headlam
group plc

Europe's leading floorcovering distributor

Half Year Report 2014

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 aimed at providing its customers, principally independent floorcovering retailers and contractors, with a comprehensive and up to date range of competitively priced floorcovering products supported by next day delivery.

This approach presents Headlam's suppliers with an opportunity to achieve an unparalleled market access backed by cost effective distribution.

In order to provide this level of service to its customers and suppliers, Headlam has developed a diverse and autonomous operating structure that includes 54 businesses across the UK and a further five in continental Europe.

The autonomous operating structure is a key contributor to the group's success, since it provides an opportunity for experienced management teams 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.

Inside This Report

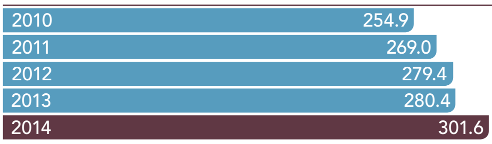
Our Performance

Financial highlights – half year

Revenue £m

301.6

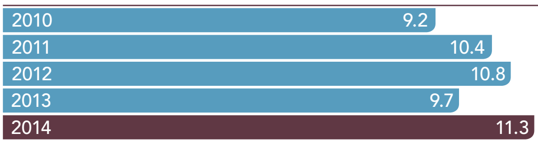
2013: 280.4
+7.6%



Operating Profit £m

11.3

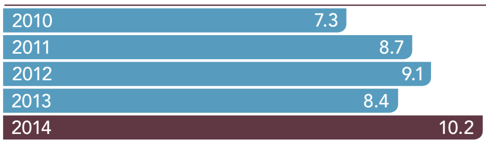
2013: 9.7
+16.4%



Basic Earnings Per Share p

10.2

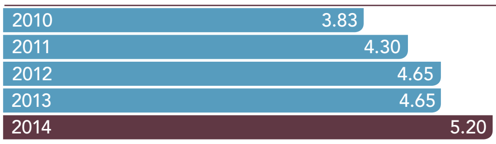
2013: 8.4
+21.4%



Dividends Paid and Proposed p

5.20

2013: 4.65
+11.8%



Key points

- Further market gains in the UK with revenue increasing by 7.9% on a like for like basis
- Continental European contribution to group operating profit improved
- Basic earnings per share up by 21.4 %
- Interim dividend increased by 11.8% to 5.2p
- Increase in net funds to £11.7 million compared with £4.8 million at 30 June 2013

For further detail on
our business please visit:

www.headlam.com

Chairman's Statement

"Your board has decided to increase the interim dividend by 11.8% from 4.65p to 5.20p."

I am pleased to report that group revenue in the first six months of 2014 increased from £280.4 million to £301.6 million. Improving market conditions in the UK contributed to a like for like revenue increase of 7.9% and with more stable conditions on the Continent, we experienced only a slight revenue decline of 0.1%.

Earnings and dividend

Basic earnings per share increased by 21.4% from 8.4p to 10.2p compared with the first six months of 2013 and as a result, your board has decided to increase the interim dividend by 11.8% from 4.65p to 5.20p. The dividend will be paid on 2 January 2015 to shareholders on the register at 5 December 2014.

UK operations

The first six months of 2014 have produced a particularly positive performance and whilst undoubtedly improved market conditions will have contributed to the result, the various initiatives introduced across all our businesses, including management and sales representative training, enhanced point of sale and improved selling techniques, have enabled the group to out-perform the overall market.

The group now operates with 54 businesses from 18 distribution centres and 26 service centres and continues to be structured in the five business sectors of regional multi-product, national multi-product, regional commercial, residential specialist and commercial specialist. The increase in revenue reflected a slightly stronger performance from our residential business, where the growth rate was greater than our commercial business resulting in the overall product mix moving marginally to 69% residential and 31% commercial.

We have recently established service centres in Stoke and Norwich and a further opening in Hayes, west London is imminent. This will result in 43 collection points in the UK to assist in the servicing of our customers' requirements and there are plans to open additional service centres, in strategic geographical locations, to further extend the service proposition for our customers.

During the last five years when markets and trading have been particularly difficult, we decided to retain the group's structure in order to maintain our service levels. It is now particularly encouraging that the regional and national multi-product businesses, which historically have been the foundation of the group's success, are recovering from their recent subdued performances and are now once again providing a platform for growth and contributing to the group's improving performance.

