviewed the changes to the Code introduced by the FRC in September 2012 in respect of the Guidance to Audit Committees that encourages the external audit contract to be tendered for at least every ten years.

Based on internal assessments of the efficiency and effectiveness of the audit, the committee is satisfied with the quality of the work undertaken by the external auditor and to date, has considered a tender process unnecessary.

Furthermore, the committee seeks to balance the benefits of audit personnel continuity with the need to maintain independence by agreeing staff rotation policies with the auditor. Whilst KPMG has been an external auditor to the group since 1992, audit partner rotation every five years maintains objectivity and independence without the need and expense arising from a tender process. The last audit partner rotation occurred during 2011.

The committee recommends that shareholders appoint KPMG LLP as the group's external auditor, in accordance with resolution 5 set out in the Notice of AGM, and authorises the directors to determine their remuneration, as set out in resolution 6.

Summary

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

A. K. Eastgate

Andrew Eastgate
Chairman of the Audit Committee
5 March 2015

Directors' Remuneration Report

THE CHAIRMAN'S ANNUAL STATEMENT

Dear shareholder

On behalf of the board, I am pleased to present the Directors' Remuneration Report, which sets out the remuneration policy for the directors of Headlam and the amounts earned in respect of 2014.

As reflected by the voting outcomes at the Annual General Meeting held on 21 May 2014, it is pleasing to report on the strong level of support and engagement from shareholders, the resolution seeking approval for the directors' remuneration policy receiving support from over 91% of the votes cast. We consulted with shareholders before finalising the policy and will continue to do so as the remuneration policy is reviewed and developed in future years.

Headlam's remuneration policy has been designed to incentivise performance through effective and appropriate reward. Levels of remuneration must allow the company to attract, retain and motivate high calibre executive managers and link their rewards to business performance, aligning their interests with those of shareholders.

Given the continuing challenges of the economic environment, the Committee continues to exercise a responsible approach to executive pay, key decisions on executive pay, including increases to salary and bonus payments, being made after consideration of similar decisions affecting all employees. There were no general increases to employees' base salary in 2014, which similarly applied to the executive directors.

The committee is committed to delivering clarity and transparency of reporting whilst continuing its independent role, bringing logic and challenge to the process of setting remuneration. As its Chairman, I will be present at the AGM to answer any questions.

The committee considered the incentive arrangements that had applied in 2014 when reviewing the appropriateness of the remuneration framework for 2015. It noted that on review in 2014, the maximum award in respect of the annual performance related bonus scheme was reduced from 150% to 125% of base salary, the relative outperformance required remaining the same. Reflecting the trading performance in the year, an award of 102% of base salary was made in respect of the annual performance related bonus scheme.

The maximum award in respect of the long term incentive award was also reduced, from 200% to 75% of base salary. Examination of current business strategy and guidelines for executive remuneration led to the conclusion that the existing framework remains appropriate. An award was made in the year to the executive directors under the co-investment plan, by reference to 25% of base salary.

There have been no increases in directors' base salary for 2015 and the committee is not proposing any changes in respect of the annual bonus or other benefits for 2015. A general increase of 2.5% was, however, made to employees in January 2015.

The committee remains satisfied that overall progress has continued to be delivered and an assessment of progress included a review of the 2014 financial statements and took into account the reporting of the auditor to the Audit Committee.

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

Aware of changes in the UK Corporate Governance Code, during 2014 the company adopted malus provision into the co-investment plan rules and clawback provisions in respect of variable pay. The committee recognises shareholders' concerns and expectations on executive pay, recent practice demonstrating that the committee approaches such issues with appropriate sensitivity.

M.K. O'Leary

Mike O'Leary
Chairman of the Remuneration Committee
5 March 2015

Directors' Remuneration Report

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Introduction

This report is on the activities of the committee for the year ended 31 December 2014. It sets out the company's remuneration policy and remuneration details for the executive and non-executive directors. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 ("Regulations").

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

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

The policy report was subject to a binding shareholder vote at the 2014 AGM and, after receiving positive shareholder support, the policy took effect from the conclusion of the AGM. The annual report on remuneration provides details on remuneration in the year and includes other information required by the Regulations. It will be subject to an advisory shareholder vote at the 2015 AGM.

The Companies Act 2006 requires auditors to report to the shareholders on certain parts of the Directors' Remuneration Report and to state if, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on remuneration that are subject to audit are identified as such. The statement by the Chairman of the committee and the policy report are not subject to audit.

POLICY REPORT

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

The remuneration policy applied in the current year is that approved at the 2014 AGM under the new requirements. This will be adhered to for the next two years, the objectives of which continue to be:

- to ensure that the business strategy is supported by the remuneration structure;
- to ensure that the remuneration structure motivates the executive directors to succeed and rewards them appropriately for their contribution to the attainment of the group's strategic objectives;
- to maintain motivation for future achievement through reward schemes based on performance;
- to facilitate the building and retention of a high calibre and focused team;
- to align the executive directors' interests with those of shareholders by offering participation in schemes which provide opportunity to build meaningful shareholdings in the company; and
- to facilitate effective succession planning.

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

In deciding that the current remuneration strategy remains appropriate for 2015, the committee has taken into account the group's performance over the last year and the current economic environment. The remuneration policy will continue to be monitored and reviewed by the committee to ensure that the remuneration structure and associated performance measures remain appropriately aligned with the group's strategic objectives.

The individual salary, bonus and benefit levels of the executive directors are and will continue to be reviewed annually by the committee. When reviewing base salaries, the committee takes account of the current economic climate, challenges facing the business and pay environment for employees in general.

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

The committee considers that in making smaller but more frequent awards under the long term incentive schemes, each subject to the attainment of specific performance targets over a three-year period, it further aligns the interests of directors with those of shareholders. During the year the committee did not consult with shareholders.

Remuneration components

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

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

Directors' Remuneration Report

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

Component	Purpose and link to strategy	Operation	Opportunity	Performance metrics, purpose and link to business strategy
Shareholding guideline	Provides alignment of executive directors' interests with shareholders and promotes share ownership.	In line with best practice, there are formal share ownership guidelines for executive directors. By the fifth anniversary of their appointment to the board, executive directors are required to have a holding of Headlam shares equivalent to not less than 100% of the value of their base salary.	Not applicable.	Not applicable.
Retirement benefits	The group has not provided pension benefits to the executive directors in the year. The group will not be making any future payments.	Not applicable.	Not applicable.	Not applicable.

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

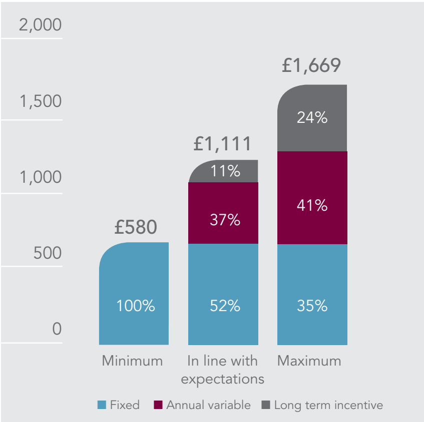
Component	Purpose and link to strategy	Operation	Opportunity	Performance metrics, purpose and link to business strategy
Fees	Sole element of non-executive directors' remuneration.	Reviewed by the board annually. Non-executive directors are not involved in any discussion or decision about their own remuneration.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

Directors' Remuneration Report

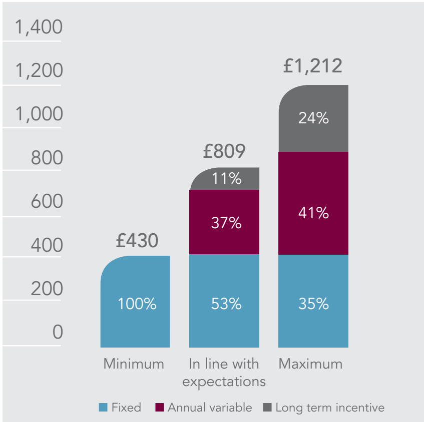
Illustration of application of remuneration policy

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

Chief Executive Officer



Group Finance Officer



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

	Fixed pay	Annual bonus	CIP
Minimum performance	Fixed elements of remuneration are base salary and benefits.	No bonus	No CIP vesting
Performance in line with expectations	Base salary is the latest known salary effective from 1 January 2015 and the value of benefits has been assumed to be equivalent to that included in the single figure calculation on page 60.	75% of base salary awarded for achieving target performance.	30% of maximum award vesting for achieving threshold performance.
Maximum performance	Base salary is the latest known salary effective from 1 January 2015 and the value of benefits has been assumed to be equivalent to that included in the single figure calculation.	125% of salary awarded for delivering at or above the highest performance in respect of target.	100% of award vesting delivered for achieving the most stretching level of performance measures attached to the CIP awards.

Awards under the CIP are stated by reference to the share price at the 2014 year end.

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

Approach to recruitment remuneration

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

Service contracts and policy on payment for loss of office

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

The non-executive directors do not have service agreements but instead are appointed for an initial period of three years by letter of appointment which is terminable by either party subject to one month's notice, for which no compensation is payable. At the end of the initial period, the company discusses with the non-executive director whether they wish to renew their appointment and if it is in the best interests of the company for their appointment to be renewed. Such renewal would normally be for a further period of three years and subject to the same termination conditions. All appointments and subsequent re-appointments are subject to approval by shareholders.

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

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

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

External appointments of executive directors

The board believes that experience of other companies' practices and challenges is valuable both for the personal development of its executive directors and for the company. It is therefore the company's policy to allow each executive director to accept one non-executive directorship of another company, provided that there is no conflict of interest, although the board retains the discretion to vary this policy. Fees received by executive directors in respect of external non-executive appointments are retained by the individual director. Steve Wilson was appointed as a non-executive director of Conviviality Retail Plc with effect from 31 January 2014.

Directors' Remuneration Report

ANNUAL REPORT ON REMUNERATION

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

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

Single total figure of remuneration for each director

The table below reports the total remuneration receivable in respect of qualifying services by each of the executive directors for the years 2014 and 2013.

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

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

Executive directors' remuneration as a single figure – 2013 (audited)

Executive directors	Base salary and fees 2013 £000	Non-salary benefits 2013 £000	Annual performance bonus 2013 £000	Share-based incentive schemes 2013 £000	Pension related benefits 2013 £000	Total 2013 £000
Tony Brewer	544	35	348	–	–	927
Steve Wilson	393	33	251	–	–	677
Graham Waldron[1]	80	15	–	–	–	95
	1,017	83	599	–	–	1,699

1. Graham Waldron resigned as a director on 31 August 2013 following which he was succeeded as Chairman by Dick Peters.

The table below reports the total remuneration receivable in respect of qualifying services by each of the non-executive directors for the years 2014 and 2013.

External appointments (unaudited)

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

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

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

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

Non-executive directors' remuneration as a single figure – 2013 (audited)

Non-executive directors	Base salary and fees 2013 £000	Non-salary benefits 2013 £000	Annual performance bonus 2013 £000	Share-based incentive schemes 2013 £000	Pension related benefits 2013 £000	Total 2013 £000
Andrew Eastgate	38	–	–	–	–	38
Mike O'Leary	42	–	–	–	–	42
Dick Peters	49	–	–	–	–	49
	129	–	–	–	–	129

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

Base salary and fees	The amount of salary/fees received in the period.
Non-salary benefits	The taxable value of benefits received in the period. These are car benefit, car fuel benefit and private medical insurance.
Performance related pay	The amount of performance related bonus received in the period.
Pension related benefits	There was no provision.
Share-based incentive schemes	The value of CIP awards that vest in respect of the financial period and the value of SAYE options granted in the financial period.

Individual elements of remuneration

Base salaries and fees

Base salaries for individual executive directors are reviewed annually by the committee and are set with reference to individual performance, experience and responsibilities as well as with reference to similar roles in comparable companies. For 2014, there was no increase in executive directors' base salaries, which was in line with the average salary increase across the group.

For 2015, there is similarly no increase to executive directors' base salary, which is at variance to the 2.5% average salary increase across the group.

	2014 £000	2013 £000	Increase %
Tony Brewer	**544**	544	–
Steve Wilson	**393**	393	–

Non-executive directors' fees are reviewed annually and reflect the responsibilities and duties placed on them whilst also having regard to market practice. There was no increase in 2014, however there is an increase in 2015 reflecting a 2.5% increase in fees and a change in responsibilities and duties. The non-executive directors do not participate in any of the group's share incentive plans nor do they receive any benefits or pension contributions.

	2014 £000	2013 £000	Increase %
Base fee	**35**	35	–
Additional fee for Chairmanship of the company	**28**	28	–
Chairmanship of the Remuneration Committee	**7**	7	–
Chairmanship of the Audit Committee	**7**	7	–
Senior Independent Director	**–**	–	–

Directors' Remuneration Report

Performance related pay

Payments are calculated based upon achievement or exceeding a pre-set target for group profit before tax. For 2014, executive directors could earn a bonus equivalent to 75% of base salary on attainment of on-target performance which increased on a broadly linear basis up to a maximum of 125% of base salary for achieving a performance of 18% or more above the target. If actual performance is 90% of the financial target, a bonus of 10% of base salary will be awarded, however a bonus is not awarded for performance below 90% of target. Performance targets are set at the challenging levels of previous years with performance based upon group profit. The committee considers that the performance targets are commercially sensitive and should therefore remain confidential to the company.

Share-based incentive schemes

The committee recognises the importance of share incentives in recruiting and retaining directors and employees, on whose performance the success of the company depends. The share incentive arrangements also provide a key link between rewards to executive directors and senior executive management and the achievement of a sustained improvement in long term financial performance.

Shareholders have approved the following share-based incentive schemes:

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

The committee intend to use the CIP as the principal incentive vehicle for executive directors, with awards being made on an annual basis. Whilst awards have been made under the CIP, the committee has not yet implemented either the PSP or the ESOS and does not intend to do so during 2015. Details of the schemes will be disclosed in the event of an award being made under these schemes or plans.

Headlam Group Sharesave Scheme 2012

Employee share ownership is encouraged and, with the exception of non-executive directors, all employees are eligible to participate in the scheme. Options granted under the scheme may not normally be exercisable until the option holder has completed their three or five year savings contract, monthly savings currently being a minimum of £5 and a maximum of £500. Options may be granted at a price which represents a discount to market price at the date of grant of up to 20%. On 8 May 2014, options were granted over 472,330 shares to 353 employees, including the executive directors, for savings terms of either three or five years at an option price of 381p per share, representing a 20% discount to the average market price of the three days immediately preceding the award.

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

Participants may be invited, at the discretion of the committee, to take not less than 15% and up to 37.5% of their annual bonus in the form of shares, the number of shares allocated being calculated by reference to the net value of the bonus after deduction of income tax and employees' national insurance. If an annual bonus award is not achieved in any year and therefore not available for investment in the CIP, the committee may permit participants to invest alternative funds but subject to a maximum of 50% of any bonus paid in the preceding year. In addition, instead of investing a bonus award or other funds, the participant may utilise shares already held and previously acquired in the market, however this may only apply to awards up to an aggregate value equating to one times base salary.

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

Performance targets are measured over a fixed period of three years, beginning not earlier than the year in which an award is made, with 80% of the award determined by EPS growth targets and 20% by TSR targets as measured by reference to the FTSE Small Cap Index, of which the company was formerly a constituent member.

CIP awards made to the executive directors on 1 April 2014 were subject to growth in performance conditions over a three year period, 80% in respect of EPS and 20% in respect of TSR. Awards vest on a sliding scale. If EPS growth is less than 3%, none of the EPS tranche shall vest, with 50% becoming exercisable if EPS growth over the three-year period is equal to 3%; and for 100% of an award to vest, EPS growth must be equal to or exceed 6%, with straight-line vesting between 50% and 100%.

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

The extent to which the CIP award granted in October 2012 will vest will not be determined by the committee until October 2015.

