headlam
group plc

DELIVERING MORE

Interim Report and Accounts 2018

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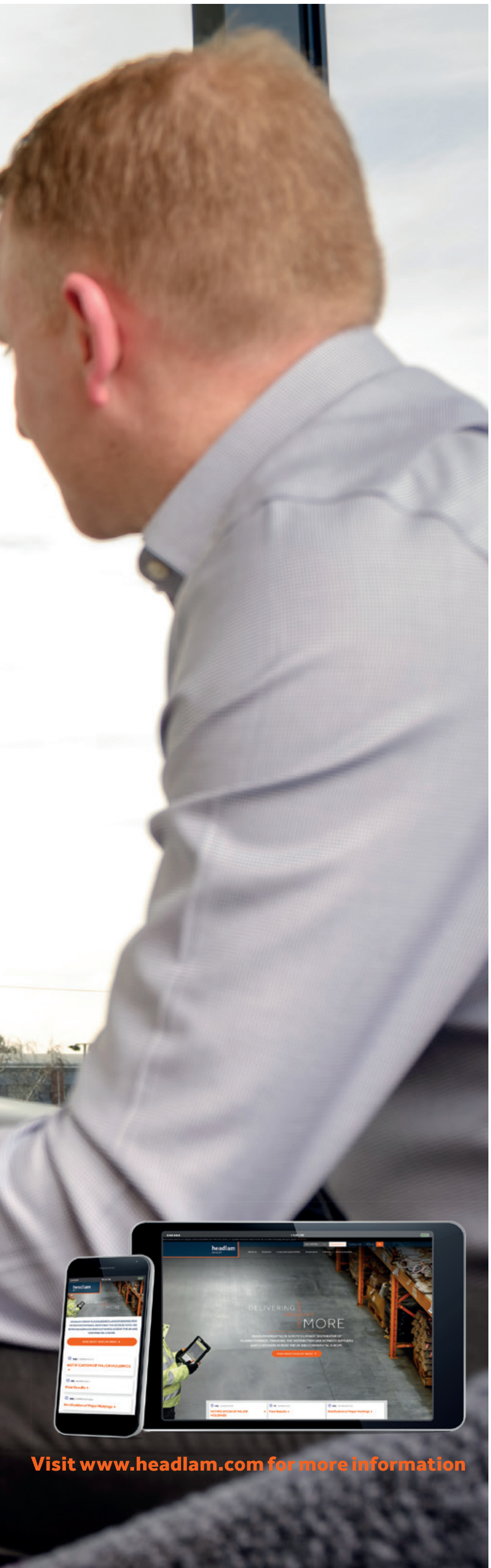
Headlam Group plc ('Headlam' or 'the Company') is Europe's largest distributor of floorcoverings, providing the distribution channel between suppliers and its customers.

Headlam provides suppliers with an unparalleled route to market for their products, and its customers with the broadest product offering supported by excellent customer service and next day delivery.

Over the last 25 years, the Company has built and consolidated its market-leading position through organic growth, acquisition, considerable investment in its extensive distribution network and people, and strong relationships with suppliers and customers.

25 YEARS



HIGHLIGHTS

- Changes to the Board
  - Keith Edelman will join the Board as Non-Executive Director on 1 October 2018 and will be appointed Senior Independent Director on 1 January 2019
  - Alison Littley will join the Board as Non-Executive Director on 1 January 2019 and be appointed Chair of the Remuneration Committee on 1 June 2019
  - Andrew Eastgate, following nine years as a Non-Executive Director of the Company, will retire from the Board on 31 May 2019
- Two further acquisitions completed in the period, extending reach and improving market position one adding a new UK location and building on the presence in the specification market and the other, as announced previously, consolidating Headlam's presence in the Netherlands. A further acquisition, completed during July, expands the Company's North London footprint

2017 FINANCIAL HIGHLIGHTS

Revenue £million

£337.5m

+1.0% (2017 restated*: £334.3m)

2018	337.5
2017	334.3
2016	321.3
2015	306.5
2014	294.9

Basic Earnings Per Share pence

15.9p

-1.9% (2017: 16.2p)

2018	15.9
2017	16.2
2016	14.4
2015	11.7
2014	10.2

Underlying Operating Profit** £million

£18.1m

+1.1% (2017: £17.9m)

2018	18.1
2017	17.9
2016	15.4
2015	13.0
2014	11.3

Net Cash Position £million

£16.0m

-32.2% (2017: £49.8m)

2018	16.0
2017	49.8
2016	33.9
2015	26.0
2014	11.7

Underlying Profit before Tax** £million

£17.7m

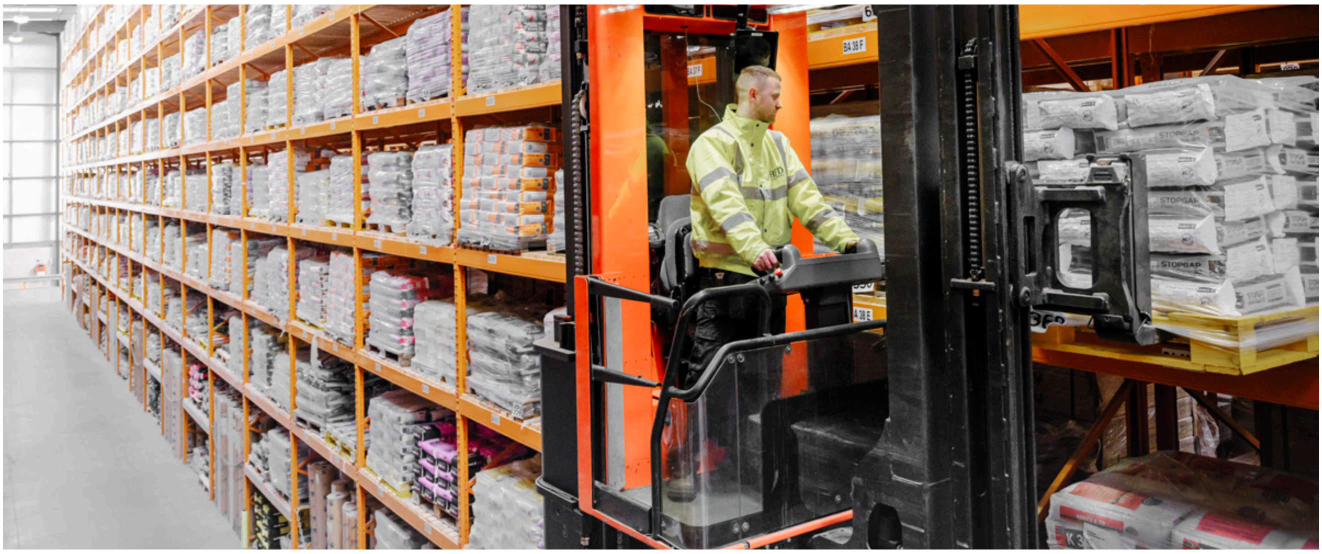
+0.6% (2017: £17.6m)

