headlam
group plc

Half Year Report
for the six months ended 30 June 2015

Our actions are the ground we walk on

www.headlam.com
Stock code: Head

Europe's leading floorcovering distributor

About us

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

Our Purpose

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

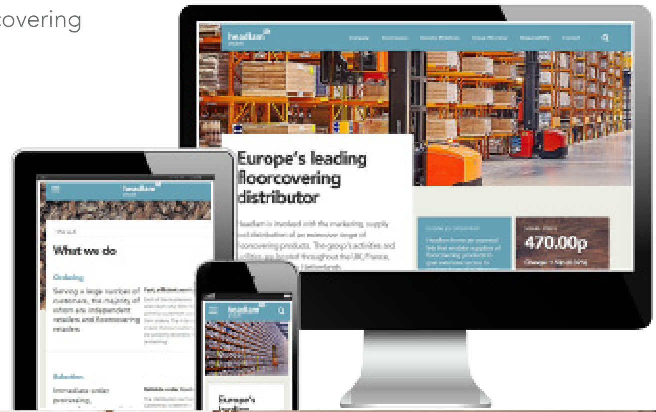
The approach provides Headlam's suppliers with an opportunity to achieve extensive and, in some territories, unparalleled market access backed by cost effective distribution.

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

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

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

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



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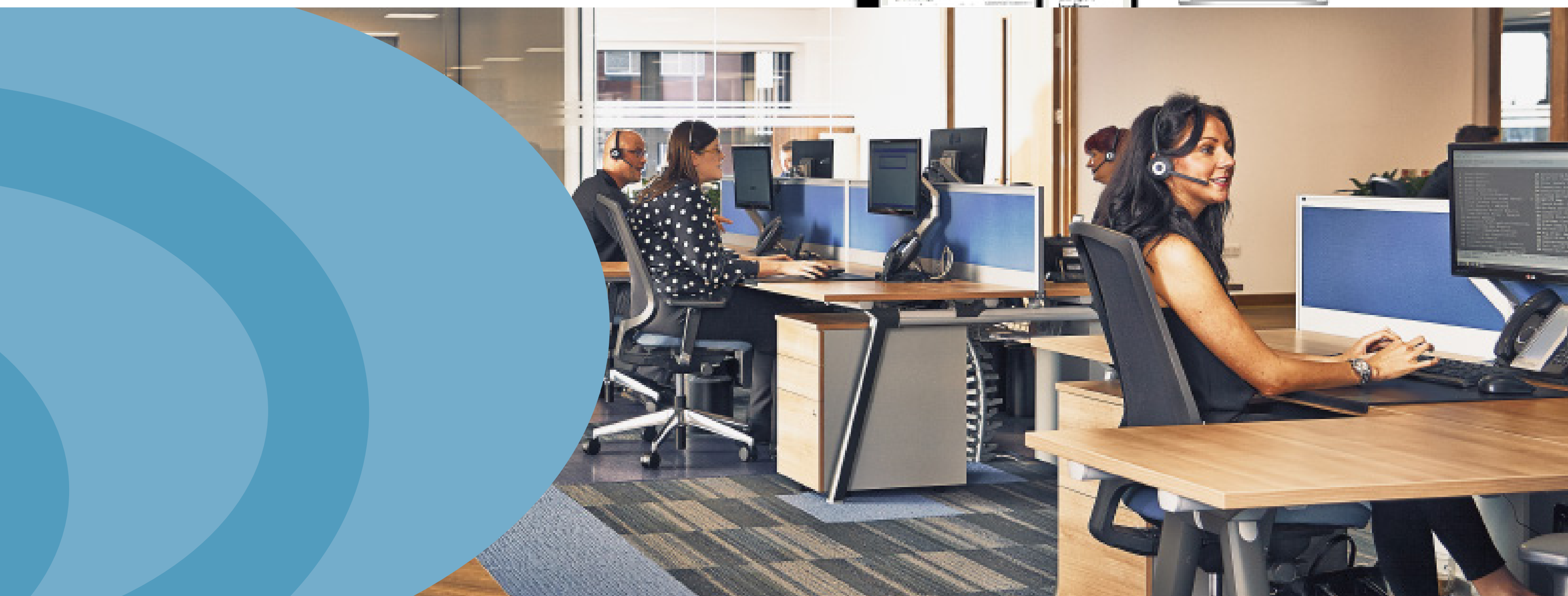