On 8 May 2014, savings related share options under the Headlam Group Sharesave Scheme 2012 were granted to the executive directors.

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

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

Dilution

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

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

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

Pension related benefits

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

Payments to past directors

No payments were made to past directors in the current or prior year.

Payments for loss of office

No payments were made to directors in the current or prior year.

Statement of directors' shareholding and share interests (audited)

In order to align their interests with the company's shareholders, the committee is keen to encourage executive directors to increase their shareholdings in the company. An executive director is required to have a beneficial, including family, interest in the shares of the company excluding matching share awards granted in respect of the CIP equivalent in value to their annual base salary. Newly appointed directors are expected to build their interest over a five-year period. Executive directors' shareholdings throughout the year complied with the shareholding requirement holding in excess of 100% of base salary.

Directors' Remuneration Report

Details of executive directors' share interests are set out below, a description of which, together with relevant performance conditions, is given on pages 62 to 63:

		Granted in the year			Exercised in the year					
	At 1 Jan 2014	Number	Option price (p)	Lapsed during the year	Number	Market price on exercise	At 31 Dec 2014	Exercise price pence	Earliest exercise date	Latest exercise date
Tony Brewer										
Owned										
Owned outright	519,942	–	–	–	86,130	–	606,072			
Vested and exercised										
CIP (iii)	79,087	–	–	–	(79,087)	–	–	nil	Oct 2013	Oct 2020
Sharesave (ii)	7,043	–	–	–	(7,043)	–	–	222.20	Jul 2014	Jan 2015
Vested, not exercised										
1998 ESOS (i)	7,142	–	–	–	–	–	7,142	420.00	Aug 2008	Aug 2015
Options not yet vested										
Sharesave (ii)	–	7,874	–	–	–	–	7,874	381.00	Jul 2019	Jan 2020
CIP (iii)	90,838	–	–	–	–	–	90,838	nil	Oct 2015	Oct 2022
CIP (iii)	–	59,222	–	–	–	–	59,222	nil	Apr 2017	Apr 2024
	704,052	67,096	–	–	–	–	771,148			
Steve Wilson										
Owned										
Owned outright	450,770	–	–	–	71,295	–	522,065			
Vested and exercised										
CIP (iii)	57,110	–	–	–	(57,110)	–	–	nil	Oct 2013	Oct 2020
Sharesave (ii)	7,043	–	–	–	(7,043)	–	–	222.20	Jul 2014	Jan 2015
1998 ESOS (i)	7,142	–	–	–	(7,142)	–	–	420.00	Aug 2008	Aug 2015
Options not yet vested										
Sharesave (ii)	–	7,874	–	–	–	–	7,874	381.00	Jul 2019	Jan 2020
CIP (iii)	65,614	–	–	–	–	–	65,614	nil	Oct 2015	Oct 2022
CIP (iii)	–	42,776	–	–	–	–	42,776	nil	Apr 2017	Apr 2024
	587,679	50,650	–	–	–	–	638,329			

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

The mid-market closing price of a Headlam Group plc ordinary share on 30 December 2014, the last trading day of the financial year, was 437.75p and the price range during the year was 390.25p to 492.25p, with an average price of 426.33p. There were no changes in the shareholdings or share options held by the directors between 31 December 2014 and 5 March 2015. The company's register of directors' interests, which is open to inspection, contains full details of directors' share interests.

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

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

	Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards at 31 Dec 2014	Option (p)	Market price at date of grant (p)	Maximum award £	Earliest vesting date	Expiry
Tony Brewer										
CIP (iii)	5 Oct 2012	90,838	–	–	90,838	nil	300	272,510	Oct 2015	Oct 2022
CIP (iii)	1 Apr 2014	59,222	–	–	59,222	nil	492	291,372	Apr 2017	Apr 2024
1998 ESOS (i)	22 Aug 2005	7,142	–	–	7,142	420	424	286	Aug 2008	Aug 2015
SAYE (ii)	8 May 2014	7,874	–	–	7,874	381	476	7,480	July 2017	Jan 2018
Steve Wilson										
CIP (iii)	5 Oct 2012	65,614	–	–	65,614	nil	300	196,842	Oct 2015	Oct 2022
CIP (iii)	1 Apr 2014	42,776	–	–	42,776	nil	492	210,468	Apr 2017	Apr 2024
SAYE (ii)	8 May 2014	7,874	–	–	7,874	381	476	7,480	Jul 2017	Jan 2018

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

Gains made by directors (audited)

The aggregate amount of gains made by executive directors on the exercise of share options was £587,176 (2013: £nil).

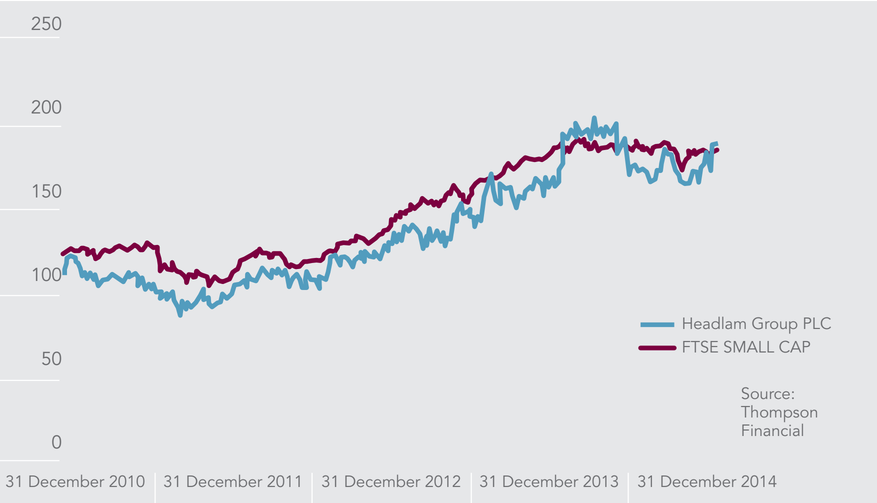
The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Performance graph

The graph below shows value at 31 December 2014 of £100 invested in the company on 1 January 2009 compared to the value of £100 invested in the FTSE Small Cap index, making the assumption that dividends are reinvested to purchase additional equity.

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

Five-year return index for FTSE Small Cap as at 31 December 2014



Directors' Remuneration Report

Chief Executive Officer remuneration table (audited)

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

Year	CEO single figure of total remuneration £000	Annual bonus (% of maximum opportunity)	Long term incentive vesting rates against maximum opportunity %
2010	1,179	64.7	n/a
2011	1,095	66.5	n/a
2012	1,347	65.5	n/a
2013	927	42.7	n/a
2014	**1,134**	**81.4**	**n/a**

Percentage change in Chief Executive Officer remuneration (audited)

The table below shows the percentage change in the Chief Executive Officer's remuneration and the company's employees as a whole between the year 2014 and 2013.

Percentage increase in remuneration in 2014 compared with 2013	CEO	Total employees
Salary and fees	0.0%	3.2%
All taxable benefits	2.9%	–
Annual bonuses	59.0%	37.1%

Car allowances were unchanged year on year and the related taxable benefits were amended in accordance with HM Revenue & Customs guidance. Private medical insurance premiums increased marginally for all eligible members of the scheme including the CEO. The average percentage change in taxable benefits does not produce a meaningful comparison.

Relative importance of spend on pay

The graph below sets out the percentage change in dividends and the overall expenditure on pay as a whole across the group.

	2014 £000	2013 £000	% change
Dividends	**12,689**	12,300	3.2
Overall expenditure on pay	**87,139**	82,701	5.4

Statement of implementation of remuneration policy in the following financial year

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

Consideration by the directors of matters relating to directors' remuneration

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

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

Committee members regularly attend specialist seminars and events on the subject of remuneration and review data and surveys from a variety of published sources with particular reference to the scale and composition of the total remuneration packages to executives. No payments were made in the last fiscal year to external consultants for advice or data. The Company Secretary acts as secretary to the committee.

Statement of voting at the last AGM

The following table sets out actual voting outcome in respect of the advisory resolution to approve the Directors' Remuneration Report at the company's AGM held on Wednesday 21 May 2014.

	For %	Against %	Withheld %
Of issued share capital	78.1	3.9	0.0
Of votes cast	95.2	4.8	0.0

	Number	Number	Number
Number of votes cast	65,337,600	3,283,731	54

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

At the proposed AGM on Thursday 21 May 2015, shareholders are asked to vote on the Directors' Remuneration Report, on an advisory basis.

The directors' remuneration policy was adopted following a binding shareholder vote at the 21 May 2014 AGM, since when there have been no changes.

Approval

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

M.K. O'Leary

Mike O'Leary
Chairman of the Remuneration Committee
5 March 2015

Other Statutory Disclosures

THE REQUIREMENTS OF THE STRATEGIC REPORT ARE COVERED IN PAGES 2 TO 33

The directors propose a final dividend of 12.30p per ordinary share to be paid to shareholders on 1 July 2015.

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 134. Further details of the group's activities and future plans are set out in the Chief Executive's Review on pages 14 to 15.

Results and dividends

The results for the year and financial position at 31 December 2014 are shown in the Consolidated Income Statement on page 81 and Statements of Financial Position on page 83.

An interim dividend of 5.20p per share (2013: 4.65p) was paid on 2 January 2015 to shareholders on the register at the close of business on 5 December 2014. The directors propose a final dividend of 12.30p per ordinary share (2013: 10.65p), to be paid on 1 July 2015 to shareholders on the register of members at the close of business on 5 June 2015, the associated ex-dividend date being 4 June 2015.

This would bring the total dividend for the year to 17.50p per ordinary share (2013: 15.30p). The payment of the final dividend is subject to shareholder approval at the Annual General Meeting ("AGM").

Directors and officers indemnity insurance

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

Directors' conflict of interests

No director had, at any time during the period under review, any interests in any contract with the company or any of its subsidiaries, a position which was unchanged at 5 March 2015.

Appointment and replacement of directors

The directors shall be not less than three and not more than eight in number, although the company may by ordinary resolution vary these numbers. Directors may be appointed by the company by ordinary resolution or by the board, a director appointed by the board holding office only until the next AGM of the company after their appointment, at which they are then eligible to stand for election.

There were no changes to the board in the year and no other person has acted as a director of the company during the year. The company's Articles of Association ("articles") give directors power to appoint and replace directors. They also provide that each director shall retire from office and shall be eligible for re-appointment at the third AGM after the general meeting at which they were appointed or last re-appointed.

Accordingly, Steve Wilson and Dick Peters, who both retire by rotation, and being eligible, offer themselves for re-election at the forthcoming AGM. In proposing their re-election, the board confirms to shareholders that following evaluation, each of these individuals' performance continues to be effective and they have expressed a willingness to continue in their roles. The company does not seek to comply with the provision in the UK Corporate Governance Code which requires the annual re-election of all directors.

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

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

	Date of appointment	Date of last re-election
Executive directors		
Tony Brewer	June 1991	May 2014
Steve Wilson	December 1991	June 2012
Non-executive directors		
Dick Peters	December 2005	June 2013
Mike O'Leary	March 2006	June 2012
Andrew Eastgate	May 2010	May 2014

Other Statutory Disclosures

The Company is required by the Companies Act to include a Strategic Report in this document. The information that fulfils the requirements of the Strategic Report can be found on pages 2 to 33, which are incorporated in this report by reference.

Change of control

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

Outstanding options granted under the SAYE scheme may be exercised within a period of six months from a change of control of the company following a takeover taking place.

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

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

Fixed assets

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

Acquisitions

Details of acquisitions made in the year are set out in note 24.

Employees

The group recognises the value of its employees and seeks to create an energetic, dynamic and responsive environment in which to work. The company maintains a policy of employing the best candidates available in every position, regardless of gender, ethnic group or background, and is committed to fair and equal treatment. It places considerable importance on communications with employees which take place at many levels through the organisation and by a variety of means on both a formal and informal level.

Reward is linked to business plans and targets, thereby giving employees the opportunity to share in the financial success of the group. In keeping with the structure of the business, this policy is applied locally, and as a result, staff of all levels regularly benefit from achieving local targets.

Other Statutory Disclosures

Where existing employees become disabled, it is the group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate, and the group gives full and fair consideration to applications for employment from disabled persons. Further details of arrangements relating to employees are described in Our Responsibilities on pages 30 to 33, and the average number of employees and their remuneration are shown in note 5 to the financial statements.

The company has communicated an internally operated whistleblowing policy and procedure to employees.

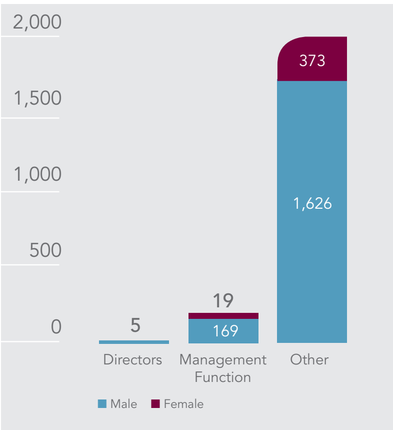
The policy enables them to report any concerns on matters affecting the group or their employment without fear of recrimination, and reduces the risk of malpractice taking place and remaining unreported. In addition, the group does not tolerate matters of discrimination or harassment and bullying, and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

Employees are encouraged to own shares in the company and the group operates an HMRC Approved Savings Related Share Option Scheme (SAYE). Those employees who choose to take up the option to purchase shares in the company may enter into a savings arrangement for either a three- or five-year period, with the option price determined by reference to the share price at the date of grant. On exercise the shares are purchased by the employee free of income tax and national insurance although capital gains tax rules apply.

The company considers that diversity, including gender diversity, is essential to good business and measures are in place to ensure all appointments are made on merit. Currently there are no female directors out of a total of five board members. Without seeking to set a specific goal for female representation on the board, the company is committed to maintain diversity, including gender diversity, appropriate to and reflecting the nature and strategic aims of the company. This similarly applies to women in leadership positions in the company.

As at 31 December 2014 we had 2,192 employees of which 18% are female. The significant majority of our employees work regular full time hours with a minority working flexible hours.

Gender of Group Employees



Political donations and expenditure

The group's policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure. Accordingly neither the company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2013: £nil).

Charitable contributions

Charitable donations made during the year in support of charitable causes in the local communities in which the group operates, nationally and those of interest to employees amounted to £32,323 (2013: £36,722). In addition, employees participated in a variety of fundraising activities and supported charities local to their businesses.

Share capital

As at 31 December 2014, the issued share capital of the company comprised a single class of ordinary shares of 5p each, with 85,363,743 shares in issue at that date. No shares were issued during the year and there were no additions to treasury shares.

Of the 1,737,520 shares held in treasury at the start of the year, 441,003 were transferred from treasury in connection with the SAYE and executive share option schemes leaving 1,296,517 at the year end representing 1.51% of the issued share capital. Proceeds received in respect of the 441,003 shares were £1,028,183. Details of the company's share capital are set out in note 23 of the financial statements which should be treated as forming part of this report.

Subject to the provisions of the articles and the Companies Acts, shares may be issued with such rights or restrictions as the company may by ordinary resolution determine or, if the company has not so determined, as the directors may decide. There are however no restrictions on the transfer of securities in the company, except that certain restrictions may from time to time be imposed by law or regulation, for example, insider trading laws, and pursuant to the Listing Rules of the Financial Services Authority (the Listing Rules), whereby certain employees require the approval of the company to deal in the company's shares.

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

AGM

This year's AGM will be held at the group's distribution facility in Coleshill on Thursday 21 May 2015 at 10.00 a.m. The notice convening this meeting is set out within this Annual Report and Accounts on page 136, along with explanatory notes regarding the resolutions that will be proposed at the meeting on pages 138 to 140. The directors consider that each of the resolutions to be proposed is in the best interests of the company and the shareholders as a whole. Accordingly, the directors unanimously recommend that all shareholders vote in favour of all resolutions, as the directors intend to do in respect of their own beneficial holdings.