2018	17.7
2017	17.6
2016	15.1
2015	12.3
2014	10.8

* Restated to present comparatives on a consistent basis with 2018

** Before non-underlying items being intangibles amortisation relating to business acquired, acquisitions fees and non-recurring costs relating to personnel changes

Chief Executive's Review



FINANCIAL AND OPERATIONAL PERFORMANCE

It is pleasing to report that the Company achieved further growth during the six months ended 30 June 2018 (the 'Period'), despite ongoing softness in the UK market, with revenue increasing by 1.0% to £337.5 million compared with £334.3 million achieved in the prior year period. These results remain broadly unchanged when expressed in constant currency.

The composition of total revenue between the residential and commercial at 64.7% and 35.3% respectively, also reflects a slight shift in business mix towards the commercial sector when compared with the prior year period (H1 2017: 68.0% residential; 32.0% commercial).

UK revenue performance was largely unchanged during the Period compared with the prior year with the contribution from acquisitions offsetting the decline in the distribution businesses. The UK accounted for 84.9% of total revenue (H1 2017: 85.7%) with a like-for-like revenue reduction in the Period of 5.2% (H1 2017: growth of 2.1%) reflecting a decrease in the residential and commercial sectors of 7.3% and 0.1% respectively. Residential sector revenue represented 66.5% of UK revenue (H1 2017: 70.6%).

By contrast, the Company's businesses in Continental Europe achieved a collective revenue increase of 6.7%. The Continental businesses, which accounted for 15.1% of total revenue, achieved like-for-like revenue growth of 1.7% (H1 2017:growth of 3.0%) reflecting strong growth in the residential sector of 5.5% but a reduction in the commercial sector of 2.7%. Residential sector revenue represented 54.8% of Continental Europe revenue (H1 2017: 53.1%).

Despite the persistent UK market weakness throughout the Period and the consequential revenue shortfall in the UK core distribution business, the Company increased overall gross margin by 113 basis points. The key drivers were the ongoing benefit derived from margin improvement initiatives (68 basis points) and the positive effect of recent acquisitions both of which contributed to gross margin increasing to 32.5% (H1 2017: 31.4%).

During the Period, the revised approach to reordering and management of inventory has progressed from the trial phase and is now operational in a number of the Company's businesses. Although leading to an initial rise in absolute inventory levels, it is increasingly evident that this approach will have a beneficial impact on overall inventory profile, consumption ratios, product availability, effective warehouse utilisation and enhance the Company's ability to service its customers more effectively. Additionally, the Company continues to trial alternative approaches to delivery planning and the more effective utilisation of the commercial fleet and the focus on reducing expenditure on goods and services not for resale is now beginning to deliver positive results.

Alongside the adoption of IFRS 15, Revenue from Contracts with Customers, the Company has taken the opportunity to reclassify some items between revenue, cost of sales, and operating expenses in order to better reflect their nature. Consequently, the prior periods have been restated to present them in a consistent manner with the current Period. Further details can be found in Note 1 to the Condensed Consolidated Interim Financial Statements.

Underlying distribution and administrative expenses increased by 5.3% to £91.6 million (H1 2017: £87.0 million). The increase of £4.6 million was driven by acquisitions made over the last 12 months, offset by savings in personnel costs as a result of performance related awards not being earned. Due to the change in business mix with the expansion into specification businesses, underlying distribution cost and administrative expenses expressed as a proportion of revenue has now increased from 26.0% in the prior period to 27.2%.

Underlying operating profit during the Period at £18.1 million was broadly in line with the prior year performance of £17.9 million, with underlying operating margins remaining consistent.

Movement in underlying operating profit

	£000
Underlying operating profit 2017	17,918
Gross margin improvement:	
Volume benefit	(4,561)
Pricing benefit	1,861
Effect of acquisitions	7,536
	4,836
Costs and expenses:	
Distribution	875
Administration	1,310
Effect of acquisitions	(6,797)
Total increase	(4,612)
Underlying operating profit 2018	**18,142**

Underlying profit before tax increased to £17.7 million (H1 2017: £17.6 million) and statutory basic earnings per share, which is used to calculate the ordinary dividend, was 15.9 pence (H1 2017: 16.2 pence). The Company is maintaining the 2018 interim dividend at 7.55 pence per share (2017: 7.55 pence), which will be payable on 2 January 2019 to shareholders on the shareholder register at 30 November 2018.

Net cash flow from operating activities decreased by £16.2 million from £13.9 million to £(2.3) million. The key drivers are shown below.

	Six months ended 30 June		
	2018	2017	2016
	£000	£000	£000
Profit before taxation	**16,418**	16,767	15,111
Depreciation, amortisation and impairment	**3,229**	3,203	2,389
Profit on sale of property, plant and equipment	**(24)**	(44)	(11)
Net finance cost	**410**	351	254
Share-based payments	**658**	517	714
Working capital changes	**(16,102)**	(181)	(11,767)
Cash generated from operations	**4,589**	20,613	6,690
Interest paid	**(670)**	(545)	(487)
Tax paid	**(5,287)**	(5,077)	(4,306)
Pension contributions	**(930)**	(1,079)	(1,121)
Net cash from operating activities	**(2,298)**	13,912	776

The main contributor to the reduction in cash flow from operating activities is a working capital outflow of £16.1 million which was largely driven by the typical working capital changes in the lead up to the half year versus the year end exacerbated this year by a contraction in trade payables and increase in trade receivables because of the market led shift in business mix towards commercial. Investment in inventory has increased slightly as a consequence of the UK business orientating itself towards an improved product profile and the temporary stock increase required to support this transition that will ultimately deliver an improvement to customer service and fulfilled orders.