Performance Highlights

FINANCIAL HIGHLIGHTS

Revenue £million

£313.5 +4.0%

H1 2014: £301.6

Operating Profit £million

£13.0 +14.9%

H1 2014: £11.3

Earnings Per Share pence

11.7 +14.7%

H1 2014: 10.2

Interim Dividend pence

6.00 +15.4%

H1 2014: 5.20

Net Funds £million

£26.0

H1 2014: £11.7

OPERATIONAL HIGHLIGHTS

— Further gains achieved in UK market share with like-for-like revenues increasing by 5.4%, exceeding the forecast market growth of 3.4%

(Source: AMA Research Limited 2014)

— Number of UK businesses increased to 56 with the acquisition of Matty's Wholesale Carpets in 2015

— Investment in Clerkenwell showroom to enable Headlam Corporate to target the specified commercial flooring market

— Continental European markets, representing 12.4% of half year group revenues, remain challenging

Our 2015 interim report

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Chairman's Statement

Group revenue increased 4.0% to £313.5 million, reflecting further progress in the delivery of the group's strategy.

I am pleased to report that in the six months to 30 June 2015, group revenue increased 4.0% to £313.5 million (H1 2014: £301.6 million), reflecting the continued improvement in our markets in the UK and further progress in the delivery of the group's strategy. Like-for-like sales in the UK increased by 5.4% compared with the same period last year, significantly ahead of the market growth rate of 3.4% forecast by AMA Research Limited.

During the half year, we continued to develop Headlam Corporate, a new business targeting specifiers of commercial flooring, by investing in a commercial flooring showroom in London; completed one bolt-on acquisition; and continued to focus on operational excellence and improvement through the development of our infrastructure, staff and IT systems.

Earnings and dividend

Basic earnings per share increased by 14.7% from 10.2p to 11.7p compared with the first six months of 2014. As a result, the board has decided to increase the interim dividend by 15.4% to 6.0p (H1 2014: 5.2p). The dividend will be paid on 4 January 2016 to shareholders on the register as at 4 December 2015.

UK operations

Business performance

The UK is by far the largest part of Headlam's business, representing 87.6% of group revenue during the first half of the year.

UK sales in the first half, at £274.6 million (H1 2014: £257.8 million), reflect increased consumer confidence, which has been sustained to date into the second half. Whilst the overall residential to commercial split remained unchanged at 69% residential and 31% commercial, it was interesting to note that in the first half on a like-for-like basis there was a slightly stronger growth in commercial, 6.1%, than residential, 5.0%. This is a potential indicator of renewed confidence in the wider business community with the refurbishment of existing premises or the opening of new commercial premises.

Our residential product categories remained the same, comprising carpet, vinyl, wood, laminate and luxury vinyl tile. The split between residential carpet and hard floorcoverings was broadly unchanged at 39% and 24% respectively but the trend towards grey carpeting has continued. Of the new best selling carpet products launched during the first half of 2015, grey accounted for about 40 per cent of the content of each range in the middle to higher price points.

During the first half, we continued to develop our new business, trading as Headlam Corporate, aimed at serving the specified commercial flooring market. This business seeks to capitalise on the many opportunities of combining the extensive product portfolio of a number of our premium businesses, principally JHS, Crucial Trading and Kersaint Cobb. We have invested in five senior sales executives at Headlam Corporate, and have also opened a 3,550 square foot London showroom in Clerkenwell, which is the centre of the UK interior design and specification community.

Acquisitions and investment

On 30 January 2015, we completed the acquisition of Matty's Wholesale Carpets, a Midlands-based distributor of residential floorcoverings to independent flooring retailers. The integration of this bolt-on acquisition is proceeding well and it has already contributed positively to earnings. We are currently evaluating a number of other bolt-on acquisition opportunities in line with our continuing consolidation strategy.