Auditor

KPMG LLP have expressed their willingness to continue in office as auditor and a resolution will be proposed to re-appoint them at the AGM. The auditor responsibilities are set out on page 78 to 80 and should be read in conjunction with those of the directors as set out at the end of this report.

Authority to allot shares and disapply statutory pre-emption rights

Subject to certain limits, at the AGM on 21 May 2014, the directors were granted general authority to allot shares in the company together with an authority to allot shares in the company in connection with a rights issue and in respect of cash without first offering them to existing shareholders. Whilst no shares have been allotted by the company during the year, the directors will be seeking to renew these authorities to allot unissued shares and to disapply statutory pre-emption rights at the forthcoming AGM. Further details are set out in the notice of AGM.

Purchase of own shares

At the AGM on 21 May 2014, the company was given the authority to purchase shares in the company up to 10% of the issued share capital. Whilst no shares have been purchased under the buyback authority by the company during the year, the directors will be seeking to renew this authority for the company to purchase its ordinary shares at the forthcoming AGM. Further details are set out in the notice of AGM.

Other Statutory Disclosures

Rights under employees' share schemes

As at 31 December 2014, Kleinwort Benson (Channel Islands) Limited ("Kleinwort Benson"), as trustee of the Headlam Group Employee Trust Company Limited ("Trust") which acts as the trustee of the Headlam Group Co-Investment Plan 2008 ("CIP") and the Headlam Group Performance Share Plan 2008 ("PSP"), which was approved by shareholders on 20 June 2008, held 224,941 shares, approximately 0.3% of the issued share capital of the company, on trust for the benefit of the directors and certain senior managers of the group. Kleinwort Benson waives the dividends payable in respect of these shares.

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

Substantial interests in voting rights

As at 31 December 2014 and unchanged at 28 February 2015, being as at the end of the financial year and a date not more than one month before the date of notice of the AGM, in accordance with the requirements of the Listing Rules and the disclosure and transparency rules of the Financial Conduct Authority, the company had been notified of the following interests exceeding the 3% notification threshold in the ordinary share capital of the company.

Ordinary shares of 5p each

	31 December 2014 aggregate voting rights	**%**	28 February 2015 aggregate voting rights	%	Indirect/direct
Franklin Templeton Institutional, LLC	**15,066,975**	**18.02**	15,066,975	18.02	indirect
FIL Limitd	**5,385,199**	**6.43**	5,385,199	6.43	indirect
Tweedy, Browne Company LLC	**4,523,274**	**5.41**	4,523,274	5.44	direct
Heronbridge Investment Management LLP	**4,209,552**	**5.04**	4,209,552	5.04	direct
JO Hambro Capital Management Limited	**4,190,972**	**5.01**	4,190,972	5.01	direct
Threadneedle Investments	**4,154,941**	**4.97**	4,154,941	4.99	indirect and direct
Schroders plc	**4,119,581**	**4.93**	4,119,581	4.96	indirect
Rathbone Brothers plc	**4,070,078**	**4.87**	4,070,078	4.87	indirect
Kames Capital	**3,305,204**	**3.95**	3,305,204	3.95	indirect and direct

Securities carrying special rights

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

Voting

On a show of hands at a general meeting of the company every holder of ordinary shares present in person and entitled to vote shall have one vote and, on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the company's website after the meeting. The holders of ordinary shares are entitled to receive the company's Annual Report and Accounts, to attend and speak at general meetings of the company, to appoint proxies and to exercise voting rights. The company is not aware of any agreements between holders of securities that may result in restrictions on voting rights. Further shareholder information is available on pages 144 to 145.

Powers of the directors

Subject to the articles, the Companies Acts and any directions given by the company by special resolution, the business of the company will be managed by the board, which may exercise all the powers of the company.

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

The statement of directors' responsibilities in respect of the Annual Report and financial statements can be found on page 74.

Amendment of articles

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

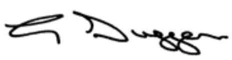
UK Corporate Governance Code

The board reviews its work on the UK Corporate Governance Code in the Corporate Governance Report on pages 39 to 46 which is incorporated into this report by reference. The Code is available to view at www.frc.org.uk, the website of the Financial Reporting Council.

Disclosure of information to auditor

So far as each director is aware, there is no audit information relevant to the preparation of the auditor's report of which the auditor are unaware and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This report was approved by the board on 5 March 2015 and signed on its behalf by



Geoff Duggan
Company Secretary
5 March 2015

Statement of Directors' Responsibilities

IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS
AND THE FINANCIAL STATEMENTS

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

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

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

Responsibility statement of the directors in respect of the Annual Report and Accounts and the financial statements

Each of the directors of Headlam Group plc confirms that to the best of his knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards and contained in this Annual Report and Accounts, give a true and fair view of the assets, liabilities, financial position and profit of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report, included in this Annual Report and Accounts, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Approved by the board of directors on 5 March 2015 and signed on its behalf by

Tony Brewer
Director

Steve Wilson
Director

Deliveries

1,341,228
UK DELIVERIES IN 2014

Financial Statements

Independent Auditor's Report

TO THE MEMBERS OF HEADLAM GROUP PLC ONLY

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Headlam Group Plc for the year ended 31 December 2014 set out on pages 81 to 133. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

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

Carrying amount of goodwill (£10.0 million):

Refer to page 49 (Audit Committee Report), page 88 (accounting policy) and pages 98 and 104 (financial disclosures).

- *The risk* – The determination of the recoverable amount of goodwill is a key judgement area as small changes in assumptions, notably in respect of the 2015 cash flow forecasts (e.g. forecast sales volume and gross profit margins), forecast growth and discount rates, can result in materially different outcomes. This is particularly true of the goodwill allocated to the Belcolor AG CGU in Switzerland where macroeconomic conditions, including the impact of the removal of the fixed exchange rate between the Swiss Franc and the Euro, could continue to adversely affect the performance and competitiveness of the business going forward resulting in an impairment of goodwill.
- *Our response* – Our audit procedures in this area included, among others, critically assessing the key assumptions applied by the group in determining the recoverable amounts of each cash-generating unit (CGU) and testing the integrity of the group's discounted cash flow model. In particular, we evaluated the appropriateness and year-on-year consistency of the underlying assumptions used in determining the cash flows; we considered the appropriateness of the growth assumptions applied, compared forecast cash flows to those currently being achieved by the CGUs, and challenged the group's justification for using any cash flows in their forecast that were higher than our expectations based on current levels adjusted for known or probable changes in business environment. We used our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied to the CGUs in the UK and Switzerland. We performed our own sensitivity analysis, including assessing the effect of a reasonably possible reduction in growth rates and forecast cash flows. We also considered whether the group's disclosures regarding the sensitivity of the outcome of the impairment review to changes in key assumptions appropriately reflected the subjectivity in the valuation.

Carrying amount of freehold property (£88.1 million):

Refer to page 49 (Audit Committee Report), page 88 (accounting policy) and pages 98 and 102 (financial disclosures).

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

Carrying amount of inventory (£116.6 million):

Refer to page 50 (Audit Committee Report), page 91 (accounting policy) and page 108 (financial disclosures).

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

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

The materiality for the group financial statements as a whole was set at £1.8 million (2013: £1.9 million), determined with reference to a benchmark of group profit before taxation (of which it represents 5.9% (2013: 8.9%)). The prior year materiality represented a higher percentage of group profit before tax as materiality for that year was calculated by reference to underlying group profit before tax, which was before a significant, non-recurring, impairment charge.

We report to the Audit Committee any corrected or uncorrected misstatements exceeding £90,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 11 reporting components, we subjected five to audits for group reporting purposes. These audits covered 98% of group revenue, 98% of group profit before taxation and 94% of group total assets. The group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The group audit team approved the component materialities, which ranged from £0.2 million to £1.4 million, having regard to the size and risk profile of the group across the components.

The group audit team visited 15 locations in the UK and France. Telephone conference meetings were also held with the component auditors in Switzerland. At these visits and meetings, the findings reported to the group audit team were discussed in more detail, and any further work required by the group audit team was then performed by the component auditor.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 45 and 46 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.

Independent Auditor's Report

TO THE MEMBERS OF HEADLAM GROUP PLC ONLY

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

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

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

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

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 25, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 39 to 46 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 74 and 75, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

G. Neale

Graham Neale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
5 March 2015

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £000	Underlying 2013 £000	Non-underlying Items* (note 4) 2013 £000	2013 £000
Revenue	2	**635,242**	603,051	–	603,051
Cost of sales		**(444,702)**	(421,796)	–	(421,796)
Gross profit		**190,540**	181,255	–	181,255
Distribution expenses		**(117,458)**	(115,067)	–	(115,067)
Administrative expenses		**(41,620)**	(38,508)	(5,352)	(43,860)
Operating profit	2	**31,462**	27,680	(5,352)	22,328
Finance income	7	**819**	629	–	629
Finance expenses	7	**(1,981)**	(1,870)	–	(1,870)
Net finance costs		**(1,162)**	(1,241)	–	(1,241)
Profit before tax	3	**30,300**	26,439	(5,352)	21,087
Taxation	8	**(6,515)**	(6,146)	–	(6,146)
Profit for the year attributable to the equity shareholders		**23,785**	20,293	(5,352)	14,941
Dividend paid per share	22	**15.30p**			14.85p
Earnings per share					
Basic	10	**28.6p**	24.5p	–	18.0p
Diluted	10	**28.5p**	24.3p	–	17.9p

* Included within administrative expenses in the results for the year ended 31 December 2013 are non-underlying items that relate to the impairment of intangible and tangible fixed assets, totalling £5,352,000, details of which can be found in note 4.

All group operations during the financial years were continuing operations.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £000	2013 £000
Profit for the year attributable to the equity shareholders		**23,785**	14,941
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	20	**(8,900)**	450
Related tax		**1,789**	(529)
		(7,111)	(79)
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations		**(742)**	397
Effective portion of changes in fair value of cash flow hedges		**(177)**	115
Transfers to profit or loss on cash flow hedges		**132**	137
Related tax		**18**	(65)
		(769)	584
Other comprehensive (expense)/income for the year		**(7,880)**	505
Total comprehensive income attributable to the equity shareholders for the year		**15,905**	15,446

Statements of Financial Position

AT 31 DECEMBER 2014

	Note	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Assets					
Non-current assets					
Property, plant and equipment	11	**103,461**	103,079	**88,157**	88,061
Intangible assets	12	**10,013**	10,013	**–**	–
Investments in subsidiary undertakings	13	**–**	–	**88,985**	88,431
Deferred tax assets	14	**2,726**	2,388	**1,702**	1,051
		116,200	115,480	**178,844**	177,543
Current assets					
Inventories	15	**116,569**	115,678	**–**	–
Trade and other receivables	16	**118,816**	119,488	**15,334**	15,452
Cash and cash equivalents	17	**47,589**	47,477	**14,237**	32,231
		282,974	282,643	**29,571**	47,683
Total assets		**399,174**	398,123	**208,415**	225,226
Liabilities					
Current liabilities					
Other interest-bearing loans and borrowings	18	**(204)**	(218)	**–**	–
Trade and other payables	19	**(166,266)**	(164,519)	**(37,672)**	(39,116)
Employee benefits	20	**(2,933)**	(2,842)	**(2,933)**	(2,842)
Income tax payable	8	**(6,073)**	(7,022)	**(2,892)**	(3,508)
		(175,476)	(174,601)	**(43,497)**	(45,466)
Non-current liabilities					
Other interest-bearing loans and borrowings	18	**(22,818)**	(33,239)	**(20,000)**	(30,000)
Employee benefits	20	**(18,803)**	(12,780)	**(16,457)**	(11,089)
		(41,621)	(46,019)	**(36,457)**	(41,089)
Total liabilities		**(217,097)**	(220,620)	**(79,954)**	(86,555)
Net assets		**182,077**	177,503	**128,461**	138,671
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	**(1,786)**	(4,742)	**13,435**	9,671
Retained earnings		**126,083**	124,465	**57,246**	71,220
Total equity		**182,077**	177,503	**128,461**	138,671

These financial statements were approved by the board of directors on 5 March 2015 and were signed on its behalf by:

Tony Brewer
Director

Steve Wilson
Director

Company Number: 460129

Statement of Changes in Equity – Group

FOR THE YEAR ENDED 31 DECEMBER 2014

	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 2013	4,268	53,512	88	5,768	(339)	(11,329)	121,361	173,329
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	14,941	14,941
Other comprehensive income	–	–	–	397	252	–	(144)	505
Total comprehensive income for the year	–	–	–	397	252	–	14,797	15,446
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	288	288
Share options exercised by employees	–	–	–	–	–	421	(178)	243
Deferred tax on share options	–	–	–	–	–	–	497	497
Dividends to equity holders	–	–	–	–	–	–	(12,300)	(12,300)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	421	(11,693)	(11,272)
Balance at 31 December 2013	4,268	53,512	88	6,165	(87)	(10,908)	124,465	177,503
Balance at 1 January 2014	**4,268**	**53,512**	**88**	**6,165**	**(87)**	**(10,908)**	**124,465**	**177,503**
Profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**23,785**	**23,785**
Other comprehensive income	**–**	**–**	**–**	**(742)**	**(45)**	**–**	**(7,093)**	**(7,880)**
Total comprehensive income for the year	**–**	**–**	**–**	**(742)**	**(45)**	**–**	**16,692**	**15,905**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**692**	**692**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**3,808**	**(2,780)**	**1,028**
Current tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**183**	**183**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**(545)**	**(545)**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(12,689)**	**(12,689)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**–**	**3,808**	**(15,139)**	**(11,331)**
Balance at 31 December 2014	**4,268**	**53,512**	**88**	**5,423**	**(132)**	**(7,100)**	**126,018**	**182,077**

Statement of Changes in Equity – Company

FOR THE YEAR ENDED 31 DECEMBER 2014

	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 2013	4,268	53,512	88	20,578	(339)	(11,329)	58,435	125,213
Profit for the year attributable to the equity shareholders	–	–	–	–	–	–	25,343	25,343
Other comprehensive income	–	–	–	–	252	–	(550)	(298)
Total comprehensive income for the year	–	–	–	–	252	–	24,793	25,045
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	288	288
Share options exercised by employees	–	–	–	–	–	421	(178)	243
Deferred tax on share options	–	–	–	–	–	–	182	182
Dividends to equity holders	–	–	–	–	–	–	(12,300)	(12,300)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	421	(12,008)	(11,587)
Balance at 31 December 2013	4,268	53,512	88	20,578	(87)	(10,908)	71,220	138,671
Balance at 1 January 2014	**4,268**	**53,512**	**88**	**20,578**	**(87)**	**(10,908)**	**71,220**	**138,671**
Profit for the year attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**7,661**	**7,661**
Other comprehensive income	**–**	**–**	**–**	**–**	**(45)**	**–**	**(6,668)**	**(6,713)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(45)**	**–**	**993**	**948**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**692**	**692**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**3,808**	**(2,780)**	**1,028**
Current tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**37**	**37**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**(226)**	**(226)**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(12,689)**	**(12,689)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**–**	**3,808**	**(14,966)**	**(11,158)**
Balance at 31 December 2014	**4,268**	**53,512**	**88**	**20,578**	**(132)**	**(7,100)**	**57,247**	**128,461**

Cash Flow Statements

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash flows from operating activities					
Profit before tax for the year		**30,300**	21,087	**2,013**	1,596
Adjustments for:					
Depreciation, amortisation and impairment		**4,900**	10,136	**1,702**	1,458
Finance income	7	**(819)**	(629)	**(642)**	(663)
Finance expense	7	**1,981**	1,870	**1,365**	1,203
Profit on sale of property, plant and equipment		**(30)**	(177)	**3**	(148)
Share-based payments	21	**692**	288	**138**	(7)
Operating cash flows before changes in working capital and other payables		**37,024**	32,575	**4,579**	3,439
Change in inventories		**(1,514)**	1,967	**–**	–
Change in trade and other receivables		**(143)**	(9,114)	**737**	(506)
Change in trade and other payables		**2,656**	9,421	**(2,029)**	824
Cash generated from the operations		**38,023**	34,849	**3,287**	3,757
Interest paid		**(1,477)**	(1,565)	**(805)**	(839)
Tax (paid)/received		**(6,357)**	(6,344)	**(193)**	284
Additional contributions to defined benefit plan	20	**(2,996)**	(2,913)	**(2,996)**	(2,913)
Net cash flow from operating activities		**27,193**	24,027	**(707)**	289
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**92**	479	**861**	360
Interest received		**846**	613	**433**	452
Dividends received		**–**	–	**5,742**	23,999
Acquisition of subsidiaries, net of cash acquired	24	**(331)**	(1,974)	**–**	–
Acquisition of property, plant and equipment	11	**(5,668)**	(13,267)	**(2,662)**	(9,575)
Net cash flow from investing activities		**(5,061)**	(14,149)	**4,374**	15,236
Cash flows from financing activities					
Proceeds from the issue of treasury shares		**1,028**	243	**1,028**	243
Repayment of borrowings		**(10,210)**	(223)	**(10,000)**	–
Dividends paid	22	**(12,689)**	(12,300)	**(12,689)**	(12,300)
Net cash flow from financing activities		**(21,871)**	(12,280)	**(21,661)**	(12,057)
Net increase/(decrease) in cash and cash equivalents		**261**	(2,402)	**(17,994)**	3,468
Cash and cash equivalents at 1 January		**47,477**	49,798	**32,231**	28,763
Effect of exchange rate fluctuations on cash held		**(149)**	81	**–**	–
Cash and cash equivalents at 31 December	17	**47,589**	47,477	**14,237**	32,231

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

Notes to the Financial Statements

1 ACCOUNTING POLICIES

Reporting entity

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

Statement of compliance

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

The company and group financial statements were authorised for issuance on 5 March 2015.

