headlam group plc

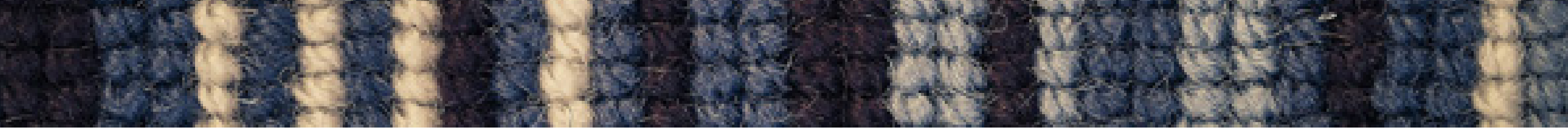
Half Year Report
for the six months ended 30 June 2017



The integral distribution link

www.headlam.com
Stock code: LSE: HEAD

Europe's largest distributor of floorcoverings



About Us

Headlam is Europe's largest distributor of floorcoverings having grown significantly via organic growth and acquisition since 1992.

Headlam provides the distribution link between suppliers and customers of floorcoverings, providing suppliers with the greatest coverage and customer penetration for their products across the UK and Continental Europe, and customers with the broadest range of products supported by next day delivery.

The Company is engaged with suppliers across 16 countries whose products cover a significant proportion of the floorcoverings market (including carpet, residential vinyl, wood, laminate, luxury vinyl tile, underlay and commercial flooring). The Company's customers are within the residential and commercial sectors and comprise principally independent retailers and flooring contractors.

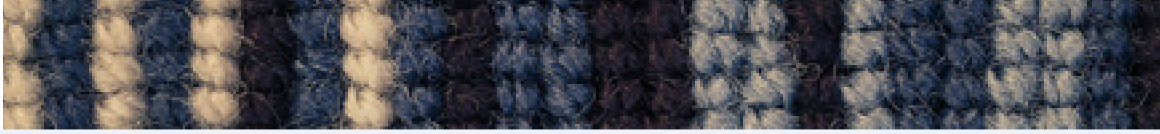
The Company currently comprises 61 wholly-owned businesses in the UK and Continental Europe each operating under their own trade brand and utilising their individual sales team which achieves a greater reach into the customer base.

Each of the businesses is supported by the Company's centralised and financial resources and extensive distribution network across the UK and Continental Europe that comprises four distribution hubs, 18 distribution centres, 60 trade counters and a corporate showroom.

2017 marks Headlam's 25th year as a distributor of floorcoverings, and it is the Company's intention to continue building on its relationships with suppliers and customers to deliver long-term shareholder value.

Our 2017 Interim Report

Visit us online at
www.headlam.com



Highlights

For the six months ended 30 June 2017

Revenue
£341.9m +4.0%

H1 2016: £328.7m

Operating Profit
£17.1m +11.4%

H1 2016: £15.4m

Earnings Per Share
16.2p +12.5%

H1 2016: 14.4p

Interim Dividend Per Share
7.55p +12.7%

H1 2016: 6.70p

Net Funds
£49.8m +46.9%

H1 2016: £33.9m

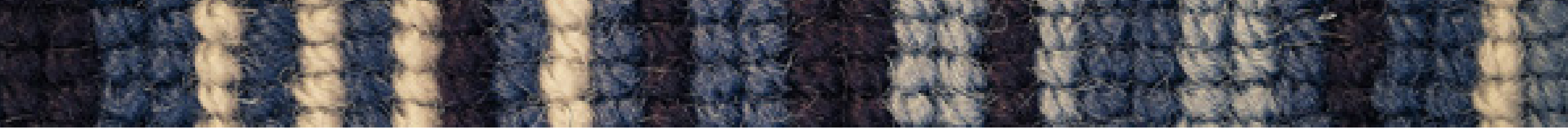
Financial and Operational Highlights

- UK like-for-like revenue* growth of 2.1% (H1 2016: 3.4%) and Continental Europe like-for-like revenue* growth of 3.0% (H1 2016: 2.8%)
- Gross margin improvement of 103 basis points to 31.06% reflecting efficiency initiatives and more effective organisation and streamlining of the Company's businesses' practices
- Profit before tax increased by 11.0% to £16.8 million (H1 2016: £15.1 million)
- Appointment of Chris Payne as Chief Financial Officer and Executive Director, who joins the Company on 13 September 2017
- Two bolt-on acquisitions completed in the period, both adding new geographic locations in the UK
- Continued expansion of the distribution network with 60 trade counters (FY 2015: 48; FY 2016: 55)
- Number of operating efficiency initiatives undertaken and ongoing to support future growth

*Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2017 and 2016 periods and is adjusted for any variances in working days.