Net cash flow from investing and financing activities

	Six months ended 30 June		
	2018	2017	2016
	£000	£000	£000
Acquisition of subsidiaries net of cash acquired	**(5,478)**	(1,942)	–
Acquisition of property, plant and equipment	**(2,522)**	(2,069)	(1,456)
Share movements	**(2,891)**	(579)	4
Net movement on borrowings	**29,885**	14,887	(5,000)
Dividends paid	**(6,372)**	(12,369)	(10,096)
Other	**218**	304	549
Net cash flow from investing and financing activities	**12,840**	(1,768)	(15,999)

Chief Executive's Review continued

The key drivers behind the net cash flow from investing and financing activities was a £30.0 million draw down of the term facility offset by outflows for the acquisitions of Dersimo BV ('Dersimo')and Betu Holdings Limited, the parent company of CECO (Flooring) Ltd, ('CECO'), purchase of own shares to fulfil employee share-related awards and the interim dividend declared in 2017.

Net funds as at 30 June 2018 were £16.0 million compared to £35.3 million as at 31 December 2017. The contraction in net funds during the Period is principally due to the working capital outflow and further acquisitions in the first six months of 2018 to extend reach and leading position.

Net funds movement during the Period

	At 1 January 2018 £000	Cash flows £000	Translation differences £000	**At 30 June 2018 £000**
Cash at bank and in hand	42,030	10,542	(12)	**52,560**
Debt due within one year	(233)	–	1	**(232)**
Debt due after one year	(6,519)	(29,885)	26	**(36,378)**
	35,278	(19,343)	15	**15,950**

Total bank facilities at 30 June 2018 amounted to £111.8 million, of which £32.3 million is repayable on demand and £79.5 million relates to committed facilities, which expire on 14 December 2021.

ACQUISITIONS AND EXPANSION OF THE NETWORK

In addition to acquiring Dersimo, a business based in the Netherlands, on 2 March 2018, the Company completed the acquisition of CECO based in Carryduff, south of Belfast on 30 March 2018 and Ashmount Flooring Supplies Limited ('Ashmount') located in Tottenham, North London on 1 July 2018.

CECO is a leading provider of flooring and wallcovering products to retail and commercial customers throughout Northern Ireland and the Republic of Ireland, with exclusive distribution rights for a number of high-profile manufacturers of tiles, carpet tiles and architectural stone products. CECO's business is project and specification led, having well-established relationships with architects, interior designers, education boards and universities. The acquisition expands Headlam's presence in Northern Ireland as well as meaningfully increasing its specification led sales channel.

Ashmount is a leading provider of commercial floorcovering products to customers in London and within the M25. The acquisition expands Headlam's presence in commercial products in a geographic area in which the Company has historically had a low market share. Ashmount will continue to operate under its own trade brand and from its existing premises while being supported by the Company's supply, logistics and financial resource.

We continue to assess a pipeline of potential acquisitions, cognisant of market backdrop, with the objective of bringing strategic benefits to the Company and building upon certain product lines.

Our proposed plans for a new distribution centre in the Ipswich area continue to progress with an application for planning approval now submitted to the local authority. Subject to planning approval being granted, we will then acquire the land and start work on ground preparation to enable the project to move to its construction phase. The current timetable indicates that the project should be finished and operational during the early part of 2020.

PEOPLE

In preparation for Andrew Eastgate's retirement from the Board after nine years as a Non-Executive Director on 31 May 2019, two new Non-Executive appointments are being made to the Company's Board to succeed Andrew as Chairman of the Remuneration Committee and the Company's Senior Independent Director.

Keith Edelman will join the Board on 1 October 2018 as a Non-Executive Director and he will be appointed Senior Independent Director on 1 January 2019. Keith brings extensive commercial experience coupled with a background in consumer facing businesses.

Keith is currently Chairman of Revolution Bars Group Plc and Pennpetro Energy Plc, and a non-executive director of the London legacy Development Corporation and Superdry Plc. In his executive career he was a director of consumer, retail and leisure companies including Ladbroke Group Plc, Carlton Communications Plc, and Storehouse Plc. His last executive appointment, which ended in 2009, was Managing Director of Arsenal Holdings Plc where he was responsible for the move from Highbury to Emirates Stadium.

Since 2009, Keith has held a number of non-executive roles including Safestore Plc, Goals Soccer Centres plc, JE Beale Plc and Thorntons Plc.

Alison Littley will join the Board as a Non-Executive Director on 1st January 2019 and be appointed as Chair of the Remuneration Committee on 1 June 2019.

Alison has substantial experience in multinational manufacturing and supply chain operations, and a strong international leadership background of building effective management teams and third-party relationships gained through a variety of senior management positions in Diageo plc and Mars Inc and an Agency to HM Treasury where she was Chief Executive Officer.

She is currently a Non-Executive Director at James Hardie Industries Plc, an industrial building materials company headquartered in Ireland and listed on the Australian Securities Exchange, Market Harborough Building Society, Eakin Healthcare Limited and Weightmans LLP.

No further information is required to be disclosed pursuant to LR 9.6 13 in respect of Keith and Alison, save for that Keith Edelman was a director of Metro Racing Limited, which was placed into solvent members' liquidation on 16 June 2010, and was a director of two companies which never traded: Nirah Holdings Limited which was dissolved on 11 February 2016, and Nirah Limited which was dissolved on 30 September 2014. Keith was also a director of Qualceram Shires plc which went into liquidation on 7 July 2009.

I would like to welcome both Keith and Alison and look forward to their important contributions as we continued to grow and optimise the performance of the business and the Company's returns to all its stakeholders.

I would also like to give my very special thanks to all our employees for their continued hard work and engagement. Without our people, progress and performance would not be possible.

CURRENT TRADING AND OUTLOOK

Trading for the year to date remains broadly consistent with that experienced during the first half. Encouragingly, order intake to date in the important month of August is in-line with Board expectations and is following the traditional seasonal increase for the commercial businesses due to refurbishment activity in the education sector which typically spans the month of August through to early September.

Overall, the softness in the UK market continues to persist and indications are that this situation will likely remain through the second half of the financial year with the attendant impact on the core residential businesses.