Basis of preparation

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

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

(a) Measurement convention

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

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

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements the directors are required to consider whether the group can continue in operational existence for the foreseeable future.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 4 and Chief Executive's Review on pages 14 and 15.

The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 22 to 25. In addition, note 23 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group meets its day-to-day working capital requirements through its banking facilities. The group's long term banking arrangements run to March 2017; its level of committed funds are £40 million. The group also has short term uncommitted facilities at £35 million, which are renewable on an annual basis.

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

(b) Use of accounting estimates and judgements

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

Notes to the Financial Statements

1 ACCOUNTING POLICIES continued

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

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

Property, plant and equipment

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

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

At the latest review, carried out at 31 December 2013, the 2014 carrying value of UK freehold and long leasehold land and buildings would have exceeded market value (on an existing use basis) by £15,240,000. The directors consider that the carrying value of the UK freehold and long leasehold land and buildings is supported by their ongoing value in use within the business. An impairment review has been undertaken on the portfolio each year. No impairment was considered necessary in 2014 or 2013.

A review of the properties held in Continental Europe has been undertaken and no impairment was considered necessary for the year ended 31 December 2014 (2013: resulted in an impairment provision for the group's property held in the Netherlands, see note 4).

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. There was no impairment considered necessary for the year ended 31 December 2014 (2013: impairment of the goodwill held for the group's French subsidiary LMS SA, see note 4). No impairment resulted from the annual impairment test for 2014 and 2013 in the UK.

Deferred tax assets

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

Inventory

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

Employee benefits

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

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

(c) Impact of newly adopted accounting standards

There have been no significant changes in accounting policies or any material impact on the group financial statements arising from the adoption of new accounting standards and interpretations in 2014.

(d) IFRS not yet applied

The following standards and interpretations, which were not effective as at 31 December 2014 and have not been early adopted by the group, will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' (effective 1 January 2017)
- International Financial Reporting Standard (IFRS) 9 'Financial instruments' (effective 1 January 2018)

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

Basis of consolidation

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

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

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

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

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

Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

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

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

Exchange differences arising from this translation of foreign subsidiaries are taken directly to the translation reserve and reflected as a movement in the statement of comprehensive income.

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

Foreign currency exposure

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

Derivative financial instruments

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

Notes to the Financial Statements

1 ACCOUNTING POLICIES continued

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

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

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

Property, plant and equipment

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

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

Depreciation is charged to the income statement on a straight-line basis. The annual rates applicable are:

Freehold and long leasehold properties	– 2%
Short leasehold properties	– period of lease
Motor vehicles	– 25%
Office and computer equipment	– 10%–33.3%
Warehouse and production equipment	– 10%–20%

Land is not depreciated.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the income statement.

Goodwill and other intangible assets

Goodwill

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

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

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

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

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

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each Statement of Financial Position date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives of customer lists are deemed to be between one and 24 months.

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

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

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

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

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

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

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of cash management of both the company and group are included as a component of cash and cash equivalents for the purpose only of the Cash Flow Statement.

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

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

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

1 ACCOUNTING POLICIES continued

Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

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

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

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

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

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

Trade payables

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

Interest-bearing borrowings

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

Borrowing costs

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

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

Employee benefits

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

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

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

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

Share-based payment transactions

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

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

Further details of the share plans are given in the Remuneration Report on pages 62 to 63.

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

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

Repurchase of share capital

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

Revenue

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

Notes to the Financial Statements

1 ACCOUNTING POLICIES continued

Lease payments

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

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

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

Net financing costs

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

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

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

Dividends

Interim and final dividends are recognised when they are paid or when approved by the members in a general meeting. Final dividends proposed by the board and unpaid at the end of the year are not recognised in the financial statements.

Taxation

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

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

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

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

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

2 SEGMENT REPORTING

The group has 55 operating segments in the UK and five operating segments in Continental Europe. Each segment represents an individual trading operation, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Group Chief Executive. Discrete financial information is available for each segment and used by the Group Chief Executive to assess performance and decide on resource allocation.

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

	UK		Continental Europe		Total	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Revenue						
External revenues	**548,393**	509,340	**86,849**	93,711	**635,242**	603,051
Reportable segment operating profit	**30,695**	26,877	**1,183**	1,678	**31,878**	28,555
Reportable segment assets	**256,274**	233,913	**34,444**	35,708	**290,718**	269,621
Reportable segment liabilities	**(151,566)**	(148,457)	**(14,568)**	(15,975)	**(166,134)**	(164,432)

During the year there were no inter-segment revenues for the reportable segments (2013: £nil).

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

	2014 £000	2013 £000
Profit for the year		
Total profit for reportable segments	**31,878**	28,555
Impairment of intangibles and assets	**–**	(5,352)
Unallocated expense	**(416)**	(875)
Operating profit	**31,462**	22,328
Finance income	**819**	629
Finance expense	**(1,981)**	(1,870)
Profit before taxation	**30,300**	21,087
Taxation	**(6,515)**	(6,146)
Profit for the year	**23,785**	14,941

Notes to the Financial Statements

2 SEGMENT REPORTING continued

	2014 £000	2013 £000
Total assets for reportable segments	**290,718**	269,621
Unallocated assets:		
Properties, plant and equipment	**91,493**	93,883
Deferred tax assets	**2,726**	2,388
Cash and cash equivalents	**14,237**	32,231
Total assets	**399,174**	398,123
Liabilities		
Total liabilities for reportable segments	**(166,134)**	(164,432)
Unallocated liabilities:		
Employee benefits	**(21,736)**	(15,622)
Other interest-bearing loans and borrowings	**(23,022)**	(33,457)
Income tax payable	**(6,073)**	(7,022)
Derivative liabilities	**(132)**	(87)
Total liabilities	**(217,097)**	(220,620)

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
Other material items 2014					
Capital expenditure	**2,586**	**421**	**3,007**	**2,661**	**5,668**
Depreciation	**2,260**	**567**	**2,827**	**1,998**	**4,825**
Amortisation	**–**	**–**	**–**	**75**	**75**
Other material items 2013					
Capital expenditure	3,043	649	3,692	9,847	13,539
Depreciation	2,171	666	2,837	1,797	4,634
Amortisation	–	–	–	150	150
Impairment of assets	–	–	–	2,155	2,155
Impairment of intangible assets	–	–	–	3,197	3,197

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

Each segment is a continuing operation.

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

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

	UK		Continental Europe		Total	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Revenue						
Residential	**378,910**	350,020	**43,415**	47,608	**422,325**	397,628
Commercial	**169,483**	159,320	**43,434**	46,103	**212,917**	205,423
	548,393	509,340	**86,849**	93,711	**635,242**	603,051

3 PROFIT BEFORE TAX

The following are included in profit before tax:

	2014 £000	2013 £000
Depreciation on property, plant and equipment	**4,825**	4,634
Amortisation of intangible assets	**75**	150
Impairment of intangible and tangible fixed assets	**–**	5,352
Profit on sale of property, plant and equipment	**(30)**	(177)
Operating lease rentals		
Plant and machinery	**10,158**	9,580
Land and buildings	**1,696**	2,573

Auditor's remuneration:

	2014 £000	2013 £000
Audit of these financial statements	**72**	74
Amounts received by the auditor and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**158**	165
Other tax advisory services	**17**	3
All other services	**19**	20
	266	262

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

Notes to the Financial Statements

4 NON-UNDERLYING ITEMS

There were no non-underlying items included in the results for the year ended 31 December 2014. Included within administrative expenses in the results for the year ended 31 December 2013 are non-underlying items that relate to the impairment of intangible and tangible fixed assets, totalling £5,352,000.

Non-underlying items charged through administrative expenses comprise:

	2014 £000	2013 £000
Impairment of property held in fixed assets	–	2,155
Impairment of goodwill held in intangible assets	–	3,197
	–	5,352

The group presents underlying measures of performance in order to better reflect the financial performance of the group over time.

Impairment of property, plant and equipment

In the Netherlands, management obtain an annual market value of the property for local rates purposes. The latest valuation obtained in 2013 indicated the carrying value of the property exceeded its market value. Management considered this to represent an indicator of impairment and therefore performed an impairment review to establish the value in use for the Dutch cash-generating unit ("CGU") which represents an operating segment. The future cash flows used in the value in use calculation were based on forecast operating results per the 2014 approved business plan with a growth rate assumption of 2.5% over a period of five years. These were discounted at a pre-tax discount rate of 9.4%.

The outcome of the impairment review concluded that the carrying value of the assets of the Dutch CGU were less than their recoverable amount by £2,155,000 which was not less than the amount by which the market value of the property exceeded its carrying value. This is a reflection of the ongoing challenging market conditions in the Netherlands. As a consequence, a £2,155,000 impairment loss has been recognised in the income statement for the year ended 31 December 2013 and disclosed as a non-underlying item. Non-underlying items are not attributable to reportable segments. If they were, the impairment would be attributable to the Continental Europe segment.

At 31 December 2014 a further impairment review was conducted. This review demonstrated that the carrying value was supported and as such no further impairment has been recognised.

Impairment of goodwill

In line with the requirements of IAS 36, impairment reviews are required to be completed annually for CGUs to which goodwill is allocated. In performing these impairment reviews management assesses the value in use for each CGU based on actual reported results for 2013 with a growth rate assumption of 0% over a period of five years. These were discounted at a pre-tax discount rate of 9.4%.

The outcome of the impairment review concluded that the carrying value of the assets of the LMS CGU in France, which represents an operating segment, were less than their recoverable amount by £3,197,000, equivalent to the goodwill attributed to the CGU. This is a reflection of the ongoing challenging market conditions in France. As a consequence, a £3,197,000 impairment loss has been recognised in the income statement for the year ended 31 December 2013 and disclosed as a non-underlying item. Non-underlying items are not attributable to reportable segments. If they were, the impairment would be attributable to the Continental Europe segment.

At 31 December 2014 a further impairment review was conducted. This review demonstrated that the carrying value was supported and as such no further impairment has been recognised.

5 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	
	2014	2013
By sector:		
Floorcoverings	2,151	2,172
Central operations	9	9
	2,160	2,181
By function:		
Sales and distribution	1,986	2,014
Administration	174	167
	2,160	2,181

The aggregate payroll costs were as follows:

	£000	£000
Wages and salaries	73,100	68,729
Equity settled share-based payment expense	692	288
Social security costs	9,614	8,947
Pension costs (note 20)	3,733	4,737
	87,139	82,701

6 EMOLUMENTS OF KEY MANAGEMENT PERSONNEL

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

	2014 £000	2013 £000
Short term employee benefits	2,111	1,830
Equity settled share-based payment expense	159	–
	2,270	1,830

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

Notes to the Financial Statements

7 FINANCE INCOME AND EXPENSE

	2014 £000	2013 £000
Interest income:		
Bank interest	**693**	629
Other	**126**	–
Finance income	**819**	629
Interest expense:		
Bank loans, overdrafts and other financial expenses	**(1,323)**	(1,044)
Net change in fair value of cash flow hedges transferred from equity	**(132)**	(137)
Net interest on defined benefit plan obligation	**(526)**	(578)
Other	**–**	(111)
Finance expenses	**(1,981)**	(1,870)

No interest costs were capitalised during the year as a result of any assets in the course of construction as those assets held at 31 December 2013 were brought into use in January 2014. During the year ended 31 December 2013 interest costs of £273,000 were capitalised as assets in the course of construction. The amount capitalised was determined by applying the group's UK borrowing rate to the expenditure incurred on assets under construction. Tax relief on capitalised borrowing costs for 2013 amounted to £64,000.

8 TAXATION

Recognised in the income statement

	2014 £000	2013 £000
Current tax expense:		
Current year	**6,156**	6,151
Adjustments for prior years	**(556)**	100
	5,600	6,251
Deferred tax expense:		
Origination and reversal of temporary differences	**795**	152
Effect of change in UK tax rate	**–**	(159)
Adjustments for prior years	**120**	(98)
	915	(105)
Total tax in income statement	**6,515**	6,146

	2014 £000	2013 £000
Tax relating to items (charged)/credited to equity		
Current tax on:		
Income and expenses recognised directly in equity	**(192)**	(4)
Deferred tax on:		
Share options	**545**	497
Deferred tax on other comprehensive income:		
Defined benefit plans	**(1,789)**	(529)
Cash flow hedge	**(9)**	(61)
Total tax reported directly in reserves	**(1,445)**	(97)

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Reconciliation of effective tax rate

	2014		2013	
	%	£000	%	£000
Profit before tax		30,300		21,087
Add back non-underlying items*		–		5,352
Underlying profit before tax		30,300		26,439
Tax using the UK corporation tax rate	21.5	6,515	23.2	6,146
Effect of change in UK tax rate	(0.2)	(63)	(0.8)	(161)
Profit on sale of non-qualifying fixed assets	–	–	(0.1)	(26)
Non-deductible expenses	1.6	481	0.8	167
Effect of tax rates in foreign jurisdictions	0.1	19	0.1	18
Over provided in prior years	(1.5)	(437)	0.0	2
Total tax in income statement on underlying items	21.5	6,515	23.2	6,146

* Non-underlying items were non-deductible for tax.

9 CURRENT TAX LIABILITIES

The group's current tax liability of £6,073,000 (2013: £7,022,000) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable. The company's current tax liability of £2,892,000 (2013: £3,508,000) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

10 EARNINGS PER SHARE

	2014 £000	2013 £000
Earnings		
Earnings for underlying basic and underlying diluted earnings per share	23,785	20,293
Earnings for basic and diluted earnings per share	23,785	14,941

	2014	2013
Number of shares		
Issued ordinary shares at 31 December	85,363,743	85,363,743
Effect of shares held in treasury	(2,053,036)	(2,383,937)
Weighted average number of ordinary shares for the purposes of basic earnings per share	83,310,707	82,979,806
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	83,310,707	82,979,806
Dilutive effect of share options	264,178	646,209
Weighted average number of ordinary shares for the purposes of diluted earnings per share	83,574,885	83,626,015

At 31 December 2014, the company held 1,521,458 (2013: 2,337,520) shares which have been disclosed in the treasury reserve and these are excluded from the calculation of earnings per share.