Current Trading

- Commercial sector summer refurbishment revenue currently above the level of the comparable period in 2016
- Trading in the first few weeks of the second half is performing to expectations with continued growth in the UK and Continental Europe against the prior period
- Continuing to trade in-line with the Board's expectations for the full year



Chief Executive's Review

The period represented further growth with total revenue for the six months ended 30 June 2017 increasing by 4.0%.

Financial and Operational Performance

The period represented further growth with total revenue for the six months ended 30 June 2017 increasing by 4.0%, compared with the same period in the prior year, to £341.9 million. On a constant currency basis, total revenue increased by 2.6% to £337.2 million, with both the UK and Continental Europe delivering growth. Total revenue for each of the residential and commercial sectors showed a positive performance.

The total revenue split, on a constant currency basis, between the residential and commercial sectors was broadly unchanged at 68.0% residential and 32.0% commercial (H1 2016: 67.4% residential; 32.6% commercial; FY 2016: 67.8% residential; 32.2% commercial).

The UK accounted for 85.9% of total revenue (87.0% in constant currency) with like-for-like revenue* growth of 2.1% (H1 2016: 3.4%) reflecting a positive performance from both the residential and commercial sectors, up 2.8% and 0.5% respectively, with the residential sector accounting for 70.5% of UK revenue (H1 2016: 70.1%).

Continental Europe, which accounted for 14.1% of total revenue (13.0% in constant currency), showed like-for-like* revenue growth of 3.0% (H 1 2016: 2.8%). The residential sector delivered strong growth of 6.7% to account for 50.7% of revenue (H1 2016: 49.0%) whilst the commercial sector declined by 0.5% as the positive performance from both the Dutch and French businesses was offset by the Swiss business.

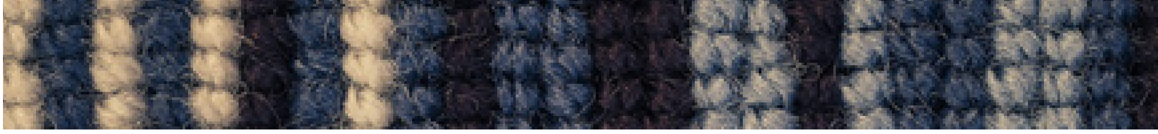
In the UK, we implemented further price increases in January 2017 averaging approximately 3.0% across the majority of our residential sector products purchased from Continental Europe. These mirrored the cost increases levied by our suppliers as a consequence of a continuing low Sterling exchange rate and the upward movement in raw material prices. A further price increase will be implemented in September 2017 to reflect continued supplier price inflation.

Whilst demand for floorcoverings tends to be inelastic to price increases, the benefit derived from these increases is limited in duration due to the constant stream of new products entering the market. This continuing development assists with the competitive positioning of product and ultimately helps maintain affordability in inflationary environments. As stated within our 2016 Annual Report and Accounts, the Company's average order cut value for residential carpet and residential vinyl was £127.44 and £68.03 respectively in 2016, representing a more affordable purchase than other RMI (Repair, Maintenance & Improvement) expenditure.

During the period, there was a focus on delivering gross margin enhancement, which resulted in gross margin increasing by 103 basis points, compared with the same period in the prior year, to 31.06%. This was achieved by reviewing and implementing improved efficiencies across the Company, the more effective organisation and streamlining of the Company's businesses' practices and leveraging the existing distribution network. Initiatives undertaken and ongoing include improving stock reordering and management through a more automated process; a reduction in the inventory aged profile; merging of financial and IT platforms in nearby locations; de-duplication of inventory in locations in close proximity; warehouse reconfiguration to improve capacity to support growth; focus on higher margin and exclusive products; and the elimination of inconsistent pricing practice coupled with the move towards a more unitised pricing policy.

Distribution and administrative expenses increased by 6.8% to £89.0 million (H1 2016: £83.3 million). The total increase amounted to £5.7 million, of which a third (£1.9 million) was incurred as a consequence of Sterling's depreciation and its effect on the translation of overseas subsidiaries. A further £1.3 million of the total increase in expenses was as a result of the trading expenses incurred by and intangibles write-off relating to the customer relationships of the two businesses acquired in the period, Mitchell Carpets Limited and McMillan Flooring Distributors Limited. Personnel cost increases, coupled with the additional expense of the delivery fleet, contributed a further £1.1 million to the overall increase during the period. Due to the translation effects and intangibles write-off, expenses for the period expressed as a percentage of revenue were 26.0% compared with 25.4% in the prior year.

* Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2017 and 2016 periods and is adjusted for any variances in working days.



Operating profit increased by 11.4% to £17.1 million, with operating margin improving to 5.0% from 4.7% in the same period in the prior year.