However, the Company continues to focus on and drive through multiple efficiency initiatives which are expected to yield increasing benefits as the year progresses.

UK price increases to be introduced from 1 September 2018 ranging from 2.0% to 10.0%, averaging approximately 3.0%, directly reflecting supplier increases as a consequence of raw material price inflation.

We are pleased to report further growth and an increase in our market position during the first six months of 2018. However, given the ongoing softness in the UK floorcovering market and the associated trading impact on the Company's UK businesses coupled with the current indications that these conditions are likely to continue during the second half of the year, the Board now expects that the full year outcome, whilst ahead of the full year 2017 will be towards the lower end of current market expectations.

Steve Wilson
Chief Executive Officer
22 August 2018

The principal risks and uncertainties which could affect the Company's future performance remain unchanged from those detailed on pages 26 and 27 of the Company's Annual Report and Accounts for the year ended 31 December 2017, to be found on the Company's website, www.headlam.com.

HEADLAM IN NUMBERS*

SUPPLIERS:

- **119** significant suppliers
- **16** primary supplier countries
- **21,763** product units ('SKUs')
- **34%** of products purchased from UK suppliers in 2017

HEADLAM:

- **67** million cubic feet of warehouse capacity
- **5.5m** customer orders processed in 2017
- **404** commercial vehicles
- **64** trade counters, showrooms and specification centres

CUSTOMERS:

- **67,807** active customer accounts
- **£133** average order value in 2017
- **68%** 2017 revenue from residential sector
- **9%** orders placed on-line in 2017

* Suppliers and Customers numbers provided above are for those of the core business only in 2017.

Statement of Directors Responsibilities

The Directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of Headlam Group plc are listed in the Headlam Group plc Annual Report and Accounts for the year ended 31 December 2017, with the exception of Dick Peters who retired on 31 May 2018. A list of current Directors is maintained on the Headlam Group plc website, www.headlam.com.

By order of the Board,

Philip Lawrence
Chairman

22 August 2018

Condensed Consolidated Interim Income Statement

	Note	**Underlying 2018 £000**	**Non-underlying 2018 £000 Unaudited**	**Six months ended 30 June 2018 £000**	Underlying 2017 £000	Non-underlying 2017 £000 Unaudited	Restated* Six months ended 30 June 2017 £000	Underlying 2017 £000	Non-underlying 2017 £000 Audited	Restated* Year ended 31 December 2017 £000
Revenue	2	**337,489**	**–**	**337,489**	334,273	–	334,273	692,540	–	692,540
Cost of sales		**(227,695)**	**–**	**(227,695)**	(229,316)	–	(229,316)	(474,436)	–	(474,436)
Gross profit		**109,794**	**–**	**109,794**	104,957	–	104,957	218,104	–	218,104
Distribution costs		**(66,090)**	**–**	**(66,090)**	(63,177)	–	(63,177)	(127,145)	–	(127,145)
Administrative expenses	3	**(25,562)**	**(1,314)**	**(26,876)**	(23,862)	(800)	(24,662)	(47,176)	(2,399)	(49,575)
Operating profit	2	**18,142**	**(1,314)**	**16,828**	17,918	(800)	17,118	43,783	(2,399)	41,384
Finance income	4	**216**	**–**	**216**	146	–	146	578	–	578
Finance expenses	4	**(626)**	**–**	**(626)**	(497)	–	(497)	(1,243)	–	(1,243)
Net finance costs		**(410)**	**–**	**(410)**	(351)	–	(351)	(665)	–	(665)
Profit before tax		**17,732**	**(1,314)**	**16,418**	17,567	(800)	16,767	43,118	(2,399)	40,719
Taxation	5	**(3,236)**	**135**	**(3,101)**	(3,256)	154	(3,102)	(7,976)	179	(7,797)
Profit for the period attributable to the equity shareholders	2	**14,496**	**(1,179)**	**13,317**	14,311	(646)	13,665	35,142	(2,220)	32,922
Earnings per share										
Basic	6	**17.3p**		**15.9p**	17.0p		16.2p	41.7p		39.1p
Diluted	6	**17.1p**		**15.7p**	16.9p		16.1p	41.5p		38.9p
Ordinary dividend per share										
Interim dividend proposed for the financial period	7			**7.55p**			7.55p			7.55p
Final dividend proposed for the financial period	7			**–**			–			17.25p

*The results for the six months ended 30 June 2017 and 12 months ended 31 December 2017 have been restated to reflect changes made at 30 June 2018 reported in note 1.

All group operations during the financial periods were continuing operations.

Condensed Consolidated Interim Statement of Comprehensive Income

	Six months ended 30 June 2018 £000 Unaudited	Six months ended 30 June 2017 £000 Unaudited	Audited Year ended 31 December 2017 £000 Audited
Profit for the period attributable to the equity shareholders	**13,317**	13,665	32,922
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Re-measurement of defined benefit plans	**3,736**	1,868	9,127
Related tax	**(635)**	(318)	(1,729)
	3,101	1,550	7,398
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations	**(76)**	266	(277)
Effective portion of changes in fair value of cash flow hedges	**–**	(179)	(154)
Transfers to profit or loss on cash flow hedges	**–**	(49)	(77)
Related tax	**–**	39	43
Impact of change in UK tax rates on deferred tax	**–**	–	–
	(76)	77	(465)
Other comprehensive income/(expense) for the period	**3,025**	1,627	6,933
Total comprehensive income attributable to the equity shareholders for the period	**16,342**	15,292	39,855