In the UK, the group now operates with 56 businesses (H1 2014: 54) served from four national distribution hubs (H1 2014: 4), 14 distribution centres (H1 2014: 14) and 29 service centres (H1 2014: 26) with the inclusion of the Cheltenham service centre, which opened during July 2015. The investment in the service centre network, which has a bias towards the commercial sector, is aimed at providing an enhanced service to our customers through the establishment of readily accessible product collection points. The network will be further extended during the autumn of this year with the opening of a centre in Croydon, south London. The UK operations are structured in the five business sectors of regional multi-product, national multi-product, regional commercial, residential specialist and commercial specialist.

We have previously highlighted that we propose to build a 160,000 square foot distribution centre in Ipswich for Faithfull's Floorcovering, one of our regional multi-product business. We expect the land cost to be approximately £3.2 million and the total cost of the project to be

around £13.0 million. In common with all of our other distribution centres, the Ipswich site will be owned on a freehold basis. Planning permission, approving the development of the facility, is expected towards the end of 2015 or the early part of 2016, with construction to commence shortly thereafter. In addition to the expansion of our distribution infrastructure, we have continued to develop our IT and digital presence.

Customers

We have made further refinements to our bespoke CRM app, which was developed for the Apple iPad to optimise the efficiency and effectiveness of our sales force, which totals 434 managers and representatives. We have also developed and are commencing trials of an app to be used in conjunction with the iPhone by our delivery drivers, again aimed at improving the service we provide to our customers.

Our business to business websites were originally launched in 2000 to provide our customers with 24 hour access to check stock and to place orders. These websites are currently being significantly improved. Our businesses at the forefront of this process are enjoying an increase in the level of online transactions and the investment ultimately provides another avenue with which to enhance customer service.

Market presence in independent floorcovering retailers and contractors continues to be enhanced through our ongoing product development with suppliers, resulting in the launch during the first half of 2,057 new products (H1 2014: 1,830) supported by 414,498 point of sale items (H1 2014: 319,796).

Continental Europe

Headlam's businesses in Continental Europe are located in the Netherlands, France and Switzerland. They represent a relatively modest part of Headlam's revenues, contributing 12.4% of group revenues in the first six months of the year at £39.0 million (H1 2014: £43.8 million).

The group's businesses in the Netherlands are benefiting from a slight improvement in the Dutch market and, on a like-for-like basis, achieved growth during the first six months compared with the same period last year. Market conditions in Switzerland and France remained challenging during the first half and continue to hold back our overall performance on the Continent. Whilst the performance during July and August has improved, we anticipate that the demanding trading conditions will continue through the second half of 2015.

Financials

Cash flow

During the first six months of 2015, there was a net increase in cash and cash equivalents of £1.0 million, which represents an upward swing of £8.5 million compared with the decrease of £7.5 million during the same period in 2014. The principal reasons for this very positive movement are shown in the table below.

	£000
Cash flow first half of 2014	(7,535)
Cash flow from operating activities	2,063
Working capital	1,234
Dividends	(499)
Taxation	350
Capital expenditure	2,301
Acquisitions	(1,978)
Movement in net debt	5,010
Other	40
	8,521
Cash flow first half of 2015	**986**

Chairman's Statement continued

The cash flow from operating activities has had a favourable impact, the key driver being the £1.7 million improvement in operating profit. A favourable improvement from working capital of £1.2 million, arising because of an increase in payables, has resulted in a net reduction to working capital investment which, when expressed as a percentage of revenue, has moved from 1.2% to 0.7%.

Capital expenditure was reduced considerably compared with the corresponding period because of the reduction in investment activity and the deferment of the purchase of the Ipswich land until later in the year. This reduction has of course been substantially offset by the acquisition of Matty's Wholesale Carpets during January 2015.

Finally, during the first half of 2015, there have been no further repayments on the group's term debt facilities. This compares with a reduced utilisation of £5.0 million in the first half of 2014. The absence of repayments has made a significant contribution to the positive cash movement during the first half. The amount drawn down on the term facility utilised by the group to fund the investment in its Dutch freehold property, amounting to £2.7 million, will be repaid in full during the second half of 2015.

Changes in net funds

As shown below, the group ended the first six months with net funds of £26.0 million compared with £11.7 million at 30 June 2014, and £24.6 million as at 31 December 2014.