Movement in operating profit

	£000
Operating profit 2016	15,365
Gross margin improvement:	
Volume benefit	3,705
Pricing benefit	3,374
Effect of acquisitions	383
	7,462
Expenses increase:	
Distribution	(2,820)
Administration	(2,481)
Effect of acquisitions	(408)
Total increase	(5,709)
Operating profit 2017	**17,118**

Drop-through rate as a percentage of incremental revenue	**13.3%**

Profit before tax increased by 11.0% to £16.8 million and basic earnings per share increased by 12.5% to 16.2p from 14.4p in the same period in the prior year. Reflective of this financial performance, and our progressive dividend policy, the Company is increasing the 2017 interim dividend by the approximate equivalent uplift in basic earnings per share to 7.55p per share (2016 interim dividend: 6.70p per share), payable on 2 January 2018 to shareholders on the shareholder register at 1 December 2017.

The movement in cash flow during the first six months of 2017 compared with 2016 amounted to a net outflow of £27.4 million.

	2017	2016	Movement
	£000	£000	£000
Cash flow from operating activities:			
Operating profit	**17,118**	15,365	1,753
Depreciation, amortisation and impairment	**3,203**	2,389	814
Profit on sale of fixed assets	**(44)**	(11)	(33)
Equity settled share based payments	**517**	714	(197)
	20,794	18,457	2,337
Working capital	**(181)**	(11,767)	11,586
Cash generated from operations	**20,613**	6,690	13,923
Net interest	**(403)**	25	(428)
Dividends	**(12,369)**	(10,096)	(2,273)
Taxation	**(5,077)**	(4,306)	(771)
Net capital expenditure	**(1,907)**	(1,419)	(488)
Pensions	**(1,079)**	(1,121)	42
Acquisitions	**(1,942)**	–	(1,942)
Issue of shares	**(579)**	4	(583)
Movement in net debt	**14,887**	(5,000)	19,887
	(8,469)	(21,913)	13,444
Net increase/(decrease) in cash and cash equivalents	**12,144**	(15,223)	27,367

Chief Executive's Review continued

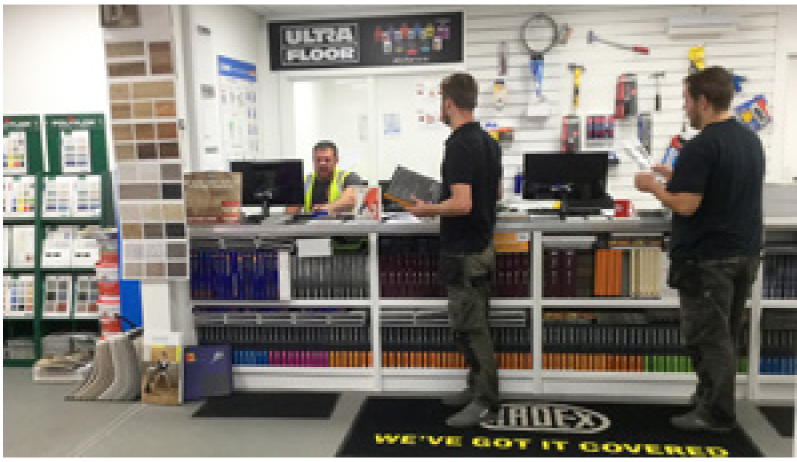
The three principal contributors to the movement, in addition to the positive cash flow movement from operating activities of £2.3 million, was a net reduction in working capital investment of £11.6 million, incremental dividend payments totalling £2.3 million and a positive cash benefit arising from the movement in net debt of £19.9 million.

The movement in working capital, whilst appearing significant, was caused by the unusually high investment in the corresponding period as a result of re-establishing a normalised working capital position following the remarkably favourable working capital reduction leading up to 31 December 2015. The movement in dividends was as a consequence of the increased special dividend paid in April 2017 against that of 2016, and the movement in debt was due to the drawdown of £15.0 million on the term facility during the period compared with a term facility repayment of £5.0 million during the previous period. The acquisitions movement relates to the two acquisitions completed in the period, Mitchell Carpets Limited and McMillan Flooring Distributors Limited.

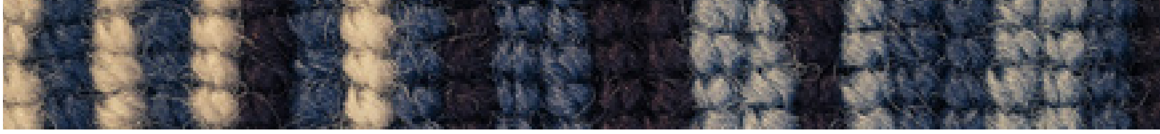
Net funds of £49.8 million as at 30 June 2017 reflected a marked uplift compared with £33.9 million as at 30 June 2016 highlighting the cash generative nature of the Company. The contraction in net funds from the year-end position (as at 31 December 2016: £52.6 million) is a typical feature of the Company's first half cash flow profile.