Condensed Consolidated Interim Statements of Financial Position

	Unaudited At 30 June 2018 £000 Unaudited	Unaudited At 30 June 2017 £000 Inaudited	At 31 December 2017 £000 Audited
Assets			
Non-current assets			
Property, plant and equipment	**101,836**	102,744	101,631
Intangible assets	**50,085**	10,673	44,662
Deferred tax assets	**460**	920	648
	152,381	114,337	146,941
Current assets			
Inventories	**136,743**	129,709	131,566
Trade and other receivables	**129,560**	131,062	127,976
Cash and cash equivalents	**52,560**	71,566	42,030
	318,863	332,337	301,572
Total assets	**471,244**	446,674	448,513
Liabilities			
Current liabilities			
Other interest-bearing loans and borrowings	**(232)**	(230)	(233)
Trade and other payables	**(179,654)**	(187,244)	(190,299)
Dividends payable	**(14,596)**	(13,360)	–
Employee benefits	**–**	(2,205)	(2,235)
Income tax payable	**(4,175)**	(4,640)	(6,339)
	(198,657)	(207,679)	(199,106)
Non-current liabilities			
Other interest-bearing loans and borrowings	**(36,378)**	(21,563)	(6,519)
Trade and other payables	**(5,905)**	–	(4,938)
Provisions	**(2,048)**	(1,531)	(2,048)
Deferred tax liabilities	**(7,274)**	(4,039)	(6,847)
Employee benefits	**(8,641)**	(18,444)	(10,481)
	(60,246)	(45,577)	(30,833)
Total liabilities	**(258,903)**	(253,276)	(229,939)
Net assets	**212,341**	193,398	218,574
Equity attributable to equity holders of the parent			
Share capital	**4,268**	4,268	4,268
Share premium	**53,512**	53,512	53,512
Other reserves	**952**	2,845	2,891
Retained earnings	**153,609**	132,773	157,903
Total equity	**212,341**	193,398	218,574

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	**4,268**	**53,512**	**88**	**6,859**	**(4,056)**	**157,903**	**218,574**
Profit for the period attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**13,317**	**13,317**
Other comprehensive income	**–**	**–**	**–**	**(76)**	**–**	**3,101**	**3,025**
Total comprehensive income for the period	**–**	**–**	**–**	**(76)**	**–**	**16,418**	**16,342**
Transactions with equity shareholders, recorded directly in equity							
Share-based payments	**–**	**–**	**–**	**–**	**–**	**658**	**658**
Share options exercised by employees	**–**	**–**	**–**	**–**	**1,058**	**(1,028)**	**30**
Consideration for purchase of own shares	**–**	**–**	**–**	**–**	**(2,921)**	**–**	**(2,921)**
Current tax on share options	**–**	**–**	**–**	**–**	**–**	**154**	**154**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**473**	**473**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**(20,969)**	**(20,969)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**(1,863)**	**(20,712)**	**(22,575)**
Balance at 30 June 2018	**4,268**	**53,512**	**88**	**6,783**	**(5,919)**	**153,609**	**212,341**

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

	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 2017	4,268	53,512	88	7,136	231	(5,183)	143,315	203,367
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	13,665	13,665
Other comprehensive income	–	–	–	266	(228)	–	1,589	1,627
Total comprehensive income for the period	–	–	–	266	(228)	–	15,254	15,292
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	517	517
Share options exercised by employees	–	–	–	–	–	1,172	(1,114)	58
Consideration for purchase of own shares	–	–	–	–	–	(637)	–	(637)
Current tax on share options	–	–	–	–	–	–	274	274
Deferred tax on share options	–	–	–	–	–	–	256	256
Dividends to equity holders	–	–	–	–	–	–	(25,729)	(25,729)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	535	(25,796)	(25,261)
Balance at 30 June 2017	4,268	53,512	88	7,402	3	(4,648)	132,773	193,398

Condensed Consolidated Interim Statement of Changes in Equity (audited)

	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 2017	4,268	53,512	88	7,136	231	(5,183)	143,315	203,367
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	32,922	32,922
Other comprehensive income	–	–	–	(277)	(231)	–	(3,709)	(1,255)
Total comprehensive income for the period	–	–	–	(277)	(231)	–	27,254	29,708
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	1,218	1,218
Share options exercised by employees	–	–	–	–	–	2,307	(1,504)	803
Consideration for purchase of own shares	–	–	–	–	–	(1,180)	–	(1,180)
Current tax on share options	–	–	–	–	–	–	102	102
Deferred tax on share options	–	–	–	–	–	–	138	138
Dividends to equity holders	–	–	–	–	–	–	(25,729)	(25,729)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	1,127	(25,775)	(24,648)
Balance at 31 December 2017	4,268	53,512	88	6,859	–	(4,056)	157,903	218,574

Condensed Consolidated Interim Cash Flow Statements

	Six months ended 30 June 2018 £000 Unaudited	Six months ended 30 June 2017 £000 Unaudited	Year ended 31 December 2017 £000 Audited
Cash flows from operating activities			
Profit before tax for the period	**16,418**	16,767	40,719
Adjustments for:			
Depreciation, amortisation and impairment	**3,229**	3,203	5,845
Finance income	**(216)**	(146)	(578)
Finance expense	**626**	497	1,243
Profit on sale of property, plant and equipment	**(24)**	(44)	(45)
Share-based payments	**658**	517	1,218
Operating profit before changes in working capital and other payables	**20,691**	20,794	48,402
Change in inventories	**(4,011)**	(2,613)	(2,210)
Change in trade and other receivables	**(1,899)**	(3,585)	7,564
Change in trade and other payables	**(10,192)**	6,017	754
Cash generated from the operations	**4,589**	20,613	54,510
Interest paid	**(670)**	(545)	(761)
Tax paid	**(5,287)**	(5,077)	(8,388)
Additional contributions to defined benefit plan	**(930)**	(1,079)	(2,164)
Net cash flow from operating activities	**(2,298)**	13,912	43,197
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**52**	162	190
Interest received	**166**	142	576
Acquisition of subsidiaries, net of cash acquired	**(5,478)**	(1,942)	(24,763)
Repayment of acquired borrowings on acquisition	**–**	–	(7,042)
Acquisition of property, plant and equipment	**(2,522)**	(2,069)	(3,058)
Net cash flow from investing activities	**(7,782)**	(3,707)	(34,097)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**30**	58	803
Payment to acquire own shares	**(2,921)**	(637)	(1,180)
Drawdown of borrowings	**30,000**	15,000	25,000
Repayment of borrowings	**(115)**	(113)	(25,230)
Dividends paid	**(6,372)**	(12,369)	(25,729)
Net cash flow from financing activities	**20,622**	1,939	(26,336)
Net increase/(decrease) in cash and cash equivalents	**10,542**	12,144	(17,236)
Cash and cash equivalents at 1 January	**42,030**	59,339	59,339
Effect of exchange rate fluctuations on cash held	**(12)**	83	(73)
Cash and cash equivalents at end of period	**52,560**	71,566	42,030

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

1 BASIS OF REPORTING

Reporting entity

Headlam Group plc, the 'company', is a company incorporated in the UK. The Condensed Consolidated Interim Financial Statements consolidate those of the company and its subsidiaries which together are referred to as the 'Group' as at and for the six months ended 30 June 2018.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2017 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2017 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

These Condensed Consolidated Interim Financial Statements have not been audited or reviewed by the auditor pursuant to the Auditing Practices Board's Guidance on Financial Information.