Notes to the Financial Statements

11 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings £000	Plant and equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2013	99,754	28,281	4,756	132,791
Acquisition	–	39	–	39
Additions	408	3,411	9,720	13,539
Disposals	–	(953)	–	(953)
Effect of movements in foreign exchange	215	150	–	365
Balance at 31 December 2013	100,377	30,928	14,476	145,781
Balance at 1 January 2014	**100,377**	**30,928**	**14,476**	**145,781**
Additions	**118**	**2,921**	**2,629**	**5,668**
Disposals	**–**	**(835)**	**–**	**(835)**
Transfer to use	**16,269**	**836**	**(17,105)**	**–**
Effect of movements in foreign exchange	**(727)**	**(461)**	**–**	**(1,188)**
Balance at 31 December 2014	**116,037**	**33,389**	**–**	**149,426**
Depreciation and impairment				
Balance at 1 January 2013	17,131	19,478	–	36,609
Depreciation charge for the year	1,761	2,873	–	4,634
Disposals	–	(864)	–	(864)
Impairment (note 4)	2,155	–	–	2,155
Effect of movements in foreign exchange	60	108	–	168
Balance at 31 December 2013	21,107	21,595	–	42,702
Balance at 1 January 2014	**21,107**	**21,595**	**–**	**42,702**
Depreciation charge for the year	**1,957**	**2,868**	**–**	**4,825**
Disposals	**–**	**(774)**	**–**	**(774)**
Effect of movements in foreign exchange	**(430)**	**(358)**	**–**	**(788)**
Balance at 31 December 2014	**22,634**	**23,331**	**–**	**45,965**
Net book value				
At 1 January 2013	82,623	8,803	4,756	96,182
At 31 December 2013 and 1 January 2014	79,270	9,333	14,476	103,079
At 31 December 2014	**93,403**	**10,058**	**–**	**103,461**

At 31 December 2014 the cost less accumulated depreciation of long leasehold property held by the group was £7,971,000 (2013: £8,152,000).

Company	Land and buildings £000	Plant and equipment £000	Under construction £000	Total £000
Balance at 1 January 2013	86,950	169	4,756	91,875
Additions	10	117	9,720	9,847
Disposals	–	(115)	–	(115)
Balance at 31 December 2013	86,960	171	14,476	101,607
Balance at 1 January 2014	86,960	171	14,476	101,607
Additions	**1**	**32**	**2,629**	**2,662**
Disposals	**–**	**(39)**	**–**	**(39)**
Transfer to use	**16,269**	**–**	**(16,269)**	**–**
Transfer to group company	**–**	**–**	**(836)**	**(836)**
Balance at 31 December 2014	**103,230**	**164**	**–**	**103,394**
Depreciation				
Balance at 1 January 2013	12,090	113	–	12,203
Depreciation charge for the year	1,423	35	–	1,458
Disposals	–	(115)	–	(115)
Balance at 31 December 2013	13,513	33	–	13,546
Balance at 1 January 2014	**13,513**	**33**	**–**	**13,546**
Depreciation charge for the year	**1,661**	**41**	**–**	**1,702**
Disposals	**–**	**(11)**	**–**	**(11)**
Balance at 31 December 2014	**15,174**	**63**	**–**	**15,237**
Net book value				
At 1 January 2013	74,860	56	4,756	79,672
At 31 December 2013 and 1 January 2014	73,447	138	14,476	88,061
At 31 December 2014	**88,056**	**101**	**–**	**88,157**

At 31 December 2014 the cost less accumulated depreciation of long leasehold property held by the company was £7,971,000 (2013: £8,152,000).

Notes to the Financial Statements

12 INTANGIBLE ASSETS – GROUP

	Goodwill £000	Customer lists £000	Total £000
Cost			
Balance at 1 January 2013	13,210	4,232	17,442
Addition (note 24)	–	150	150
Balance at 31 December 2013	13,210	4,382	17,592
Balance at 1 January 2014	**13,210**	**4,382**	**17,592**
Addition (note 24)	**–**	**75**	**75**
Balance at 31 December 2014	**13,210**	**4,457**	**17,667**
Amortisation			
Balance at 1 January 2013	–	4,232	4,232
Charge for the year	–	150	150
Impairment	3,197	–	3,197
Balance at 31 December 2013	3,197	4,382	7,579
Balance at 1 January 2014	**3,197**	**4,382**	**7,579**
Charge for the year	**–**	**75**	**75**
Balance at 31 December 2014	**3,197**	**4,457**	**7,654**
Net book value			
At 1 January 2013 and 31 December 2013	10,013	–	10,013
At 1 January 2014 and 31 December 2014	**10,013**	**–**	**10,013**

Cumulative impairment losses recognised in relation to goodwill is £3,197,000 (2013: £3,197,000).

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

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

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

	Reported segment	2014 £000	2013 £000
Joseph, Hamilton & Seaton	**UK**	**4,348**	4,348
Crucial Trading	**UK**	**1,369**	1,369
Belcolor AG	**Continental Europe**	**3,342**	3,342
Other	**UK**	**954**	954
		10,013	10,013

Impairment

Each year, or whenever events or a change in the economic environment or performance indicates a risk of impairment, the group reviews the value of goodwill balances allocated to its cash-generating units.

An impairment test is a comparison of the carrying value of the assets of a business or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU’s fair value less the cost to sell and value in use. Where the recoverable amount is less than the carrying value, an impairment results. During the year, all goodwill was tested for impairment, with no impairment charge resulting (2013: an impairment charge on goodwill attributable to the LMS CGU was necessary, see note 4).

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2013, and applying the following key assumptions.

Key assumptions

Cash flows were projected based on actual operating results, the approved 2015 business plan and management's assessment of planned performance in the period to 2019. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.5% beyond 2019.

The main assumptions within the operating cash flows used for 2015 include the achievement of future sales volumes and prices for all key product lines, control of purchase prices, achievement of budgeted operating costs and no significant adverse foreign exchange rate movements. These assumptions have been reviewed in light of the current economic environment.

The directors have estimated the discount rate by reference to an industry average weighted average cost of capital. This has been adjusted to include an appropriate risk factor to reflect current economic circumstances and the risk profile of the CGUs. A pre-tax weighted average cost of capital of 8.7% (2013: 9.5%) has been used for impairment testing, adjusted to 9.8% (2013: 9.4%) for Continental Europe to reflect the differing risk profile of that segment. The pre-tax discount rate has been applied to the pre-tax cash flows.

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

Sensitivity analysis

The two key assumptions made by the directors are the discount rate used and the growth rate beyond 2019.

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 which the group considers to be reasonable possible changes would result in any impairment.

For Belcolor, the group considers a reasonable change to the assumptions could be greater than 1%. However, this would require one of the following changes to assumptions for an impairment to be triggered:

- The discount rate would need to be increased to 12.6% and the growth rate reduced to 1%; or
- A sustained reduction in cash flows of 32%.

Goodwill attributed to the LMS CGU was impaired during the year ended 31 December 2013, see note 4.

Notes to the Financial Statements

13 INVESTMENTS IN SUBSIDIARIES

Summary information on investments in subsidiary undertakings is as follows:

	£000
Cost	
Balance at 1 January 2013	88,136
Share options granted to employees of subsidiary undertakings	295
Balance at 31 December 2013	88,431
Balance at 1 January 2014	**88,431**
Share options granted to employees of subsidiary undertakings	**554**
Balance at 31 December 2014	**88,985**
Carrying value	
At 1 January 2013	88,136
At 31 December 2013	88,431
At 31 December 2014	**88,985**

The principal trading subsidiaries are listed on page 134. There were no impairments recognised on the company's investments in subsidiaries in the year ended 31 December 2014.

14 DEFERRED TAX ASSETS AND LIABILITIES – GROUP

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Property, plant and equipment	**–**	–	**(2,398)**	(2,166)	**(2,398)**	(2,166)
Intangible assets	**–**	–	**(211)**	(194)	**(211)**	(194)
Employee benefits	**4,746**	4,262	**–**	–	**4,746**	4,262
Hedging	**26**	17	**–**	–	**26**	17
Other items	**563**	469	**–**	–	**563**	469
Tax assets/(liabilities)	**5,335**	4,748	**(2,609)**	(2,360)	**2,726**	2,388
Set-off of tax	**(2,609)**	(2,360)	**2,609**	2,360	**–**	–
	2,726	2,388	**–**	–	**2,726**	2,388

Movement in deferred tax during the year

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

Movement in deferred tax during the prior year

	1 January 2013 £000	Recognised in income £000	Recognised in equity £000	31 December 2013 £000
Property, plant and equipment	(2,661)	495	–	(2,166)
Intangible assets	(209)	15	–	(194)
Employee benefits	4,680	(386)	(32)	4,262
Hedging	78	–	(61)	17
Other items	488	(19)	–	469
	2,376	105	(93)	2,388

Unrecognised deferred tax assets and liabilities

At the Statement of Financial Position date the group has unused capital losses of £10,797,000 (2013: £10,055,000) available for offset against future chargeable gains. No deferred tax asset has been recognised in respect of this amount as the directors do not anticipate incurring significant chargeable gains in the foreseeable future.

14 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	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Property, plant and equipment	–	–	(2,325)	(2,187)	(2,325)	(2,187)
Employee benefits	3,855	3,076	–	–	3,855	3,076
Hedging	26	17	–	–	26	17
Other items	146	145	–	–	146	145
Tax assets/(liabilities)	4,027	3,238	(2,325)	(2,187)	1,702	1,051
Set-off of tax	(2,325)	(2,187)	2,325	2,187	–	–
	1,702	1,051	–	–	1,702	1,051

Movement in deferred tax during the year

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

Notes to the Financial Statements

14 DEFERRED TAX ASSETS AND LIABILITIES – COMPANY continued

Movement in deferred tax during the prior year

	1 January 2013 £000	Recognised in income £000	Recognised in equity £000	31 December 2013 £000
Property, plant and equipment	(2,571)	384	–	(2,187)
Employee benefits	3,621	(331)	(214)	3,076
Hedging	78	–	(61)	17
Other items	166	(21)	–	145
	1,294	32	(275)	1,051

Unrecognised deferred tax assets and liabilities

At the Statement of Financial Position date the company has unused capital losses of £10,797,000 (2013: £10,055,000) 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.

15 INVENTORIES

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Goods for resale	116,569	115,678	–	–

Cost of sales consists of the following:

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Material cost	441,759	416,723	–	–
Processing cost	2,943	5,073	–	–
	444,702	421,796	–	–

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade receivables	90,495	92,614	–	–
Prepayments and accrued income	3,757	3,636	41	32
Other receivables	24,562	23,238	212	645
Derivative assets used for economic hedging:				
Other derivatives at fair value	2	–	–	–
Amounts due from subsidiary undertakings	–	–	15,081	14,775
	118,816	119,488	15,334	15,452

£1,099,000 (2013: £1,516,000) was recognised as an impairment loss in the Consolidated Income Statement in respect of trade receivables.

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

	2014 £000	2013 £000
UK	**816**	1,175
Continental Europe	**283**	341
	1,099	1,516

17 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	Group		Company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Cash and cash equivalents per Statement of Financial Position	**47,589**	47,477	**14,237**	32,231

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.

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

For more information about the group's and company's exposure to interest rate and foreign currency risk, see note 23.

	Group		Company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Current liabilities				
Interest-bearing loan	**204**	218	**–**	–
	204	218	**–**	–
Non–current liabilities				
Interest-bearing loans	**22,818**	33,239	**20,000**	30,000
	22,818	33,239	**20,000**	30,000

The group has undrawn borrowing facilities expiring in one year or less which, at 31 December 2014, amounted to £62,883,000 (2013: £53,386,000). 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.

Notes to the Financial Statements

18 OTHER INTEREST-BEARING LOANS AND BORROWINGS continued

The undrawn borrowing facilities are as follows:

	Interest rate %	2014 £000	Interest rate %	2013 £000
UK	**2.23**	**55,000**	1.92	45,000
Netherlands	**1.52**	**1,164**	1.72	1,248
France	**1.17**	**3,492**	0.97	3,744
Switzerland	**1.35**	**3,227**	1.50	3,394
		62,883		53,386

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

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Trade payables	**127,235**	124,167	**169**	1,205
Taxation and social security	**15,018**	14,535	**2,443**	1,639
Non-trade payables and accrued expenses	**23,881**	25,608	**3,651**	4,301
Amounts due to subsidiary undertakings	**–**	–	**31,377**	31,884
Derivative liabilities used for economic hedging:				
Derivatives used for hedging	**132**	87	**132**	87
Other derivatives at fair value	**–**	122	**–**	–
	166,266	164,519	**37,672**	39,116

Included within non-trade payables and accrued expenses is an amount of £35,000 for accrued interest on unsecured bank loans (2013: £43,000).

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

20 EMPLOYEE BENEFITS

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

UK defined benefit plan

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

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

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

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

The plan was established from 11 February 1983 under trust and is governed by the plan's Trust Deed and Rules dated 29 March 2000. The Trustee of the plan comprises two employee representatives and four employer representatives. The Trustee of the plan is required by law to act in the best interests of the plan participants. The Trustee is responsible for the operation and the governance of the plan, including making decisions regarding the plan's funding and investment strategy in conjunction with the company.

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

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

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

There have been no amendments, curtailments or settlements made to the plan during 2014.

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

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

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

The scheme is funded partly by contributions from members and partly by contributions from the company at rates advised by professionally qualified actuaries. The last scheme funding valuation of the plan was as at 31 March 2011 and revealed a funding deficit of £11,543,000. The 2014 valuation is expected to be finalised soon and is expected to show a slightly lower deficit of £10,883,000.

The main annual rate assumptions used by the actuary in the 2011 valuation were: increase in salaries 4.9%; increase of pensions in payment 3.4%; discount rate before retirement 6.4%; discount rate after retirement 4.65%; and inflation 3.4%. Assets were taken at their audited market value at the valuation date.

In the recovery plan dated 29 July 2011 the company has agreed to pay contributions of £238,687 per month as at 31 December 2014, increasing by 3.2% each 1 April, with the view to eliminating the shortfall by 31 December 2015. The latest actuarial valuation was due on 31 March 2014 but is yet to be finalised; this opportunity will be used to reassess the recovery plan.

In accordance with the recovery plan, payments were made to the plan during 2014 of £2,835,000. The company is expected to pay contributions of £4,190,000 over the next accounting period. This includes £2,925,000 for payments under the recovery plan and £1,265,000 for the accrual of benefits.

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 £162,000 during 2014 (2013: £166,000).

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

20 EMPLOYEE BENEFITS continued

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

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

Swiss defined benefit plan

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

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

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

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

There have been no amendments, curtailments or settlements made to the plan during 2014.

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

The last (provisional) scheme funding valuation of the plan was as at 31 December 2014 and revealed cover ratio of 118.74% (overfunding). This overfunding is appropriate to Swiss legislation and cannot be considered in the context of IAS 19. According to Swiss rules there is no need to evaluate the scheme using assumptions for future changes of salary increase, benefit increase or inflation.

The last IAS 19 valuation at year-end 2014 revealed a funding deficit of £2,059,000. The group is expected to pay £595,000 for future service costs over the next accounting period.

The liabilities of the plan are based on the current value of expected benefit payment cash flows to members of the plan over the next 50 years or more. The weighted average duration of the liabilities is approximately 18 years.