	At 1 January 2017 £000	Cash flows £000	Translation differences £000	**At 30 June 2017 £000**
Cash at bank and in hand	59,343	12,140	83	**71,566**
Bank overdraft	(4)	4	–	**–**
	59,339	12,144	83	**71,566**
Debt due within one year	(224)	–	(6)	**(230)**
Debt due after one year	(6,493)	(14,996)	(74)	**(21,563)**
	52,622	(2,852)	3	**49,773**

Total bank facilities at 30 June 2017 amounted to £87.4 million, of which £33.0 million is repayable on demand and £54.4 million relates to committed facilities, which expire on 14 December 2021.



Pictured: New Trade Counter opened in Darwen, Blackburn



Acquisitions and Expansion of the Network

The acquisition of Mitchell Carpets Limited and McMillan Flooring Distributors Limited brought our number of businesses to 61 and established new locations in Poole and Edinburgh. The acquisitions also added three trade counters to the UK network, and following the opening of new trade counters in Darwen (Blackburn), and Houten (the Netherlands), the Company now has 40 across the UK, and 60 in total (FY 2015: 48; FY 2016: 55).

Trade counters have proven to be a cost-effective way to expand the distribution network and customer base and improve the service offering by increasing product availability and supporting the increasing number of customer collections. We believe there is further scope to expand the trade counter network with a further two to three anticipated over the next year.

Our proposed plans for a new distribution centre in the Ipswich area continue to be progressed with the preferred site remaining the purpose-built distribution park allowing for a quicker build and operational timeline than the initially considered site. We are now focused on defining the optimum size and configuration of the distribution centre which will rehouse the capacity constrained Faithfulls Floorcovering business and potentially support other businesses in the wider area to enhance their customer service proposition. The current timeline should allow for the distribution centre to be operational during H1 2019.

We continue to assess a good pipeline of potential acquisitions with the objective of bringing strategic and/or geographic benefits to the Company and expanding certain product lines.

People

In May 2017, we announced the appointment of Chris Payne as Chief Financial Officer and Executive Director and look forward to his joining the Company on 13 September 2017, his start date as previously announced. Also during the period, Tony Judge, who has worked at the Company for more than 24 years, was appointed to the Board as Chief Operating Officer.

I would like to give my special thanks to all our employees for their hard work and engagement, as without them our performance and progress would not have been possible.

Current Trading and Outlook

The Company's performance is typically second half weighted. The second half of 2016 accounted for 52.6% of total revenue and 60.4% of profit before tax for the year, highlighting the disproportionately positive impact that increased revenue and operational gearing have on our profitability.

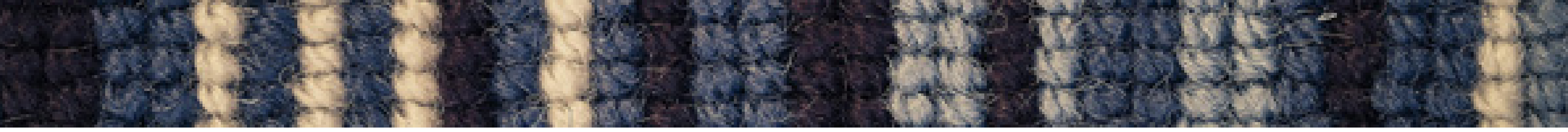
The summer period is traditionally the busiest period for the Company's commercial sector due to annual summer refurbishment projects, particularly in the educational sector. This spans an approximate ten-week period during July to September, peaking in August. We have continued to increase the number of customers we have in this area during 2017, adding to a large repeat customer base, and revenue is currently above the level of the comparable period in the prior year.

Trading in the first few weeks of the second half is performing to expectations with continued growth in the UK and Continental Europe against the prior period, and the Company continues to trade in-line with the Board's expectations for the full year.

It is particularly pleasing that our concerted efforts and initiatives have resulted in further growth and, more importantly, enhanced profitability for the period. Going forward we will look to maintain the gross margin improvement through a more cohesive approach across the Company whilst beginning to focus on further improving the level of operating margin and, ultimately, returns to shareholders.

Steve Wilson
Chief Executive
21 August 2017

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 2016, to be found on the Company's website, www.headlam.com.



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 2016, and a list of Directors is maintained on the Headlam Group plc website, www.headlam.com.

By order of the Board,

Dick Peters
Chairman
21 August 2017

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2017

	Note	Six months ended 30 June 2017 £000 Unaudited	Six months ended 30 June 2016 £000 Unaudited	* Year ended 31 December 2016 £000 Audited
Revenue	2	**341,868**	328,673	693,572
Cost of sales		**(235,694)**	(229,961)	(481,068)
Gross profit		**106,174**	98,712	212,504
Distribution expenses		**(65,201)**	(62,150)	(127,982)
Administrative expenses		**(23,855)**	(21,197)	(45,377)
Operating profit	2	**17,118**	15,365	39,145
Finance income	3	**146**	498	756
Finance expenses	3	**(497)**	(752)	(1,722)
Net finance costs		**(351)**	(254)	(966)
Profit before tax		**16,767**	15,111	38,179
Taxation	4	**(3,102)**	(3,022)	(7,216)
Profit for the period attributable to the equity shareholders	2	**13,665**	12,089	30,963
Earnings per share				
Basic	5	**16.2p**	14.4p	36.8p
Diluted	5	**16.1p**	14.3p	36.6p
Dividends per share				
Interim dividend proposed in relation to the period	6	**7.55p**	6.70p	6.70p
Final dividend proposed in relation to the financial year	6	**–**	–	15.85p
Special dividend proposed in relation to the financial year	6	**–**	–	8.00p

All Group operations during the financial periods were continuing operations.