	At 1 January 2015 £000	Cash flows £000	Translation differences £000	**At 30 June 2015 £000**
Cash at bank and in hand	47,589	1,389	83	**49,061**
Bank overdraft	–	(403)	10	**(393)**
	47,589	986	93	**48,668**
Debt due within one year	(204)	–	18	**(186)**
Debt due after one year	(22,818)	80	243	**(22,495)**
	24,567	1,066	354	**25,987**

Principal risks and uncertainties

The board has ultimate responsibility for identifying and managing the effect of risk and uncertainty on the group's business, results and financial condition. Whilst the board maintains a policy of continuous identification and review, it nevertheless recognises that a number of risks and uncertainties lie beyond its control.

Currently, the key risks and uncertainties, which are or have potential to affect the group's operations are: market demand, competition, credit risk, IT failure, people, pension costs, legislation and regulation. The potential impact and mitigation of these risks and uncertainties are discussed in more detail on pages 28 and 29 of the 2014 Annual Report and Accounts.

New Products Launched in the UK
2,057
(H1 2014: 1,830)

Number of Orders from UK Customers
2,391,864
(H1 2014: 2,252,216)

New Point of Sale Items in the UK
414,498
(H1 2014: 319,796)

Outlook

The first half results underline the growing momentum in the UK market and particularly in our business. The group's UK residential business has performed well and the slightly stronger like-for-like growth across our commercial activities points towards improving confidence in the wider business community.

The positive trading outcome for the first half has continued during the first eight weeks of the second half. Subject to the important final quarter of the year, the group expects to announce results for the full year to 31 December 2015 slightly ahead of the board's internal expectations.

Dick Peters
Chairman
24 August 2015

Condensed Consolidated Interim Income Statement (unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Note	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Revenue	2	**313,546**	301,580	635,242
Cost of sales		**(220,428)**	(212,104)	(444,702)
Gross profit		**93,118**	89,476	190,540
Distribution expenses		**(59,165)**	(58,515)	(117,458)
Administrative expenses		**(20,931)**	(19,630)	(41,620)
Operating profit	2	**13,022**	11,331	31,462
Finance income	3	**115**	126	819
Finance expenses	3	**(789)**	(698)	(1,981)
Net finance costs		**(674)**	(572)	(1,162)
Profit before tax		**12,348**	10,759	30,300
Taxation	4	**(2,500)**	(2,313)	(6,515)
Profit for the period attributable to the equity shareholders	2	**9,848**	8,446	23,785
Dividend paid per share	6	**17.50p**	15.30p	15.30p
Earnings per share				
Basic	5	**11.7p**	10.2p	28.6p
Diluted	5	**11.7p**	10.0p	28.5p

All group operations during the financial periods were continuing operations.

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Profit for the period attributable to the equity shareholders	**9,848**	8,446	23,785
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	**2,039**	(1,391)	(8,900)
Related tax	**(396)**	291	1,789
	1,643	(1,100)	(7,111)
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations	**(132)**	(548)	(742)
Effective portion of changes in fair value of cash flow hedges	**(14)**	(15)	(177)
Transfers to profit or loss on cash flow hedges	**63**	67	132
Related tax	**(12)**	(13)	18
	(95)	(509)	(769)
Other comprehensive income/(expense) for the period	**1,548**	(1,609)	(7,880)
Total comprehensive income attributable to the equity shareholders for the period	**11,396**	6,837	15,905

Condensed Consolidated Interim Statements of Financial Position (unaudited)

AT 30 JUNE 2015

	At 30 June 2015 £000	At 30 June 2014 £000	At 31 December 2014 £000
Assets			
Non-current assets			
Property, plant and equipment	**102,581**	104,434	103,461
Intangible assets	**10,013**	10,013	10,013
Deferred tax assets	**2,509**	2,393	2,726
	115,103	116,840	116,200
Current assets			
Inventories	**122,598**	120,624	116,569
Trade and other receivables	**119,714**	113,525	118,816
Cash and cash equivalents	**49,061**	40,819	47,589
	291,373	274,968	282,974
Total assets	**406,476**	391,808	399,174
Liabilities			
Current liabilities			
Bank overdraft	**(393)**	(925)	–
Other interest-bearing loans and borrowings	**(2,681)**	(210)	(204)
Trade and other payables	**(179,283)**	(169,024)	(166,266)
Employee benefits	**(2,980)**	(2,887)	(2,933)
Income tax payable	**(5,514)**	(5,687)	(6,073)
	(190,851)	(178,733)	(175,476)
Non-current liabilities			
Other interest-bearing loans and borrowings	**(20,000)**	(28,030)	(22,818)
Employee benefits	**(15,842)**	(13,096)	(18,803)
	(35,842)	(41,126)	(41,621)
Total liabilities	**(226,693)**	(219,859)	(217,097)
Net assets	**179,783**	171,949	182,077
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	**(1,632)**	(5,165)	(1,786)
Retained earnings	**123,635**	119,334	126,083
Total equity	**179,783**	171,949	182,077