Defined benefit obligation

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

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Present value of funded defined benefit obligations	**(117,639)**	(97,085)	**(106,297)**	(87,111)
Fair value of plan assets	**96,190**	82,263	**86,907**	73,704
Net obligations	**(21,449)**	(14,822)	**(19,390)**	(13,407)
Recognised liability for defined benefit obligations	**(21,449)**	(14,822)	**(19,390)**	(13,407)
Other long term employee benefits	**(287)**	(800)	**–**	(524)
Total employee benefits	**(21,736)**	(15,622)	**(19,390)**	(13,931)
Analysed as:				
Current liabilities	**(2,933)**	(2,842)	**(2,933)**	(2,842)
Non-current liabilities	**(18,803)**	(12,780)	**(16,457)**	(11,089)
Total employee benefits	**(21,736)**	(15,622)	**(19,390)**	(13,931)

Movements in present value of defined benefit obligation

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
At 1 January	**97,085**	93,499	**87,111**	82,735
Current service cost	**1,685**	1,553	**1,207**	1,056
Past service cost	**–**	307	**–**	307
Interest cost	**3,962**	3,531	**3,769**	3,342
Net remeasurement (gains)/losses – financial	**15,971**	1,285	**14,961**	1,744
Net remeasurement (gains)/losses – demographic	**344**	–	**344**	–
Net remeasurement (gains)/losses – experience	**2,211**	(216)	**1,860**	381
Benefits paid	**(3,502)**	(3,384)	**(3,148)**	(2,652)
Contributions by members	**387**	404	**193**	198
Effect of movements in foreign exchange	**(504)**	106	**–**	–
At 31 December	**117,639**	97,085	**106,297**	87,111

Notes to the Financial Statements

20 EMPLOYEE BENEFITS continued

Movements in fair value of plan assets

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
At 1 January	**82,263**	76,388	**73,704**	67,391
Interest income on plan assets	**3,436**	2,953	**3,267**	2,793
Return on assets, excluding interest income	**9,626**	1,519	**8,818**	2,032
Contributions by employer:				
Future service contributions	**1,284**	1,535	**947**	1,185
Past service deficit contributions	**2,834**	2,581	**2,834**	2,581
Additional past service deficit contributions	**276**	166	**276**	166
Employer augmentations	**16**	10	**16**	10
Contributions by members	**387**	404	**193**	198
Benefits paid	**(3,502)**	(3,384)	**(3,148)**	(2,652)
Effect of movements in foreign exchange	**(430)**	91	**–**	–
At 31 December	**96,190**	82,263	**86,907**	73,704

The fair value of the plan assets were as follows:

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Equities	**36,271**	35,410	**34,262**	33,391
Government debt	**7,478**	8,199	**7,478**	8,199
Corporate bonds	**28,966**	23,378	**24,297**	18,948
Annuities	**5,137**	4,875	**5,137**	4,875
Commodities	**–**	1,334	**–**	1,334
Hedge funds	**5,589**	(185)	**5,589**	(185)
Other	**12,749**	9,252	**10,144**	7,142
	96,190	82,263	**86,907**	73,704

Expense recognised in the income statement relating to defined benefit obligation

	Group 2014 £000	2013 £000
Service cost – including current and past service costs	**1,685**	1,860
Other long term employee benefits	**–**	524
Net interest on the net defined benefit liability (note 7)	**526**	578
Total	**2,211**	2,962

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

	Group 2014 £000	2013 £000
Administrative expenses	**1,685**	2,384
Net financing income (note 7)	**526**	578
	2,211	2,962

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

	Group 2014 £000	2013 £000
Net remeasurement – financial	**15,971**	1,285
Net remeasurement – demographic	**344**	–
Net remeasurement – experience	**2,211**	(216)
Return on assets, excluding interest income	**(9,626)**	(1,519)
	8,900	(450)

20 EMPLOYEE BENEFITS continued

Principal actuarial assumptions are as follows:

	UK 2014 %	UK 2013 %	Swiss 2014 %	Swiss 2013 %
Discount rate	**3.4**	4.4	**1.2**	2.0
Future salary increases	**4.7**	5.0	**2.0**	2.0
Future pension increases	**3.2**	3.5	**0.0**	0.5
Inflation rate	**3.2**	3.5	**2.0**	2.0
Mortality table assumptions:				
UK pre-retirement	**AC00 (Ultimate) table**	AC00 (Ultimate) table	**–**	–
UK post-retirement – future pensioners	**94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2010 with a long term rate of improvement of 1% per annum.**	94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2010 with a long term rate of improvement of 1% per annum.	**–**	–
UK post-retirement – current pensioners	**94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2010 with a long term rate of improvement of 1% per annum.**	94%(M)/100%(F) of the S1PA tables with future improvements from 2004 in line with the CMI mortality projections model CMI_2010 with a long term rate of improvement of 1% per annum.	**–**	–
Swiss scheme	**–**	–	**BVG 2010**	BVG 2010

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

	Group 2014	Group 2013	Company 2014	Company 2013
Non-pensioner male	**24.9**	23.7	**24.9**	23.7
Pensioner male	**22.7**	22.3	**22.7**	22.3
Non-pensioner female	**26.9**	25.6	**26.9**	25.6
Pensioner female	**24.6**	24.0	**24.6**	24.0

Company

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

Sensitivity analysis

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

UK defined benefit plan

Effect in £000	Change in assumption	Impact on scheme liabilities 2014 Increase	Impact on scheme liabilities 2014 Decrease	Impact on scheme liabilities 2013 Increase	Impact on scheme liabilities 2013 Decrease
Discount rate	0.25% movement	**(5.2)**	**5.6**	(0.4)	4.3
Rate of inflation (RPI)*	0.25% movement	**4.7**	**(4.4)**	3.4	(3.2)
Salary increases	0.25% movement	**1.3**	**(1.2)**	0.9	(0.9)
Assumed life expectancy	one year movement	**4.2**	**(4.3)**	1.8	(2.1)

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

The figures in the table as at 31 December 2014 have been calculated using the same valuation method that was used to calculate the UK defined benefit obligation at the same date. The figures in the table as at 31 December 2013 have been calculated by applying the same percentage increase or decrease as at 31 December 2014.

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

Swiss defined benefit plan

Effect in £000	Change in assumption	Impact on scheme liabilities 2014 Increase	Impact on scheme liabilities 2014 Decrease	Impact on scheme liabilities 2013 Increase	Impact on scheme liabilities 2013 Decrease
Discount rate	0.25% movement	**(4.5)**	**4.8**	(4.3)	4.6
Rate of inflation (RPI)*	0.25% movement	**3.4**	**(3.4)**	3.3	(3.1)
Salary increases	0.25% movement	**0.6**	**(0.6)**	0.6	(0.6)
Assumed life expectancy	one year movement	**1.5**	**(1.6)**	1.4	(1.5)

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

The figures in the table as at 31 December 2014 have been calculated using the same valuation method that was used to calculate the Swiss defined benefit obligation at the same date. The figures in the table as at 31 December 2013 have been calculated by applying the same percentage increase or decrease as at 31 December 2014.

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

History of plans

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

Statement of Financial Position

Group	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligation	**(117,639)**	(97,085)	(93,499)	(84,923)	(80,889)
Fair value of plan assets	**96,190**	82,263	76,388	70,692	68,451
Deficit	**(21,449)**	(14,822)	(17,111)	(14,231)	(12,438)

Group	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligation	**(106,297)**	(87,111)	(82,735)	(74,737)	(71,713)
Fair value of plan assets	**86,907**	73,704	67,391	62,202	60,382
Deficit	**(19,390)**	(13,407)	(15,344)	(12,535)	(11,331)

Notes to the Financial Statements

20 EMPLOYEE BENEFITS continued

At 31 December 2014, the group had other long term employee benefits of £287,000 (2013: £800,000). During the year ended 31 December 2013, the group provided for equalisation costs on the UK defined benefit plan of £524,000 within other long term employee benefits. The estimated impact of the change in the equalisation window for the year ended 31 December 2014 is to increase the liabilities by approximately £670,000, therefore this has been incorporated within the UK defined benefit plan liability rather than a separate disclosure. The group operated an employment indemnity scheme in connection with a foreign subsidiary undertaking to provide for lump sum cash payments due to employees retiring on their normal retirement date. The present value of the retirement indemnity obligation at 31 December 2014 is £287,000 (2013: £276,000).

Total group pension costs

Included within the total staff costs as disclosed in note 5 are costs relating to the group's defined contribution plans. The pension cost for the year represents contributions payable by the group to the plans and amounted to £2,587,000 (2013: £2,362,000). Contributions amounting to £157,000 (2013: £156,000) in respect of December 2014 payroll were paid in January 2015.

The total group cost of operating the plans during the year was £3,733,000 (2013: £4,737,000) and, at 31 December 2014, there was an amount of £296,000 (2013: £301,000) owed to the plans, being employer and employee contributions due for December 2014, which was paid in January 2015.

21 SHARE-BASED PAYMENTS

Group and company

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

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

Additionally, the group operates a savings-related share option scheme ("Sharesave scheme") which is open to employees subject to eligibility criteria determined by the directors prior to each option grant. The most recent grant was on 8 May 2014 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 62 and 63.

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

	Number of instruments			
Grant date/employees entitled	2014	2013	Vesting conditions	Contractual life of options
Approved 1998 scheme granted to key management 22 August 2005	42,852	57,136	Movement of the group's basic earnings per share exceeding that of RPI by 3% p.a. over the relevant period	22/08/08 – 22/08/15
Five-year Sharesave scheme granted to other employees 8 May 2008	–	750	Continuous service	01/07/13 – 01/01/14
Five-year Sharesave scheme granted to other employees 19 May 2009	–	341,849	Continuous service	01/07/14 – 01/01/15
Five-year Sharesave scheme granted to other employees 21 May 2010	53,274	61,327	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% p.a. – 50% vesting, over 6% – 100% vesting. TSR – if company is ranked at median or above – 50%, upper quartile – 100%	08/10/13 – 08/10/20
Three-year Sharesave scheme granted to other employees 11 May 2011	–	83,154	Continuous service	01/07/14 – 01/01/15
Five-year Sharesave scheme granted to other employees 11 May 2011	43,385	52,790	Continuous service	01/07/16 – 01/01/17
Headlam Group Co-Investment Plan 2008 granted to key management 23 August 2011*	–	436,346	If the real earnings per share growth is over 3% p.a. – 50% vesting, over 6% – 100% vesting. TSR – if company is ranked at median or above – 50%, upper quartile – 100%	23/08/14 – 23/08/21
Three-year Sharesave scheme granted to other employees 11 May 2012	306,063	324,434	Continuous service	01/07/15 – 01/01/16
Five-year Sharesave scheme granted to other employees 11 May 2012	54,694	59,105	Continuous service	01/07/17 – 01/01/18
Headlam Group Co-Investment Plan 2008 granted to key management 5 October 2012*	–	440,968	If the real earnings per share growth is over 3% p.a. – 50% vesting, over 6% – 100% vesting. TSR – if company is ranked at median or above – 50%, upper quartile – 100%	06/10/15 – 06/10/22
Three-year Sharesave scheme granted to other employees 10 May 2013	123,932	146,514	Continuous service	01/07/16 – 01/01/17
Five-year Sharesave scheme granted to other employees 10 May 2013	52,641	59,645	Continuous service	01/07/18 – 01/01/19
Headlam Group Co-Investment Plan 2008 granted to key management 1 April 2014*	290,532	–	If the real earnings per share growth is over 3% p.a. – 50% vesting, over 6% – 100% vesting. TSR – if company is ranked at median or above – 50%, upper quartile – 100%	02/04/16 – 02/04/23
Three-year Sharesave scheme granted to other employees 8 May 2014	265,851	–	Continuous service	01/07/17 – 01/01/18
Five-year Sharesave scheme granted to other employees 8 May 2014	185,169	–	Continuous service	01/07/19 – 01/01/20
Total share options	1,418,393	2,532,846		

* Further details are provided on pages 62 and 63 of the Remuneration Report.

Notes to the Financial Statements

21 SHARE-BASED PAYMENTS continued

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

	Weighted average exercise price 2014	Number of options 2014	Weighted average exercise price 2013	Number of options 2013
Outstanding at the beginning of the year	**117.2**	**2,532,846**	113.4	2,491,770
Exercised during the year	**126.0**	**(816,062)**	269.22	(90,274)
Granted during the year	**235.9**	**762,862**	274.0	216,531
Lapsed during the year	**24.32**	**(1,061,253)**	243.1	(85,181)
Outstanding at the end of the year	**245.4**	**1,418,393**	117.2	2,532,846
Exercisable at the end of the year	**420.0**	**42,852**	418.5	57,886

The weighted average share price for options exercised during the year was 414.3p (2013: 367.7p).

The options outstanding at the year end have an exercise price in the range of 0.0p to 420.0p and a weighted average contractual life of 2.5 years.

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

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

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

Details of share options granted during 2014 are shown below:

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

Details of share options granted during 2013 are shown below:

2013	Three-year Sharesave scheme	Five-year Sharesave scheme
Number of options	153,341	63,190
Fair value at measurement date:		
No performance conditions	69.5p	71.8p
Share price at 31 December	405.5p	405.5p
Exercise price	274.0p	274.0p
Expected volatility	29.5% p.a.	32.9% p.a.
Option life	three years	five years
Dividend yield	4.3% p.a.	4.3% p.a.
Risk-free rate of interest	0.5% p.a.	1.0% p.a.

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

	Group		Company		Subsidiaries	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Share options granted in 2008 under the SAYE five-year scheme	**15**	48	**–**	–	**15**	48
Share options granted in 2009 under the SAYE five-year scheme	**13**	33	**1**	1	**12**	32
Share options granted in 2010 under the SAYE three-year scheme	**–**	10	**–**	–	**–**	10
Share options granted in 2010 under the SAYE five-year scheme	**14**	14	**–**	–	**14**	14
Headlam Group Co-Investment Plan 2008 (awarded 2010)	**–**	319	**–**	136	**–**	183
Share options granted in 2011 under the SAYE three-year scheme	**15**	41	**–**	–	**15**	41
Share options granted in 2011 under the SAYE five-year scheme	**17**	17	**–**	–	**17**	17
Headlam Group Co-Investment Plan 2008 (awarded 2011)	**42**	(286)	**19**	(133)	**23**	(153)
Share options granted in 2012 under the SAYE three-year scheme	**87**	87	**2**	2	**85**	85
Share options granted in 2012 under the SAYE five-year scheme	**14**	14	**–**	–	**14**	14
Headlam Group Co-Investment Plan 2008 (awarded 2012)	**74**	(32)	**31**	(13)	**43**	(19)
Share options granted in 2013 under the SAYE three-year scheme	**28**	18	**–**	–	**28**	18
Share options granted in 2013 under the SAYE five-year scheme	**7**	5	**–**	–	**7**	5
Headlam Group Co-Investment Plan 2008 (awarded 2014)	**291**	–	**82**	–	**209**	–
Share options granted in 2014 under the SAYE three-year scheme	**49**	–	**2**	–	**47**	–
Share options granted in 2014 under the SAYE five-year scheme	**26**	–	**1**	–	**25**	–
Total expense recognised	**692**	288	**138**	(7)	**554**	295

Notes to the Financial Statements

22 CAPITAL AND RESERVES

Share capital

	Ordinary shares 2014	Ordinary shares 2013
Number of shares		
On issue at 1 January and 31 December – authorised	**107,840,000**	107,840,000
On issue at 1 January and 31 December – fully paid	**85,363,743**	85,363,743

	2014 £000	2013 £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 2014, the company held 1,521,458 (2013: 2,337,520) shares which have been disclosed in the treasury reserve. Dividends are not payable on these shares and they are excluded from the calculation of earnings per share. The shares held in treasury represent 1.8% (2013: 2.7%) of the issued share capital with a nominal value of £76,073 (2013: £116,876).