* Included within administrative expenses in the results for the year ended 31 December 2016 are non-underlying items of £1,927,000 that relate to non-recurring people costs paid out during the year and the related tax of £385,000 on these costs, details of which can be found in the Company's Annual Report and Accounts for the year ended 31 December 2016.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2017

	Six months ended 30 June 2017 £000 Unaudited	Six months ended 30 June 2016 £000 Unaudited	Year ended 31 December 2016 £000 Audited
Profit for the period attributable to the equity shareholders	**13,665**	12,089	30,963
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Re-measurement of defined benefit plans	**1,868**	908	(4,336)
Related tax	**(318)**	(61)	961
Impact of change in UK tax rates on deferred tax	**–**	–	(183)
	1,550	847	(3,558)
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations	**266**	778	1,707
Effective portion of changes in fair value of cash flow hedges	**(179)**	362	572
Transfers to profit or loss on cash flow hedges	**(49)**	205	175
Related tax	**39**	(102)	(148)
Impact of change in UK tax rates on deferred tax	**–**	–	(3)
	77	1,243	2,303
Other comprehensive income/(expense) for the period	**1,627**	2,090	(1,255)
Total comprehensive income attributable to the equity shareholders for the period	**15,292**	14,179	29,708

Condensed Consolidated Interim Statement of Financial Position

At 30 June 2017

	Six months ended 30 June 2017 £000 Unaudited	Restated* At 30 June 2016 £000 Unaudited	At 31 December 2016 £000 Audited
Assets			
Non-current assets			
Property, plant and equipment	**102,744**	104,163	102,934
Intangible assets	**10,673**	10,388	10,388
Deferred tax assets	**920**	372	1,138
	114,337	114,923	114,460
Current assets			
Inventories	**129,709**	127,051	126,037
Trade and other receivables	**131,062**	123,645	128,934
Cash and cash equivalents	**71,566**	49,298	59,343
	332,337	299,994	314,314
Total assets	**446,674**	414,917	428,774
Liabilities			
Current liabilities			
Bank overdraft	**–**	(429)	(4)
Other interest-bearing loans and borrowings	**(230)**	(15,000)	(224)
Trade and other payables	**(187,244)**	(170,974)	(183,304)
Dividends payable	**(13,360)**	(12,368)	–
Employee benefits	**(2,205)**	(2,135)	(2,169)
Income tax payable	**(4,660)**	(5,640)	(6,824)
	(207,699)	(206,546)	(192,525)
Non-current liabilities			
Other interest-bearing loans and borrowings	**(21,563)**	–	(6,493)
Provisions	**(1,531)**	(1,087)	(1,531)
Deferred tax liabilities	**(4,039)**	(4,533)	(4,077)
Employee benefits	**(18,444)**	(15,301)	(20,781)
	(45,577)	(20,921)	(32,882)
Total liabilities	**(253,276)**	(227,467)	(225,407)
Net assets	**193,398**	187,450	203,367
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	**2,845**	1,076	2,272
Retained earnings	**132,773**	128,594	143,315
Total equity	**193,398**	187,450	203,367

* The results for the six months ended 30 June 2016 have been restated to reflect changes made at 31 December 2016 reported in note 1 of the Company's Annual Report and Accounts for the year ended 31 December 2016.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2017

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**

Unaudited

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	* Restated Retained earnings £000	* Total equity £000
Balance at 1 January 2016	4,268	53,512	88	5,429	(516)	(5,276)	137,603	195,108
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	12,089	12,089
Other comprehensive income	–	–	–	778	567	–	745	2,090
Total comprehensive income for the period	–	–	–	778	567	–	12,834	14,179
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	714	714
Share options exercised by employees	–	–	–	–	–	6	(2)	4
Current tax on share options	–	–	–	–	–	–	2	2
Deferred tax on share options	–	–	–	–	–	–	(93)	(93)
Dividends to equity holders	–	–	–	–	–	–	(22,464)	(22,464)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	6	(21,843)	(21,837)
Balance at 30 June 2016	4,268	53,512	88	6,207	51	(5,270)	128,594	187,450

* The results for the six months ended 30 June 2016 have been restated to reflect changes made at 31 December 2016 reported in note 1 of the Company's Annual Report and Accounts for the year ended 31 December 2016.