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared and approved by the directors in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2017.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on 22 August 2018.

Significant accounting policies

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published Consolidated Financial Statements for the year ended 31 December 2017, except as explained below.

New standards adopted by the Group

IFRS 9 – Financial Instruments

This introduces new rules for hedge accounting and a new impairment model for financial assets, it also addresses the classification, measurement and de-recognition of financial assets and liabilities. Following an assessment of the impact of the new standard it has been found that the relevant changes to the Group's accounting policies are the valuation of foreign currency forwards and the measurement and disclosure of expected credit losses. At 30 June 2018 these accounting policy changes did not have a significant financial impact and therefore the relevant enhanced disclosures will be made in the Consolidated Financial Statements of the Group as at 31 December 2018.

IFRS 15 – Revenue from Contracts with Customers

This standard uses a five-step model to be applied to all sales contracts. The key principle of the standard is that revenue is recognised when control of the goods or services passes to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

A detailed assessment of the impact of the new standard has shown there are no significant impacts on revenue for the Group.

There are no significant adjustments as a result of adopting IFRS 9 or IFRS 15.

Income Statement Restatement

The Condensed Consolidated Interim Income Statement for the six months ended 30 June 2017 and the 12 months ended 31 December 2017 have been restated to reclassify some items between revenue, cost of sales, and operating expenses in order to better reflect their nature. The prior period restatement presents these periods in a manner that is consistent with the current period.

	Six months ended 30 June £000	30 June 2017 As originally presented £000	Adjustment £000	Restated Six months ended 30 June £000	31 December 2017 As originally presented £000	Adjustment £000	Restated Year ended 31 December £000
Revenue	**337,489**	341,868	(7,595)	334,273	707,764	(15,224)	692,540
Cost of sales	**(227,695)**	(235,694)	6,378	(229,316)	(487,683)	13,247	(474,436)
Gross profit	**109,794**	106,174	(1,217)	104,957	220,081	(1,977)	218,104
Distribution costs	**(66,090)**	(65,201)	2,024	(63,177)	(130,476)	3,331	(127,145)
Administrative expenses	**(26,876)**	(23,855)	(807)	(24,662)	(48,221)	(1,354)	(49,575)
Operating profit	**16,828**	17,118	–	17,118	41,384	–	41,384

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) continued

1 BASIS OF REPORTING CONTINUED

Impacts of standards and interpretations in issue but not yet effective

The following standards and interpretations, which were not effective as at 30 June 2018 and have not been early adopted by the Group, will be adopted in future accounting periods:

- IFRS 16 'Leases' (effective 1 January 2019, replacing IAS 17).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38.
- Equity Method in Separate Financial Statements – Amendments to IAS 27.
- Disclosure Initiative – Amendments to IAS 1.
- Annual Improvements to IFRSs – 2012–2014 Cycle.

Whilst some of the standards above are not expected to have a material impact on the Group there will be an effect from IFRS 16 and this is discussed further below.

IFRS 16 – Leases

This new standard eliminates the classification of leases over 12 months in length as either operating or finance leases and introduces a single lessee accounting model whereby all leases are accounted for as finance leases, unless of low-value. The standard will therefore require that the Group's leased assets are recorded within property, plant and equipment as 'right of use assets' with a corresponding lease liability which is based on the discounted value of the cash payments required under each lease. The income statement will be affected by the replacement of the operating lease expense with a depreciation charge and a financing expense.

The Standard is effective for periods beginning after 1 January 2019 and it will therefore be effective in the consolidated financial statements for the Group for the year ended 31 December 2019.

The Company has collated information on the leases held at the 31 December 2017 for an evaluation of the impact of IFRS 16. Based on the size of the existing operating lease commitments at 31 December 2017 of £42 million the impact will be material, with an increase in assets and a corresponding liability, however, we are still working through finalising the specific numbers.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are described in the Chief Executive's Review.

The Directors have reviewed current performance and forecasts, combined with borrowing facilities and expenditure commitments, including capital expenditure, pensions and proposed dividends. After making enquiries, the Directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For these reasons, the going concern basis has been adopted in preparing the financial statements.

Bank facilities at 30 June 2018

	Committed credit facilities £ million	Uncommitted credit facilities £ million	Total facilities £ million
Drawn funds	36.6	–	36.6
Undrawn funds	42.9	32.3	75.2
	79.5	32.3	111.8

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2017.

Risks and uncertainties

The risk factors which could cause the Group's results to differ materially from expected results and the result of the Board's review of those risks are set out in the Annual Report and Accounts for the year ended 31 December 2017.

2 SEGMENT REPORTING

At 30 June 2018, the Group had 60 operating segments in the UK and four 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 Chief Executive. Discrete financial information is available for each segment and used by the Chief Executive to assess performance and decide on resource allocation.

The operating segments have been aggregated to the extent that they have similar economic characteristics, 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 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		
	30 June 2018 £000	Restated* 30 June 2017 £000	Restated* 31 December 2017 £000	**30 June 2018 £000**	Restated* 30 June 2017 £000	Restated* 31 December 2017 £000	**30 June 2018 £000**	Restated* 30 June 2017 £000	Restated* 31 December 2017 £000
Revenue									
External revenues	**286,599**	286,594	593,476	**50,890**	47,679	99,064	**337,489**	334,273	692,540
Reportable segment operating profit	**18,944**	18,819	44,765	**552**	723	1,271	**19,496**	19,542	46,036
Reportable segment assets	**303,089**	269,148	297,325	**54,862**	44,937	44,515	**357,951**	314,085	341,840
Reportable segment liabilities	**(167,038)**	(170,851)	(179,016)	**(28,445)**	(24,717)	(25,021)	**(195,483)**	(195,568)	(204,037)

* The results for the six months ended 30 June 2017 and 12 months ended 31 December 2017 have been restated to reflect changes made at 30 June 2018 reported in note 1. The results for the six months ended 30 June 2017 have been restated to reflect changes made at 31 December 2017 on the allocation of non-underlying items.