In the period from 31 December 2014 to 5 March 2015 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

	2014 £000	2013 £000
Interim dividend for 2013 of 4.65p paid 2 January 2014	**3,856**	–
Final dividend for 2013 of 10.65p paid 1 July 2014	**8,833**	–
Interim dividend for 2012 of 4.65p paid 2 January 2013	**–**	3,850
Final dividend for 2012 of 10.20p paid 1 July 2013	**–**	8,450
	12,689	12,300

The final proposed dividend of 12.30p per share (2013: 10.65p per share) will not be provided for until authorised by shareholders at the forthcoming AGM. There are no income tax consequences.

Interim dividends of 5.20p per share (2013: 4.65p per share) are provided for when the dividend is paid. The dividend was paid on 2 January 2015 and totalled £4,355,000.

The total value of dividends proposed but not recognised at 31 December 2014 is £14,655,000 (2013: £12,689,000).

Reserves

Other reserves

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

Capital redemption reserve

The capital redemption reserve represents the nominal value of shares repurchased and cancelled during 2007.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Cash flow hedging reserve

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

Treasury reserve

The treasury reserve comprises the cost of the company's shares held by the group.

Special reserve

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

23 FINANCIAL INSTRUMENTS

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

Credit risk and credit quality

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

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

The group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all new customers requiring credit and these are frequently reviewed by management to limit exposure. Businesses must obtain central approval from executive directors or senior executive management for credit limits in excess of £10,000. The group does not require collateral in respect of financial assets.

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

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

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

23 FINANCIAL INSTRUMENTS continued

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

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade and other receivables (note 16)	**115,057**	115,852	**15,293**	15,420
Cash and cash equivalents (note 17)	**47,589**	47,477	**14,237**	32,231
	162,646	163,329	**29,530**	47,651

The fair values of the above financial assets at both 31 December 2014 and 2013, 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	
	2014 £000	2013 £000	2014 £000	2013 £000
UK	**79,457**	80,613	**–**	–
Continental Europe	**11,038**	12,001	**–**	–
	90,495	92,614	**–**	–

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

	2014		2013	
Group	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	**82,002**	**–**	84,662	–
Past due 0–30 days	**8,524**	**(444)**	6,256	(487)
Past due 31–120 days	**2,118**	**(1,705)**	4,182	(1,999)
	92,644	**(2,149)**	95,100	(2,486)

All other receivables and derivative financial assets are not past due (2013: not past due).

The company had trade receivables of £nil (2013: £nil).

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

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Balance at 1 January	**2,486**	2,654	**–**	–
Amounts provided	**1,099**	1,516	**–**	–
Amounts utilised	**(1,380)**	(1,704)	**–**	–
Effect of movements in foreign exchange	**(56)**	20	**–**	–
Balance at 31 December	**2,149**	2,486	**–**	–

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 0.17% (2013: 0.25%).

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 2014 cash and cash equivalents covered the amounts of borrowings maturing in the next 12 months with a net positive liquidity of £47,385,000 (2013: £47,259,000). Details of the total facilities that the group has access to are given in note 18.

The following are the contractual maturities of financial liabilities:

31 December 2014 Group	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1–2 years £000**	**2–5 years £000**	**More than 5 years £000**
Non-derivative financial liabilities						
Unsecured bank loans	**23,022**	**(24,552)**	**(838)**	**(834)**	**(20,840)**	**(2,040)**
Trade and other payables	**151,521**	**(151,521)**	**(151,521)**	**–**	**–**	**–**
Derivative financial liabilities						
Interest rate swaps used for hedging	**132**	**(132)**	**(55)**	**(77)**	**–**	**–**
	174,675	**(176,205)**	**(152,414)**	**(911)**	**(20,840)**	**(2,040)**

31 December 2013 Group	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities						
Unsecured bank loans	33,457	(36,305)	(1,080)	(1,076)	(31,740)	(2,409)
Trade and other payables	149,775	(149,775)	(149,775)	–	–	–
Derivative financial liabilities						
Interest rate swaps used for hedging	87	(87)	(88)	(12)	13	–
Forward exchange contracts used for hedging	122	(122)	(122)	–	–	–
	183,441	(186,289)	(151,065)	(1,088)	(31,727)	(2,409)

31 December 2014 Company	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1–2 years £000**	**2–5 years £000**
Non-derivative financial liabilities					
Unsecured bank loans	**20,000**	**(21,255)**	**(579)**	**(579)**	**(20,097)**
Trade and other payables	**35,502**	**(35,502)**	**(35,502)**	**–**	**–**
Derivative financial liabilities					
Interest rate swaps used for hedging	**132**	**(132)**	**(55)**	**(77)**	**–**
	55,634	**(56,889)**	**(36,136)**	**(656)**	**(20,097)**

31 December 2013 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	(32,527)	(798)	(798)	(30,931)
Trade and other payables	37,390	(37,390)	(37,390)	–	–
Derivative financial liabilities					
Interest rate swaps used for hedging	87	(87)	(88)	(12)	13
	67,477	(70,004)	(38,276)	(810)	(30,918)

23 FINANCIAL INSTRUMENTS continued

The value of the group's and company's financial liabilities as detailed above at 31 December 2014 and 2013 were not materially different to the carrying value. Fair values were calculated using market rates, where available. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

The table below sets out the group's accounting classification of each class of financial assets and liabilities at 31 December 2014 and 2013.

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

31 December 2013	Available for sale £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	–	–	47,477	47,477
Borrowings due within one year	–	–	(218)	(218)
Borrowings due after one year	–	–	(33,239)	(33,239)
Trade payables	–	–	(124,167)	(124,167)
Non-trade payables	–	–	(25,608)	(25,608)
Trade receivables	–	–	92,614	92,614
Other receivables	–	–	23,238	23,238
Derivative liabilities	–	(209)	–	(209)
	–	(209)	(19,903)	(20,112)

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.

Interest rate risk

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

Floating rate borrowings are linked to the London Interbank Offered Rate and Euribor Over Night Index Average. The group adopts a policy of reviewing its floating rate exposure to ensure that if interest rates rise the effect on the group's income statement is manageable. In accordance with this policy, and in order to manage its exposure to UK interest rates, the group entered into two interest rate swaps in 2012 to fix £20 million of its sterling denominated borrowings. These interest rate swaps were designated as a hedging instrument and accounted for as a cash flow hedge in accordance with the requirements of IAS 39. The cash flows will occur over the period to 8 March 2016.

The fair value of these interest rate swaps are included in the Statement of Financial Position as a £132,000 derivative liability (2013: £87,000).

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

	Group Carrying amount		Company Carrying amount	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Variable rate instruments				
Financial assets	**47,589**	47,477	**14,237**	32,231
Financial liabilities	**(23,022)**	(33,457)	**(20,000)**	(30,000)
	24,567	14,020	**(5,763)**	2,231

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 2013.

	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 2014								
Variable rate instruments	**246**	**(246)**	**–**	**–**	**(58)**	**58**		
31 December 2013								
Variable rate instruments	140	(140)	–	–	22	(22)	–	–

Foreign currency risk

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

The group and company use forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in the functional currency of the acquiring company. These forward exchange contracts would have a maturity of less than one year after the Statement of Financial Position date. The group also enters into foreign currency contracts at spot rate where the amounts are not frequent or material. Gains and losses on currency contracts recognised as an asset as at 31 December 2014 amounted to £2,000 (2013: liability of £122,000).

For the 12-month period to 31 December 2014, 3.8% (2013: 7.3%) of the group's operating profit was derived from overseas subsidiaries and at 31 December 2014, 16.0% (2013: 18.8%) of the group's net operating assets related to overseas subsidiary operations. Hedge accounting, following the adoption of IFRS, has not been applied to these operations.

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

Notes to the Financial Statements

23 FINANCIAL INSTRUMENTS continued

The exposure to foreign currency risk was as follows:

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

2013	Group Euro amount £000	Group Other amount £000	Group Total £000	Company Euro amount £000	Company Other amount £000	Company Total £000
Trade and other receivables	140	300	440	76	17	93
Cash and cash equivalents	298	468	766	44	–	44
Trade and other payables	(1,054)	(2,355)	(3,409)	–	–	–
	(616)	(1,587)	(2,203)	120	17	137

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 2013.

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Euro	**(62)**	(62)	**16**	12
Other	**(202)**	(159)	**1**	2

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 has two interest rates swaps used for hedging which were fair valued in accordance with level 2 for the year ended 31 December 2014 (2013: level 2) and forward currency contracts which were fair valued in accordance with level 2 (2013: level 2).

Fair values

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

Trade receivables, trade payables and cash and cash equivalents

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

Borrowings, other financial assets and other financial liabilities

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

Capital management

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

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board closely monitors its shareholder base, dividend yield and earnings per share. In the medium term the group aims to maintain a dividend cover of 1.7 times.

The board encourages employees of the group to hold the company's ordinary shares. The group operates a number of employee share option schemes. In previous years the company has acquired a number of its own shares under a share buy-back programme, and some of these shares have been used for issuing shares under the group's various share option incentive schemes.

Certain of the company's subsidiaries are required to maintain issued share capital at levels to support capital adequacy requirements prevailing in the legislative environment in which they operate.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends made payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On 8 March 2012, the group completed a refinancing of its banking facilities. The new facilities comprise a £40 million committed facility and a £35 million uncommitted facility. This represents an increase in total available facilities of £10 million. The uncommitted facility, coupled with cash generated from operations, is used to fund the group's ongoing working capital requirements. The committed facility is in place to support the group's strategic investment plans.

No changes were made to the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

Notes to the Financial Statements

24 ACQUISITIONS

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

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

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

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

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

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

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

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

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

On 28 March 2013, a group subsidiary company acquired the trade and assets of Hall's Floorings Limited, a distributor of residential floorcovering, based in Edmonton, north London, and a supplier to independent floorcovering retailers throughout most of England. Cash consideration of £521,000 was paid. Since its acquisition the business has contributed revenue of £5,146,000 and a loss of £24,000 to the Consolidated Statement of Comprehensive Income for the year ended 31 December 2013. If the acquisition had occurred on 1 January 2013 group revenue would have been an estimated £610 million and profit after tax would have been an estimated £14.9 million.

On 29 November 2013, a group subsidiary company acquired the trade and assets of Roger Fell Limited (Fells Carpets), a distributor of residential floorcovering throughout the north of England, for a cash consideration of £1,453,000. The primary reason for this acquisition is for the group to enhance its position in the north of England. Since its acquisition the business has contributed revenue of £455,000 and a loss of £27,000 to the Consolidated Statement of Comprehensive Income for the year ended 31 December 2013. If the acquisition had occurred on 1 January 2013 group revenue would have been an estimated £609.5 million and profit after tax would have been an estimated £14.9 million.

	Acquiree's book value £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Intangible assets	–	150	150
Property, plant and equipment	39	–	39
Inventories	2,033	–	2,033
Trade and other receivables	1,962	–	1,962
Trade and other payables	(1,990)	–	(1,990)
Restructuring	(220)	–	(220)
Net identifiable assets and liabilities	1,824	150	1,974
Goodwill on acquisition			–
Consideration paid			1,974
Satisfied by:			
Cash			1,974
Analysis of cash flows:			
On completion			1,974
Costs of acquisition			110
			2,084

Professional fees of £110,000 were incurred on the acquisitions and have been expensed to the income statement within administration expenses.

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

No goodwill has arisen on the acquisition of the trade and assets of Hall's Floorings Limited or Roger Fell Limited. The intangible assets on acquisition were attributed to customer order books.

Notes to the Financial Statements

25 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	2014 Land and buildings £000	2014 Plant and machinery £000	2014 Total £000	2013 Land and buildings £000	2013 Plant and machinery £000	2013 Total £000
Less than one year	**1,728**	**9,355**	**11,083**	1,695	9,405	11,100
Between one and five years	**3,160**	**13,657**	**16,817**	3,285	17,692	20,977
More than five years	**2,234**	**–**	**2,234**	2,275	–	2,275
	7,122	**23,012**	**30,134**	7,255	27,097	34,352

Company	2014 Land and buildings £000	2014 Plant and machinery £000	2014 Total £000	2013 Land and buildings £000	2013 Plant and machinery £000	2013 Total £000
Less than one year	**26**	**2**	**28**	39	7	46
Between one and five years	**105**	**–**	**105**	105	2	107
More than five years	**1,881**	**–**	**1,881**	1,907	–	1,907
	2,012	**2**	**2,014**	2,051	9	2,060

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 2014, total operating lease expense of £11,854,000 was recognised in the Consolidated Income Statement (2013: £12,153,000).

26 CAPITAL COMMITMENTS

Group

During the year ended 31 December 2014, the group entered into commitments to purchase property, plant and equipment for £1,019,000 (2013: £2,261,000). These commitments are expected to be settled in the following financial year.

Company

During the year ended 31 December 2014, the company entered into commitments to purchase property, plant and equipment for £109,000 (2013: £2,014,000). This commitment is expected to be settled in the following financial year.

27 RELATED PARTIES

Group and company

Identity of related parties

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

Transactions with key management personnel

The group annually re-evaluates its interpretation of key management personnel and considers that this relates to the executive and non-executive directors of the group as identified on pages 36 and 37.

As at 31 December 2014, directors of the company and their immediate relatives controlled 1.3% of the voting shares of the company (2013: 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 personnel in either the current or preceding year. The cost charged to administrative expenses relating to share plans of key personnel amounted to £159,000 (2013: £nil).

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 2014 £000	Highest during the year £000	Balance at 31 December 2013 £000
Amounts due from subsidiaries	**15,081**	**15,081**	14,775	14,775
Amounts due to subsidiaries	**(34,271)**	**(34,271)**	(31,884)	(31,884)

Transactions with group companies typically comprise management, rent and interest charges during the period.

The disclosure of the year-end balance and the highest balance during the year is considered to provide a meaningful representation of transactions between the company and its subsidiaries in the year. The highest balance is generally at the start or close of the financial year since this is the time when the company levies its recharge of its operating expenses.

Related party transactions reported in the income statement

	For year ended 31 December 2014 £000	For year ended 31 December 2013 £000
Rental income	**7,202**	6,368
Dividends received	**5,742**	23,999
Recharge of operating expenses	**1,954**	2,318
Interest income	**167**	138
Pension recharge	**162**	166

28 SUBSEQUENT EVENTS

Management have given due consideration to any events occurring in the period from the reporting date to the date these financial statements were authorised for issue and have concluded that there are no material adjusting or non-adjusting events to be disclosed in these financial statements, with the exception of the matter described below.

On 30 January 2015, a subsidiary company of Headlam Group plc entered into an agreement to acquire the business and certain assets of Matty's Wholesale Carpets (Matty's). Matty's is a distributor of residential floorcovering to independent flooring retailers,principally in the Midlands. Revenue for the calendar year 2014 was approximately £4.3 million. Consideration at completion amounted to £1.978 million, with net assets acquired of £1.228 million and goodwill of £0.75 million. Following completion, the autonomous sales and marketing identity of Matty's will be preserved and logistics will be provided by the group's existing facility in Coleshill. The disclosures required by IFRS 3 have not been made as initial acquisition accounting will remain incomplete until after formal completion of the acquisition.

Principal Trading Subsidiaries

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

All of these subsidiaries are wholly owned and their principal activities are wholly aligned to the sales, marketing, supply and distribution of floorcovering and certain other ancillary products.