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 2016	4,268	53,512	88	5,429	(516)	(5,276)	137,603	195,108
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	30,963	30,963
Other comprehensive income	–	–	–	1,707	747	–	(3,709)	(1,255)
Total comprehensive income for the period	–	–	–	1,707	747	–	27,254	29,708
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	1,239	1,239
Share options exercised by employees	–	–	–	–	–	740	(317)	423
Consideration for purchase of own shares	–	–	–	–	–	(647)	–	(647)
Current tax on share options	–	–	–	–	–	–	21	21
Deferred tax on share options	–	–	–	–	–	–	(21)	(21)
Dividends to equity holders	–	–	–	–	–	–	(22,464)	(22,464)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	93	(21,542)	(21,449)
Balance at 31 December 2016	4,268	53,512	88	7,136	231	(5,183)	143,315	203,367

Condensed Consolidated Interim Cash Flow Statements

For the six months ended 30 June 2017

	Six months ended 30 June 2017 £000 Unaudited	Six months ended 30 June 2016 £000 Unaudited	Year ended 31 December 2016 £000 Audited
Cash flows from operating activities			
Profit before tax for the period	**16,767**	15,111	38,179
Adjustments for:			
Depreciation, amortisation and impairment	**3,203**	2,389	5,276
Finance income	**(146)**	(498)	(756)
Finance expense	**497**	752	1,722
Profit on sale of property, plant and equipment	**(44)**	(11)	(15)
Share-based payments	**517**	714	1,239
Operating profit before changes in working capital and other payables	**20,794**	18,457	45,645
Change in inventories	**(2,613)**	(7,682)	(5,895)
Change in trade and other receivables	**(3,585)**	(4,251)	(6,467)
Change in trade and other payables	**6,017**	166	10,365
Cash generated from the operations	**20,613**	6,690	43,648
Interest paid	**(545)**	(487)	(1,133)
Tax paid	**(5,077)**	(4,306)	(7,703)
Additional contributions to defined benefit plan	**(1,079)**	(1,121)	(2,171)
Net cash flow from operating activities	**13,912**	776	32,641
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**162**	37	401
Interest received	**142**	512	752
Acquisition of subsidiaries, net of cash acquired	**(1,942)**	–	–
Acquisition of property, plant and equipment	**(2,069)**	(1,456)	(2,963)
Net cash flow from investing activities	**(3,707)**	(907)	(1,810)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**58**	4	423
Payment to acquire own shares	**(637)**	–	(647)
Repayment of borrowings	**(113)**	(5,000)	(20,000)
Drawdown of loans	**15,000**	–	6,456
Dividends paid	**(12,369)**	(10,096)	(22,464)
Net cash flow from financing activities	**1,939**	(15,092)	(36,232)
Net increase/(decrease) in cash and cash equivalents	**12,144**	(15,223)	(5,401)
Cash and cash equivalents at 1 January	**59,339**	63,932	63,932
Effect of exchange rate fluctuations on cash held	**83**	160	808
Cash and cash equivalents at end of period	**71,566**	48,869	59,339

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 2017.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2016 are available upon request from the Company's registered office or the website.

The comparative figures for the financial year ended 31 December 2016 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 Auditor 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 2016.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on 21 August 2017.

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 2016, except as explained below.

Impacts of standards and interpretations in issue but not yet effective

The following standards and interpretations, which were not effective as at 30 June 2017 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 2018)
- International Financial Reporting Standard (IFRS) 9 'Financial instruments' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 16 'Leases' (effective 1 January 2019)
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38.
- Equity Method in Separate Financial Statements – Amendments to IAS 27
- Disclosure Initiative – Amendments to IAS 1
- Annual Improvements to IFRSs – 2012-2014 Cycle.

The Directors have assessed the impact of IFRS 15 on the financial statements of the Group and estimates show that adoption on the 1 January 2018 will require a restatement of revenue reported for 2017 of approximately £5 million due to customer rebates currently reported in distribution costs.

The impact of IFRS 16 is also being evaluated and initial estimates would see a leased asset of approximately £32 million and a leasing liability of £32 million on the Statement of Financial Position as at December 2016.

With the exception of IFRS 15 and IFRS 16 mentioned above, none of the other standards listed are expected to have a material impact on the Group.

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

1 BASIS OF REPORTING continued

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 2017

	Committed credit facilities £ million	Uncommitted credit facilities £ million	Total facilities £ million
Drawn funds	21.8	–	21.8
Undrawn funds	32.6	33.0	65.6
	54.4	33.0	87.4

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 2016.

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 2016.