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2014	4,268	53,512	88	6,165	(87)	(10,908)	124,465	177,503
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	8,446	8,446
Other comprehensive income	–	–	–	(548)	52	–	(1,113)	(1,609)
Total comprehensive income for the period	–	–	–	(548)	52	–	7,333	6,837
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	233	233
Share options exercised by employees	–	–	–	–	–	73	(10)	63
Deferred tax on share options	–	–	–	–	–	–	2	2
Dividends to equity holders	–	–	–	–	–	–	(12,689)	(12,689)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	73	(12,464)	(12,391)
Balance at 30 June 2014	4,268	53,512	88	5,617	(35)	(10,835)	119,334	171,949
Balance at 1 July 2014	4,268	53,512	88	5,617	(35)	(10,835)	119,334	171,949
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	15,339	15,339
Other comprehensive income	–	–	–	(194)	(97)	–	(5,980)	(6,271)
Total comprehensive income for the period	–	–	–	(194)	(97)	–	9,359	9,068
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	459	459
Share options exercised by employees	–	–	–	–	–	3,735	(2,770)	965
Current tax on share options	–	–	–	–	–	–	183	183
Deferred tax on share options	–	–	–	–	–	–	(547)	(547)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	3,735	(2,675)	1,060
Balance at 31 December 2014	4,268	53,512	88	5,423	(132)	(7,100)	126,018	182,077
Balance at 1 January 2015	**4,268**	**53,512**	**88**	**5,423**	**(132)**	**(7,100)**	**126,018**	**182,077**
Profit for the period attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**9,848**	**9,848**
Other comprehensive income	**–**	**–**	**–**	**(132)**	**49**	**–**	**1,631**	**1,548**
Total comprehensive income for the period	**–**	**–**	**–**	**(132)**	**49**	**–**	**11,479**	**11,396**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**557**	**557**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**172**	**(19)**	**153**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**255**	**255**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(14,655)**	**(14,655)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**–**	**172**	**(13,862)**	**(13,690)**
Balance at 30 June 2015	**4,268**	**53,512**	**88**	**5,291**	**(83)**	**(6,928)**	**123,635**	**179,783**

Condensed Consolidated Interim Cash Flow Statements (unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Cash flows from operating activities			
Profit before tax for the period	**12,348**	10,759	30,300
Adjustments for:			
Depreciation, amortisation and impairment	**2,422**	2,380	4,900
Finance income	**(115)**	(126)	(819)
Finance expense	**789**	698	1,981
Profit on sale of property, plant and equipment	**(8)**	(14)	(30)
Share-based payments	**557**	233	692
Operating profit before changes in working capital and other payables	**15,993**	13,930	37,024
Change in inventories	**(5,506)**	(5,409)	(1,514)
Change in trade and other receivables	**(725)**	5,406	(143)
Change in trade and other payables	**3,965**	(3,497)	2,656
Cash generated from the operations	**13,727**	10,430	38,023
Interest paid	**(461)**	(429)	(1,477)
Tax paid	**(3,020)**	(3,370)	(6,357)
Additional contributions to defined benefit plan	**(1,447)**	(1,495)	(2,996)
Net cash flow from operating activities	**8,799**	5,136	27,193
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**119**	115	92
Interest received	**95**	161	846
Acquisition of subsidiaries, net of cash acquired	**(1,978)**	–	(331)
Acquisition of property, plant and equipment	**(1,768)**	(4,065)	(5,668)
Net cash flow from investing activities	**(3,532)**	(3,789)	(5,061)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**153**	63	1,028
Repayment of borrowings	**(79)**	(5,089)	(10,210)
Dividends paid	**(4,355)**	(3,856)	(12,689)
Net cash flow from financing activities	**(4,281)**	(8,882)	(21,871)
Net increase/(decrease) in cash and cash equivalents	**986**	(7,535)	261
Cash and cash equivalents at 1 January	**47,589**	47,477	47,477
Effect of exchange rate fluctuations on cash held	**93**	(48)	(149)
Cash and cash equivalents at end of period	**48,668**	39,894	47,589

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 2015.