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

Financial Record

	2014 £000	2013 £000	2012 Restated* £000	2011 £000	2010 £000
Trading results					
Revenue	**635,242**	603,051	585,984	569,795	535,690
Gross profit	**190,540**	181,255	175,733	175,739	164,959
Overheads	**(159,078)**	(153,575)	(146,419)	(147,687)	(138,893)
Underlying operating profit	**31,462**	27,680	29,314	28,052	26,066
Underlying profit before net financing costs	**31,462**	27,680	29,314	28,052	26,066
Net financing costs	**(1,162)**	(1,241)	(1,463)	(464)	(1,060)
Underlying profit on ordinary activities before tax	**30,300**	26,439	27,851	27,588	25,006
Taxation	**(6,515)**	(6,146)	(6,939)	(7,184)	(7,127)
Underlying profit on ordinary activities after taxation	**23,785**	20,293	20,912	20,404	17,879
Shareholder value					
Paid dividend per share	**15.30p**	14.85p	14.15p	12.40p	11.00p
Proposed dividend per share	**17.50p**	15.30p	14.85p	14.15p	12.40p
Underlying earnings per share	**28.6p**	24.5p	25.3p	24.6p	21.5p
Net assets					
Non-current assets					
Property, plant and equipment	**103,461**	103,079	96,182	94,201	97,215
Intangible assets	**10,013**	10,013	13,210	13,210	13,210
Deferred tax assets	**2,726**	2,388	2,376	962	896
	116,200	115,480	111,768	108,373	111,321
Current assets					
Inventories	**116,569**	115,678	115,332	114,196	105,694
Trade and other receivables	**118,816**	119,488	108,070	111,656	102,240
Cash and cash equivalents	**47,589**	47,477	49,798	41,494	44,758
Assets held for sale	**–**	–	212	362	362
	282,974	282,643	273,412	267,708	253,054
Total assets	**399,174**	398,123	385,180	376,081	364,375
Current liabilities					
Other interest-bearing loans and borrowings	**(204)**	(218)	(213)	(30,219)	(225)
Trade and other payables	**(166,266)**	(164,519)	(153,755)	(154,490)	(149,476)
Employee benefits	**(2,933)**	(2,842)	(2,754)	(2,669)	(2,586)
Income tax payable	**(6,073)**	(7,022)	(7,117)	(6,678)	(4,201)
	(175,476)	(174,601)	(163,839)	(194,056)	(156,488)
Non-current liabilities					
Other interest-bearing loans and borrowings	**(22,818)**	(33,239)	(33,371)	(3,691)	(34,011)
Employee benefits	**(18,803)**	(12,780)	(14,641)	(11,789)	(10,138)
	(41,621)	(46,019)	(48,012)	(15,480)	(44,149)
Total liabilities	**(217,097)**	(220,620)	(211,851)	(209,536)	(200,637)
Net assets	**182,077**	177,503	173,329	166,545	163,738

* Restated to reflect the changes for revised IAS 19.

Notice of AGM

Notice is hereby given that the 67th Annual General Meeting of Headlam Group plc will be held at the group's distribution facility located at Gorsey Lane, Coleshill, B46 1JU on Thursday 21 May 2015 at 10.00 a.m. for the following purposes.

As ordinary business

1. To receive, consider and adopt the Annual Report and Accounts, the reports of the directors and the Independent Auditor's Report for the year ended 31 December 2014.
2. To declare a final dividend for the year ended 31 December 2014 of 12.30p per ordinary share.
3. To re-elect as a director Steve Wilson who is retiring by rotation in accordance with the company's articles.
4. To re-elect as a director Dick Peters who is retiring by rotation in accordance with the company's articles.
5. To reappoint KPMG LLP as the independent auditor of the company from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders.
6. To authorise the directors to determine the independent auditor's remuneration.
7. To approve the Directors' Remuneration Report for the year ended 31 December 2014.

As special business

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

8. Authority to allot shares

(a) that the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to allot shares in the company, and to grant rights to subscribe for or to convert any security into shares in the company, up to an aggregate nominal amount of £620,000 for a period expiring (unless previously renewed, varied or revoked by the company in general meeting) at the end of the 2016 AGM (or, if earlier, at the close of business on 30 June 2016), and save that the company may before such expiry make an offer or agreement which would or might require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after expiry of this authority and the directors may allot shares and grant rights in pursuance of any such offer or agreement as if this authority had not expired;

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

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

9. Disapplication of pre-emption rights

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

This power:

(a) expires (unless previously renewed, varied or revoked by the company in general meeting) at the end of the 2016 AGM if passed (or, if earlier, at the close of business on 30 June 2016), save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired; and

(b) shall be limited to:

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

(ii) the allotment of equity securities for cash otherwise than pursuant to paragraph 9(b)(i) up to an aggregate nominal amount of £213,000.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(3) of the Act as if, in the first paragraph of this resolution, the words "pursuant to the authority conferred by resolution 9 in this Notice" were omitted.

10. Authority to purchase own shares

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

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

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

(c) the maximum price (exclusive of expenses) which may be paid for each ordinary share is the higher of:

(i) an amount equal to 105% of the average of the middle market quotations of an ordinary share of the company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and

(ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System; and

(d) the authority conferred by this resolution shall expire at the conclusion of the 2016 AGM or, if earlier, at the close of business on 30 June 2016 (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 2016 or 30 June 2016, whichever is the earlier.

By order of the board

Geoff Duggan
Company Secretary
5 March 2015

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

Explanatory Notes to the Proposed Resolutions

This year's AGM will be held at the group's distribution facility at Gorsey Lane, Coleshill, Birmingham B46 1JU on Thursday 21 May 2015 at 10.00 a.m.

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

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

Resolution 1 – Annual Report and Accounts

The company is required by law to present to shareholders at the AGM its audited accounts and the directors' and independent auditor's reports for the financial year ended 31 December 2014. Shareholders are invited to vote to receive and adopt the Annual Report and Accounts for the year ended 31 December 2014.

Resolution 2 – Declaration of dividend

The directors recommend the payment of a final dividend of 12.30p on each of the ordinary shares entitled thereto, which together with the interim dividend of 5.20p, gives a total dividend of 17.50p for the year ended 31 December 2014. Subject to approval of the declaration of the final dividend at the AGM, the final dividend will be paid on 1 July 2015 to the holders of ordinary shares whose names are recorded on the register of members at the close of business on 5 June 2015.

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

Steve Wilson is retiring by rotation in accordance with the company's articles and is offering himself for re-election by shareholders. Under the articles of association, directors are required to retire every three years. Steve was appointed an executive director in December 1991 at which time he became Group Finance Director. Steve was formerly non-executive Chairman of Synergy Healthcare plc, from which he resigned in September 2010 and, was appointed a non-executive director of Conviviality Retail Plc in January 2014. The board believes that Steve Wilson should be re-elected and makes such a recommendation to shareholders.

Resolution 4 – Re-election of Dick Peters as a director

Dick Peters 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. Dick was appointed a non-executive director in December 2005 at which time he joined the Nominations, Audit and Remuneration Committees, becoming Chairman of the Audit Committee. On 1 September 2013 Dick was appointed Chairman following the resignation of Graham Waldron, at which time he resigned as Audit Committee Chairman. The board believes that Dick Peters should be re-elected and makes such a recommendation to shareholders.

Resolution 5 – 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 LLP 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 2014 Directors' Remuneration Report, which gives details of the directors' remuneration for the period ended 31 December 2014 and is set out on pages 53 to 67 of the company's Annual Report and Accounts. Whilst the payment of remuneration to the directors is not dependent on the passing of the resolution, the board will take the vote into account when considering the future development and operation of the company's remuneration policy and practice. As required by the Directors' Remuneration Report Regulations 2002, KPMG LLP have audited those parts of the Directors' Remuneration Report capable of being audited and their report can be found on pages 78 to 80 of the Annual Report and Accounts.

SPECIAL BUSINESS – RESOLUTIONS 8 TO 11

Resolution 8 – Authority to allot shares

Shareholders are being asked to pass the necessary resolution to grant to the directors a general authority, for the purpose of section 551 of the Companies Act 2006, to allot relevant securities. With due regard to the ABI guidelines and to comments received from shareholders, the proposed general authority, similar to last year, is to allot up to an aggregate nominal amount of £620,000 representing 12,400,000 ordinary shares (15% of the company's ordinary share capital (excluding treasury shares) in issue at 5 March 2015). As at 5 March 2015, the company held 1,296,517 treasury shares, which represented approximately 1.5% 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 2016, or, if earlier, on 30 June 2016. The directors consider that this authority is desirable to allow the company to retain flexibility, although they have no current intention of exercising this authority except in connection with the company's employee share schemes.

Resolution 9 – Disapplication of pre-emption rights

Shareholders are being asked to pass a resolution to empower the directors to allot equity securities, or sell treasury shares, for cash as if section 561 of the Companies Act 2006 (which gives shareholders certain pre-emption rights on the issue of shares or rights to subscribe for or convert securities into shares) did not apply to any such allotment. The resolution allows the issue or sale of shares of up to an aggregate nominal amount of £620,000 representing 12,400,000 ordinary shares in respect of rights issues and other issues pro rata to existing entitlements, and also allows issues or sales for cash (other than in relation to a rights issue) limited to shares having an aggregate nominal amount of £213,000 (5% of the company's ordinary share capital in issue at 5 March 2015). The authority will lapse at the conclusion of the AGM to be held in 2016 or, if earlier, on 30 June 2016.

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

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

Resolution 10 – Purchase of own shares

The directors believe that it is in the interests of the company and its members to continue to have the flexibility to purchase its own shares and this resolution seeks authority from members to do so. The directors intend only to exercise this authority where, after considering market conditions prevailing at the time, they believe that the effect of such exercise would be to increase the earnings per share and be in the best interests of shareholders generally. The effect of such purchases would either be to cancel the number of shares in issue or the directors may elect to hold them in treasury pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 ("the Regulations"). The Regulations enable certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by a company in accordance with the Companies Act 2006.

Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under a company's employee share scheme. Once held in treasury, a company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the company's assets may be made to the company in respect of the treasury shares.

This resolution renews the authority given at the AGM held in 2014. The authority is in respect of 10% of the company's issued ordinary share capital as at 5 March 2015 and will lapse at the conclusion of the AGM to be held in 2016 or, if earlier, on 30 June 2016. 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 11, the board will decide at the time whether to cancel them immediately or hold them in treasury. The purchase of shares will be dependent on market conditions and will also take into account the cash generated in the business and other investment opportunities that may arise over time. During the year the company made no purchases of its own shares.

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

Explanatory Notes to the Proposed Resolutions

Resolution 11 – Shareholder Rights Directive

This will be proposed as a special resolution to approve the holding of general meetings, other than AGMs, on 14 days' notice. Although the company's articles currently permit this, the Shareholder Rights Directive requires a shareholder resolution to be passed to authorise general meetings to be held on 14 days' notice. Without the passing of resolution 11, the minimum notice period under the regulations would be 21 days. If resolution 11 is passed by the shareholders, the regulations would only allow the company to call a general meeting on 14 days' notice if it were to make a system of electronic voting available to its shareholders in respect of the meeting in question. The directors consider it to be in the best interest of shareholders to pass resolution 11, which is a repeat of the same resolution passed at the AGM in 2014, in order to prevent being constrained by the regulations implementing the directive. It will be necessary for a similar resolution to be put to shareholders at each subsequent AGM. It is intended that this flexibility will only be used for non-routine business and where merited in the interests of shareholders as a whole.

Explanatory Notes to the Notice of Meeting

Notes 1 to 17 below give further explanation as to the proxy, voting and attendance procedures at the AGM.

1. Entitlement to appoint proxies

A member entitled to attend and vote at the meeting is also entitled to appoint a proxy or proxies to attend, speak and vote instead of him.

A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the company. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting. To appoint more than one proxy, a member must complete a photocopy of the enclosed proxy card or obtain additional forms from our registrars, Capita Asset Services, telephone 0871 664 0300 (calls cost 10p per minute plus network charges). Lines are open 8.30 a.m. – 5.30 p.m. 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 Asset Services, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed with this Notice.

3. Electronic proxy appointment through CREST

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

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

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

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

4. Joint holders

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

Explanatory Notes to the Notice of Meeting

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 19 May 2015 or, if the meeting is adjourned, 6.00 p.m. on the date two days before the date for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

6. Corporate representatives

Corporations may appoint one or more corporate representatives who, on its behalf, may exercise all of its powers as a member.

7. Nominated person

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

8. Issued share capital/voting rights

As at 4 March 2015, being the latest practicable date prior to the publication of this document, the company's issued share capital, including treasury shares, consisted of 85,363,743 ordinary shares of 5p ("shares"). Of these, 1,296,517 shares were held in treasury, the voting rights and entitlement to dividend of which were automatically suspended. Accordingly, the total number of voting rights in the company as at that date was 84,067,226.

9. Right to ask questions

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

10. Shareholder requests under section 527 of the Act

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

11. Non-shareholder attendance

Persons who are not shareholders in the company will not be admitted to the meeting unless prior arrangements are made with the company.

12. Access arrangements

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

13. Communicating with the company in relation to the AGM

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

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

(b) by writing to: Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

No other methods of communication will be accepted. In particular, you may not use any electronic address provided either in this Notice or in any related documents (including, without limitation, the Annual Report and Accounts 2014 and the form(s) of proxy) to communicate with the company for any purpose other than those expressly stated in this Notice or in such other related documents.

14. Inspection of documents

Copies of the directors' service contracts and, where appropriate, letters of appointment, a summary of the directors' transactions in the company's shares during the year and the written terms of reference for each of the Remuneration, Audit and Nominations Committees will be available for inspection at the registered office of the company during normal business hours on any weekday (Saturday, Sundays and public holidays excluded) from the date of this Notice until the close of business on the business day preceding the AGM and will also be available for inspection for at least 15 minutes prior to the meeting and throughout the meeting.

There are no service agreements between any director and any subsidiary of the company.

15. Voting results

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

16. Website

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

17. Data protection statement

Your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the company).

The company determines the purposes for which and the manner in which your personal data is to be processed. The company and any third party to whom it discloses the data (including the company's registrars) may process your personal data for the purposes of compiling and updating the company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

Shareholder Information

Shareholder helpline

The company's shareholder register is maintained by Capita Asset Services ("Capita"), who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases or sales of company shares. If you have a question about your shareholding in the company you should contact: Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Email: ssd@capitaregistrars.com, telephone 0871 664 0300 (calls cost 10p plus network extras). Lines are open 8.30 a.m. – 5.30 p.m. Monday to Friday.

Frequent shareholder enquiries

If you change your address

Please notify Capita in writing. If shares are held in joint names, the notification must be signed by all named shareholders.

If you change your name

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

Lost share certificates

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

Duplicate shareholder accounts

If you receive more than one copy of the company's communications you may have your shares registered inadvertently in at least two accounts.

This happens when the registration details of separate transactions differ slightly. If you wish to consolidate such multiple accounts, write to Capita to request the accounts are consolidated.

Buying and selling shares in the UK

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

Transferring shares

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

Share prices information

Shareholders can find share prices listed in most national newspapers. For a real-time buying or selling price, you should contact a stockbroker. Additionally, there is a link to the London Stock Exchange on the company's website.

The company's website

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

ShareGift

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

The Unclaimed Assets Register

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

For further information, visit www.uar.co.uk.

Warning to shareholders – boiler room scams

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

If you receive an unsolicited investment approach, you should:

- Confirm the name of the person calling and the organisation they represent.
- Check that they are registered with the Financial Conduct Authority (FCA) by calling 0800 111 6768 or by visiting www.fca.org.uk and contact the firm using the details on the register.
- Report the matter to the FCA by calling 0800 111 6768 or by visiting www.fca.org.uk.

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

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Registrars
Capita Asset Services
The Registry
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Kent, BR3 4TU

Financial Calendar

Announcements

Annual General Meeting	21 May 2015
Interim results announced	24 August 2015
Full year results announced	March 2016

Dividend Dates

Final dividend for 2014, if approved, payable to qualifying shareholders on the register as at 5 June 2015	1 July 2015
Interim dividend for 2015 announced	24 August 2015
Interim dividend for 2015 payable	4 January 2016

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