2 SEGMENT REPORTING

The Group has 58 operating segments in the UK and three 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	Restated*		Continental Europe	Restated*		Total	Restated*	
	30 June 2017 £000	30 June 2016 £000	31 December 2016 £000	**30 June 2017 £000**	30 June 2016 £000	31 December 2016 £000	**30 June 2017 £000**	30 June 2016 £000	31 December 2016 £000
Revenue									
External revenues	**293,520**	286,260	602,104	**48,348**	42,413	91,468	**341,868**	328,673	693,572
Reportable segment operating profit	**18,019**	15,504	40,944	**723**	528	793	**18,742**	16,032	41,737
Reportable segment assets	**269,148**	252,399	263,968	**44,937**	39,710	44,516	**314,085**	292,109	308,484
Reportable segment liabilities	**(170,851)**	(156,387)	(167,755)	**(17,924)**	(16,103)	(23,801)	**(188,775)**	(172,490)	(191,556)

During the periods shown above there have been no inter-segment revenues for the reportable segments (2016: £nil).

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

	30 June 2017 £000	30 June 2016 £000	31 December 2016 £000
Profit for the period			
Total profit for reportable segments	**18,742**	16,032	41,737
Non-underlying items	**–**	–	(1,927)
Unallocated expense	**(1,624)**	(667)	(665)
Operating profit	**17,118**	15,365	39,145
Finance income	**146**	498	756
Finance expense	**(497)**	(752)	(1,722)
Profit before taxation	**16,767**	15,111	38,179
Taxation	**(3,102)**	(3,022)	(7,216)
Profit for the period	**13,665**	12,089	30,963

* The results for the six months ended 30 June 2016 have been restated to reflect changes made at 31 December 2016 reported in note 1 of the Group Annual Report and Accounts.

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

2 SEGMENT REPORTING continued

	30 June 2017 £000	Restated* 30 June 2016 £000	31 December 2016 £000
Assets			
Total assets for reportable segments	**314,085**	292,109	308,484
Unallocated assets:			
Properties, plant and equipment	**90,447**	91,637	90,981
Deferred tax assets	**920**	372	1,138
Cash and cash equivalents	**41,219**	30,747	28,171
Derivative assets	**3**	52	–
Total assets	**446,674**	414,917	428,774
Liabilities			
Total liabilities for reportable segments	**(188,775)**	(172,490)	(191,556)
Unallocated liabilities:			
Employee benefits	**(20,649)**	(17,436)	(22,950)
Other interest-bearing loans and borrowings	**(21,793)**	(15,000)	–
Income tax payable	**(4,660)**	(5,640)	(6,824)
Proposed dividend	**(13,360)**	(12,368)	–
Deferred tax liabilities	**(4,039)**	(4,533)	(4,077)
Total liabilities	**(253,276)**	(227,467)	(225,407)

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
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**
Amortisation	**800**	**–**	**–**	**–**	**800**
Other material items 30 June 2016					
Capital expenditure	991	412	1,403	53	1,456
Depreciation	1,108	276	1,384	1,005	2,389
Other material items 31 December 2016					
Capital expenditure	1,808	872	2,680	283	2,963
Depreciation	2,388	732	3,120	2,156	5,276
Non-underlying items	–	–	–	1,927	1,927

* The results for the six months ended 30 June 2016 have been restated to reflect changes made at 31 December 2016 reported in note 1 of the Group Annual Report and Accounts for the year ended 31 December 2016.

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.

2 SEGMENT REPORTING continued

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 2017 £000	30 June 2016 £000	31 December 2016 £000	**30 June 2017 £000**	30 June 2016 £000	31 December 2016 £000	**30 June 2017 £000**	30 June 2016 £000	31 December 2016 £000
Revenue									
Residential	**207,173**	200,610	422,048	**24,519**	20,777	46,337	**231,692**	221,387	468,385
Commercial	**86,346**	85,650	180,056	**23,830**	21,636	45,131	**110,176**	107,286	225,187
	293,519	286,260	602,104	**48,349**	42,413	91,468	**341,868**	328,673	693,572

3 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Year ended 31 December 2016 £000
Interest income:			
Bank interest	**113**	243	756
Other	**33**	255	–
Finance income	**146**	498	756
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(262)**	(449)	(1,062)
Net change in fair value of cash flow hedges transferred from equity	**–**	(23)	(23)
Net interest on defined benefit plan obligation	**(235)**	(280)	(566)
Other	**–**	–	(71)
Finance expenses	**(497)**	(752)	(1,722)

4 TAXATION

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2017 was 18.5% (for the six months ended 30 June 2016: 20%; for the year ended 31 December 2016: 18.9%).

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016 and substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 30 June 2017 has been calculated based on the rate of 17% substantively enacted at the balance sheet date as these balances will materially reverse after 1 April 2020.