The Consolidated Financial Statements of the group as at and for the year ended 31 December 2014 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2014 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 (i) was 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 and Transparency Rules of the Financial Services 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 2014.

These Condensed Consolidated Interim Financial Statements were approved by the board of directors on 24 August 2015.

Significant accounting policies

As required by the Disclosure 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 2014, 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 2015 and have not been early adopted by the group, will be adopted in future accounting periods:

- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- Annual improvements to IFRSs 2010-2012
- Annual improvements to IFRSs 2011-2013
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS 15 – Revenue Recognition

The Directors anticipate that adoption of these standards and interpretations in future periods will have no material impact on the financial statements of 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 Chairman's Statement.

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 2015

	Committed credit facilities £ million	Uncommitted credit facilities £ million	Total facilities £ million
Drawn funds	22.7	0.3	23.0
Undrawn funds	20.0	41.2	61.2
	42.7	41.5	84.2

£2.7 million of the amount drawn down under committed credit facilities was utilised by the group to fund the investment in its Dutch freehold property. This amount has been shown as a current liability at 30 June 2015 as it will be repaid in full during the second half of 2015.

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 2014.

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 Chairman's Statement.

2 SEGMENT REPORTING

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

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

2 SEGMENT REPORTING continued

	UK			Continental Europe			Total		
	30 June 2015 £000	30 June 2014 £000	31 December 2014 £000	**30 June 2015 £000**	30 June 2014 £000	31 December 2014 £000	**30 June 2015 £000**	30 June 2014 £000	31 December 2014 £000
Revenue									
External revenues	**274,587**	257,770	548,393	**38,959**	43,810	86,849	**313,546**	301,580	635,242
Reportable segment operating profit	**13,786**	11,356	30,695	**206**	614	1,183	**13,992**	11,970	31,878
Reportable segment assets	**247,961**	232,288	256,274	**30,720**	32,590	34,444	**278,681**	264,878	290,718
Reportable segment liabilities	**(154,039)**	(144,868)	(151,566)	**(15,254)**	(16,213)	(14,568)	**(169,293)**	(161,081)	(166,134)

During the periods shown above, there have been no inter-segment revenues for the reportable segments (2014: £nil).

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

	30 June 2015 £000	30 June 2014 £000	31 December 2014 £000
Profit for the period			
Total profit for reportable segments	**13,992**	11,970	31,878
Unallocated expense	**(970)**	(639)	(416)
Operating profit	**13,022**	11,331	31,462
Finance income	**115**	126	819
Finance expense	**(789)**	(698)	(1,981)
Profit before taxation	**12,348**	10,759	30,300
Taxation	**(2,500)**	(2,313)	(6,515)
Profit for the period	**9,848**	8,446	23,785

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

2 SEGMENT REPORTING continued

	30 June 2015 £000	30 June 2014 £000	31 December 2014 £000
Assets			
Total assets for reportable segments	**278,681**	264,878	290,718
Unallocated assets:			
Properties, plant and equipment	**95,403**	96,449	91,493
Deferred tax assets	**2,509**	2,393	2,726
Cash and cash equivalents	**29,883**	28,088	14,237
Total assets	**406,476**	391,808	399,174
Liabilities			
Total liabilities for reportable segments	**(169,293)**	(161,081)	(166,134)
Unallocated liabilities:			
Employee benefits	**(18,822)**	(15,983)	(21,736)
Other interest-bearing loans and borrowings	**(22,681)**	(28,240)	(23,022)
Income tax payable	**(5,514)**	(5,687)	(6,073)
Proposed dividend	**(10,300)**	(8,833)	–
Derivative liabilities	**(83)**	(35)	(132)
Total liabilities	**(226,693)**	(219,859)	(217,097)