During the periods shown above there have been no inter-segment revenues for the reportable segments (2017: £nil).

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

	30 June 2018 £000	Restated** 30 June 2017 £000	31 December 2017 £000
Profit for the period			
Total profit for reportable segments	**19,496**	19,542	46,036
Non-underlying items	**(1,314)**	(800)	(2,399)
Unallocated expense	**(1,354)**	(1,624)	(2,253)
Operating profit	**16,828**	17,118	41,384
Finance income	**216**	146	578
Finance expense	**(626)**	(497)	(1,243)
Profit before taxation	**16,418**	16,767	40,719
Taxation	**(3,101)**	(3,102)	(7,797)
Profit for the period	**13,317**	13,665	32,922

** The results for the six months ended 30 June 2017 have been restated to reflect changes made at 31 December 2017 on the allocation of non-underlying items.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) continued

2 SEGMENT REPORTING CONTINUED

	30 June 2018 £000	Restated** 30 June 2017 £000	31 December 2017 £000
Assets			
Total assets for reportable segments	**357,951**	314,085	341,840
Unallocated assets:			
Properties, plant and equipment	**83,353**	90,447	89,379
Deferred tax assets	**460**	920	648
Cash and cash equivalents	**29,480**	41,219	16,646
Derivative assets	**–**	3	–
Total assets	**471,244**	446,674	448,513
Liabilities			
Total liabilities for reportable segments	**(195,483)**	(195,568)	(204,037)
Unallocated liabilities:			
Employee benefits	**(8,641)**	(20,649)	(12,716)
Other interest-bearing loans and borrowings	**(30,000)**	(15,000)	–
Income tax payable	**(4,175)**	(4,660)	(6,339)
Proposed dividend	**(14,596)**	(13,360)	–
Deferred tax liabilities	**(6,008)**	(4,039)	(6,847)
Total liabilities	**(258,903)**	(253,276)	(229,939)

** The results for the six months ended 30 June 2017 have been restated to reflect changes made at 31 December 2017 on the allocation of non-underlying items.

	UK £000	**Continental Europe £000**	**Reportable segment total £000**	**Unallocated £000**	**Consolidated total £000**
Other material items 30 June 2018					
Capital expenditure	**1,236**	**902**	**2,138**	**384**	**2,522**
Depreciation	**1,016**	**345**	**1,361**	**1,168**	**2,529**
Non-underlying items	**906**	**408**	**1,314**	**–**	**1,314**
Other material items 30 June 2017					
Capital expenditure	1,561	375	1,936	133	2,069
Depreciation	1,015	368	1,383	1,020	2,403
Non-underlying items	800	–	–	–	800
Other material items 31 December 2017					
Capital expenditure	2,443	615	3,058	–	3,058
Depreciation	1,933	690	2,623	2,291	4,914
Non-underlying items	1,722	677	2,399	–	2,399

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

Each segment is a continuing operation.

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

	UK			**Continental Europe**			**Total**		
	30 June 2018 £000	Restated* 30 June 2017 £000	Restated* 31 December 2017 £000	**30 June 2018 £000**	Restated* 30 June 2017 £000	Restated* 31 December 2017 £000	**30 June 2018 £000**	Restated* 30 June 2017 £000	Restated* 31 December 2017 £000
Revenue									
Residential	**190,576**	202,224	417,799	**27,897**	25,300	52,074	**218,473**	227,524	469,873
Commercial	**96,024**	84,370	175,677	**22,992**	22,379	46,990	**119,016**	106,749	222,667
	286,600	286,594	593,476	**50,889**	47,679	99,064	**337,489**	334,273	692,540

* The results for the six months ended 30 June 2017 and 12 months ended 31 December 2017 have been restated to reflect changes made at 30 June 2018 reported in note 1.

3 NON-UNDERLYING ADMINISTRATIVE EXPENSES

Non-underlying administrative expenses of £1,314,000 relate to intangibles amortisation relating to businesses acquired, acquisitions fees and non-recurring costs relating to personnel changes, see table below. There is also related tax of £135,000 on these costs.

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Amortisation of acquired intangibles	**708**	800	931
Acquisitions fees	**290**	–	791
Non-recurring people costs	**316**	–	677
	1,314	800	2,399

4 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Interest income:			
Bank interest	**216**	113	540
Other	**–**	33	38
Finance income	**216**	146	578
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(515)**	(262)	(770)
Net change in fair value of cash flow hedges transferred from equity		–	–
Net interest on defined benefit plan obligation	**(110)**	(235)	(473)
Other	**(1)**	–	–
Finance expenses	**(626)**	(497)	(1,243)

5 TAXATION

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2018 was 18.25% (for the six months ended 30 June 2017: 18.5%; for the year ended 31 December 2017: 19.1%).

The UK headline corporation tax rate for the six months ended 30 June 2018 was 19% (for the six months ended 30 June 2017: was 19.25% (2017: 19.25%). The UK Budget on 16 March 2016 included a rate reduction to 17% from 1 April 2020 which was enacted during the prior year. The majority of the deferred tax balance in respect of UK entities has therefore been calculated at 17% (2017: 17%) on the basis that most of the balances will materially reverse after 1 April 2020.