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

5 EARNINGS PER SHARE

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

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Year ended 31 December 2016 £000
Earnings			
Earnings for underlying basic and underlying diluted earnings per share	**13,665**	12,089	32,505
Earnings for basic and diluted earnings per share	**13,665**	12,089	30,963
	2017	2016	2016
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	**(1,233,853)**	(1,330,565)	(1,330,339)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,129,890**	84,033,178	84,033,404
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**84,492,101**	84,033,178	84,033,404
Dilutive effect of share options	**367,677**	617,808	458,697
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,859,778**	84,650,986	84,492,101

6 DIVIDENDS

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Year ended 31 December 2016 £000
Interim dividend for 2016 of 6.70p paid 3 January 2017	**5,638**	–	–
Special dividend for 2016 of 8.00p paid 24 April 2017	**6,731**	–	–
Final dividend for 2016 of 15.85p proposed	**13,360**	–	–
Interim dividend for 2015 of 6.00p paid 2 January 2016	**–**	5,048	5,048
Special dividend for 2015 of 6.00p paid 25 April 2016	**–**	5,048	5,048
Final dividend for 2015 of 14.70p proposed	**–**	12,368	12,368
	25,729	22,464	22,464

The proposed final 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 proposed final dividend for 2015 of 14.70p per share was authorised by shareholders at the Annual General Meeting on 20 May 2016 and paid on 1 July 2016.

The Board of Directors has declared an interim dividend for 2017 of 7.55p to be paid on 2 January 2018.

7 ACQUISITIONS

On 28 February 2017, a subsidiary company of Headlam Group plc entered into an agreement to acquire Mitchell Carpets Limited. The company is a distributor of floorcoverings in the south east of England.

On 28 April 2017, a subsidiary company of Headlam Group plc entered into an agreement to acquire the business and certain assets of McMillan Flooring Distributors Limited. McMillan Flooring Distributors Limited is a distributor of commercial floorcoverings in Scotland.

Revenue for the calendar year 2016 was approximately £4.870 million for both acquisitions. Consideration at completion amounted to £1.942 million, net of cash acquired with the businesses of £0.809 million. Net assets acquired were £1.666 million (including cash acquired), goodwill was £0.285 million and customer relationships amounted to £0.8 million. The intangible relating to customer relationships was written off in the first half.

The disclosures required by IFRS 3 will be shown in the Annual Report and Accounts for the Group for the year ended 31 December 2017.

8 FINANCIAL INSTRUMENTS

The fair value of the Group's financial assets and liabilities as detailed below at 30 June 2017 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 2017.

	Available for sale £000	Other derivatives at fair value £000	Amortised cost £000	Total carrying value £000
Cash and cash equivalents	–	–	71,566	71,566
Borrowings due within one year	–	–	(230)	(230)
Borrowings due after one year	–	–	(21,563)	(21,563)
Trade payables	–	–	(143,690)	(143,690)
Non-trade payables	–	–	(28,163)	(28,163)
Trade receivables	–	–	103,381	103,381
Other receivables	–	–	18,466	18,466
Provisions	–	–	(1,531)	(1,531)
Derivative assets	–	6	–	6
	–	6	(1,764)	(1,758)

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 a diesel commodity swap used for hedging which was fair valued in accordance with level 2 for the six months ended 30 June 2017 (30 June and 31 December 2016: level 2) and forward currency contracts which were fair valued in accordance with level 2 (30 June and 31 December 2016: 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.

9 CAPITAL COMMITMENTS

As at 30 June 2017, the Group had contractual commitments relating to the purchase of property, plant and equipment of £291,000 (30 June 2016: £408,000, 31 December 2016: £663,000).

10 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.

11 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.

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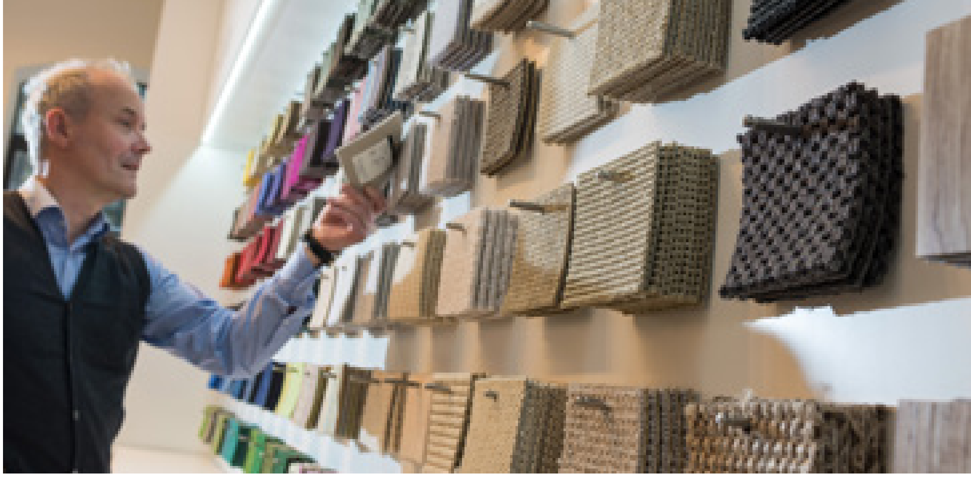




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