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
Other material items 30 June 2015					
Capital expenditure	**1,142**	**309**	**1,451**	**317**	**1,768**
Depreciation	**1,147**	**261**	**1,408**	**1,014**	**2,422**
Other material items 30 June 2014					
Capital expenditure	1,986	182	2,168	1,897	4,065
Depreciation	1,107	286	1,393	987	2,380
Other material items 31 December 2014					
Capital expenditure	2,586	421	3,007	2,661	5,668
Depreciation	2,260	567	2,827	1,998	4,825
Amortisation	–	–	–	75	75

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

Each segment is a continuing operation.

2 SEGMENT REPORTING continued

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

	UK			Continental Europe			Total		
	30 June 2015 £000	30 June 2014 £000	31 December 2014 £000	**30 June 2015 £000**	30 June 2014 £000	31 December 2014 £000	**30 June 2015 £000**	30 June 2014 £000	31 December 2014 £000
Revenue									
Residential	**189,972**	178,268	378,910	**19,345**	19,917	43,415	**209,317**	198,185	422,325
Commercial	**84,615**	79,502	169,483	**19,614**	23,893	43,434	**104,229**	103,395	212,917
	274,587	257,770	548,393	**38,959**	43,810	86,849	**313,546**	301,580	635,242

3 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Interest income:			
Bank interest	**115**	29	693
Other	**–**	97	126
Finance income	**115**	126	819
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(356)**	(361)	(1,323)
Net change in fair value of cash flow hedges transferred from equity	**(63)**	(67)	(132)
Net interest on defined benefit plan obligation	**(310)**	(270)	(526)
Other	**(60)**	–	–
Finance expenses	**(789)**	(698)	(1,981)

4 TAXATION

The group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2015 was 20.25% (for the six months ended 30 June 2014: 21.5%; for the year ended 31 December 2014: 21.5%).

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 30 June 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

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 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent	**9,848**	8,446	23,785

	2015	2014	2014
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	**(1,501,893)**	(2,328,375)	(2,053,036)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**83,861,850**	83,035,368	83,310,707
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**83,861,850**	83,035,368	83,310,707
Dilutive effect of share options	**402,528**	1,072,187	264,178
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,264,378**	84,107,555	83,574,885

6 DIVIDENDS

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Interim dividend for 2014 of 5.20p paid 2 January 2015	**4,355**	–	–
Final dividend for 2014 of 12.30p proposed	**10,300**	–	–
Interim dividend for 2013 of 4.65p paid 2 January 2014	**–**	3,856	3,856
Final dividend for 2013 of 10.65p proposed	**–**	8,833	8,833
	14,655	12,689	12,689

The final proposed dividend for 2014 of 12.30p per share was authorised by shareholders at the Annual General Meeting on 21 May 2015 and paid on 1 July 2015. The final proposed dividend for 2013 of 10.65p per share was authorised by shareholders at the Annual General Meeting on 21 May 2014 and paid on 1 July 2014.

7 ACQUISITIONS

On 30 January 2015, a subsidiary company of Headlam Group plc entered into an agreement to acquire the business and certain assets of Matty's Wholesale Carpets (Matty's). Matty's is a distributor of residential floorcovering to independent flooring retailers, principally in the Midlands. Revenue for the calendar year 2014 was approximately £4.3 million. Consideration at completion amounted to £1.978 million, with net assets acquired of £1.228 million and goodwill of £0.75 million. Following completion, the autonomous sales and marketing identity of Matty's has been preserved and logistics are being provided by the group's existing facility in Coleshill. The disclosures required by IFRS 3 will be shown in the Annual Report and Accounts for the group for the year ended 31 December 2015.

8 CAPITAL COMMITMENTS

As at 30 June 2015, the group had contractual commitments relating to the purchase of property, plant and equipment of £371,000 (30 June 2014: £198,000, 31 December 2014: £1,019,000).

9 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.

10 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.

Statement of Directors' Responsibilities

We confirm to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;

(b) the interim management report includes a fair review of the information required by:

(i) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year 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 year; and

(ii) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

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

Tony Brewer
Chief Executive Officer
24 August 2015

Shareholder Notes

Shareholder Notes

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