In addition, a further reduction in the French corporation tax rate to 25% by 2022 was enacted in December 2017 which has also been taken into account in the calculation of the related deferred tax balance.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) continued

6 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Earnings			
Earnings for underlying basic and underlying diluted earnings per share	**14,496**	14,311	35,142
Earnings for basic and diluted earnings per share	**13,317**	13,665	32,922

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Number of shares			
Issued ordinary shares at end of period	**85,363,743**	85,363,743	85,363,743
Effect of shares held in treasury	**(1,360,725)**	(1,233,853)	(1,183,451)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,003,018**	84,129,890	84,180,292
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**84,729,780**	84,492,101	84,180,292
Dilutive effect of share options	**147,081**	367,677	549,488
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,582,699**	84,859,778	84,729,780

7 DIVIDENDS

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Interim dividend for 2017 of 7.55p paid 2 January 2018	**6,372**	–	–
Final dividend for 2017 of 17.25p paid 6 July 2018	**14,597**	–	–
Interim dividend for 2016 of 6.70p paid 2 January 2017	**–**	5,637	5,637
Special dividend for 2016 of 8.00p paid 24 April 2017	**–**	6,732	6,732
Final dividend for 2016 of 15.85p paid 1 July 2017	**–**	13,360	13,360
	20,969	25,729	25,729

The final proposed dividend for 2017 of 17.25p per share was authorised by shareholders at the Annual General Meeting on 24 May 2018 and paid on 6 July 2018. The final proposed dividend for 2016 of 15.85p per share was authorised by shareholders at the Annual General Meeting on 25 May 2017 and paid on 3 July 2017.

The Board of Directors has declared an interim dividend for 2018 of 7.55p to be paid on 2 January 2019. Interim dividends are provided for when the dividend is paid.

8 ACQUISITIONS

On 2 March 2018, a subsidiary company of Headlam Group plc entered into an agreement to acquire Dersimo BV, in the western Netherlands. The company is a full service distributor of both soft and hard floors from a combination of well-known manufacturer brands as well as its own carpet and vinyl designs which are manufactured as a private label.

On 30 March 2018, a subsidiary company of Headlam Group plc entered into an agreement to acquire BETU Holdings Ltd (a non-trading holding company) which is the parent company of CECO (Flooring) Ltd. CECO (Flooring) Ltd is a leading provider of flooring and wallcovering products to retail and commercial customers throughout Northern Ireland and the Republic of Ireland.

The acquired businesses contributed revenues of £3.8 million and an operating profit of £0.2 million to the Group for the half year ended 30 June 2018.

Details of the acquisitions are provisional and are shown in aggregate below:

	Acquiree's book value £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's provisional net assets at the acquisition date:			
Intangible assets	**–**	**2,552**	**2,552**
Tangible fixed assets	**205**	**–**	**205**
Inventories	**1,155**	**–**	**1,155**
Trade and other receivables	**1,848**	**–**	**1,848**
Cash at bank and in hand	**2,526**	**–**	**2,526**
Trade and other payables	**(2,036)**	**–**	**(2,036)**
Deferred tax	**(2)**	**(434)**	**(436)**
Net identifiable assets and liabilities	**3,696**	**2,118**	**5,814**
Goodwill on acquisition		**3,554**	**3,554**
Consideration			**9,368**
Satisfied by:			
Cash			**8,004**
Deferred and contingent consideration			**1,364**
			9,368
Analysis of cash flows:			
On completion			**8,004**
Cash acquired			**(2,526)**
			5,478

Professional fees of £0.3 million were incurred in relation to acquisition activity and have been expensed to the income statement within administration expenses.

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

Goodwill of £3.6 million arose on the acquisitions, there were also intangible assets on acquisition of £2.6 million which were attributed to brand names, order book and customer relationships. During the six month period £0.07 million of intangibles have been amortised to the income statement on these acquisitions.

The residual goodwill reflects the significant benefit the acquisitions will have on the Group by bringing further geographic coverage, offering an expanded product range, developing a more sophisticated customer route to market, providing an additional avenue for growth and a different order profile. The Dersimo acquisition is complementary to the Group's market-leading core business which supplies a high volume of small orders into both the residential and commercial sectors and provides a significant increase in our provision in the Dutch market. CECO diversifies and broadens Headlam's overall position in the commercial specification market with entry into ceramics and an increased weighting in engineered wood, LVT and laminate, significantly increasing our offer in the Northern Ireland market.

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.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) continued

8 ACQUISITIONS CONTINUED

Deferred and contingent consideration

The acquisition of CECO Limited was financed by initial cash consideration of £4.3 million paid on completion and satisfied by the Group's existing cash and debt facilities and deferred consideration of £1.4 million.

The deferred and contingent consideration have been discounted back and reported at present value, and contingent consideration has been recognised based on management's assessment of the probability of it being paid.

9 FINANCIAL INSTRUMENTS

The fair value of the Group's financial assets and liabilities as detailed below at 30 June 2018 were not materially different to the carrying value.

The table below sets out the Group's accounting classification of each class of financial assets and liabilities at 30 June 2018.

	Available for sale £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	–	–	**52,560**	**52,560**
Borrowings due within one year	–	–	**(232)**	**(232)**
Borrowings due after one year	–	–	**(36,378)**	**(36,378)**
Trade payables	–	–	**(134,969)**	**(134,969)**
Non-trade payables	–	–	**(32,178)**	**(32,178)**
Trade receivables	–	–	**95,628**	**95,628**
Other receivables	–	–	**25,986**	**25,986**
Provisions	–	–	**(2,048)**	**(2,048)**
Derivative assets	–	**7**	**–**	**7**
	–	**7**	**(31,631)**	**(31,624)**

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

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

The Group had a diesel commodity swap used for hedging which was fair valued in accordance with level 2 for the six months ended 30 June 2017 (31 December 2017: level 2) and forward currency contracts which were fair valued in accordance with level 2 for the six months ended 30 June 2018 (30 June 2017 and 31 December 2017: level 2).

Fair values

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

Trade receivables, trade payables and cash and cash equivalents

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

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.

10 CAPITAL COMMITMENTS

As at 30 June 2018, the Group had contractual commitments relating to the purchase of property, plant and equipment of £572,000 (30 June 2017: £291,000, 31 December 2017: £358,000).

11 RELATED PARTIES

The Group has a related party relationship with its subsidiaries and with its key management. There have been no changes to the nature of related party transactions entered into since the last annual report.

12 SUBSEQUENT EVENTS

Management have given due consideration to any events occurring in the period from the reporting date to the date these Interim Financial Statements were authorised for issue and have concluded that there are no material adjusting or non-adjusting events to be disclosed in these Interim Financial Statements, with the exception of the acquisition of Ashmounts Flooring Supplies Ltd. On 01 July 2018, HFD Ltd, a group subsidiary company acquired 100% of the issued share capital of Ashmounts Flooring Supplies Ltd, a floorcovering distribution business, servicing customers in London and within the M25, for a consideration of £2.3 million, subject to finalising the net assets position.

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