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

The Customer Relationship Management App ("CRM"), utilised on our management and sales representatives' iPads, continues to advance and is now a hugely beneficial facility, particularly for our 419 sales representatives. They collectively make over 530,000 visits each year to customers and the iPad CRM, in conjunction with the training programmes, ensures that our sales representatives are fully prepared when visiting a customer, with clearly focused objectives, and are able to measure their achievement whilst interacting with their sales manager.

Market presence in independent floorcovering retailers and contractors continues to be enhanced through our ongoing product development with suppliers, resulting in the launch of 1,830 new products, supported by 319,796 point of sale items. Lifestyle Floors, which continues to take a more prominent market position, now has a huge presence in independent floorcovering retailers providing point of sale for each of the key residential product categories of carpet, vinyl, wood, laminate and luxury vinyl tile. With the constant launch of new products through Lifestyle Floors and our other business activities, we will continue to provide the independent floorcovering retailer and contractor with a comprehensive selection of product initiatives into the UK market.

Hall's Floorings and Fell's Carpets, the businesses acquired during 2013, have been fully integrated operationally, whilst maintaining their individual and autonomous sales and marketing activities. These businesses are now making a positive contribution to the group's results. We continue to assess similar acquisition opportunities to further strengthen our geographical or product position where appropriate.

As reflected in our increase in revenue, the independent floorcovering retailer and contractor are trading positively. A measure of their financial health is that their payment activity has resulted in a further reduction in outstanding debtor days and the occurrence of bad debts continues to decline.

The project to extend the Coleshill distribution hub to 300,000 square feet was completed in January and is now fully operational both to the benefit of the businesses directly operating from Coleshill and the enhancement it provides for the group's overall supply chain management.

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

Continental Europe

It is pleasing to report an improved performance from our businesses in France and the Netherlands, where a slight improvement in market conditions, in conjunction with local initiatives, has delivered an increase in profitability. Unfortunately, market conditions in Switzerland continue to hamper our overall development in Continental Europe.

Cash flow

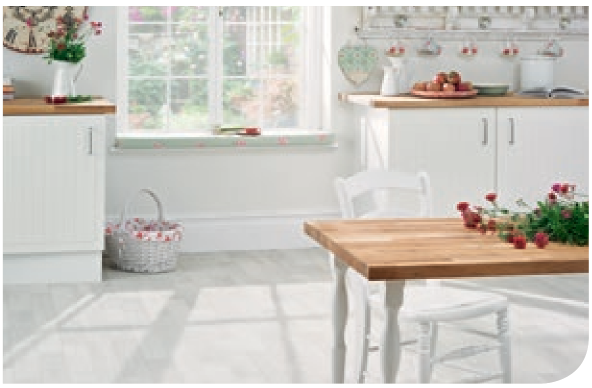
The cash flow from operating profit, before changes in working capital and other payables, amounted to £13.9 million compared with £12.3 million during the comparative six months in 2013. The increase was largely attributable to the £1.7 million improvement in profit before tax during the first six months of 2014.

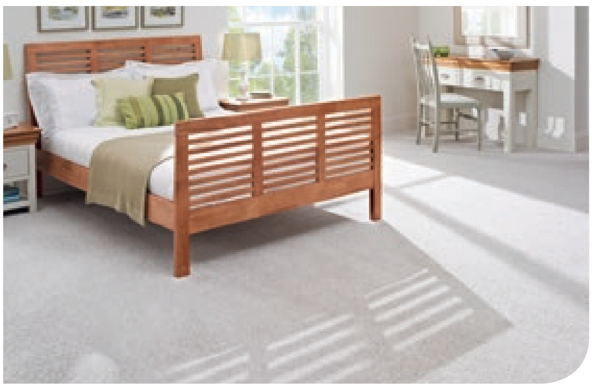
Net working capital cash outflow amounted to £3.5 million compared with a net cash outflow of £8.9 million during the equivalent period in 2013. The group's operations typically lead to an increase in net working capital investment during the first six months which then tends to reverse through the second half of the year.

On average, this characteristic of the group's operations would normally give rise to a net working capital investment during the first six months equating to approximately 3.5% of revenue for the period. However, this year, the investment level, measured by reference to group revenue for the first six months, has been confined to 1.2% due to increased levels of activity during the period. If trading during the second half of the year continues in line with internal expectations, it is likely that the level of net working capital investment will double.

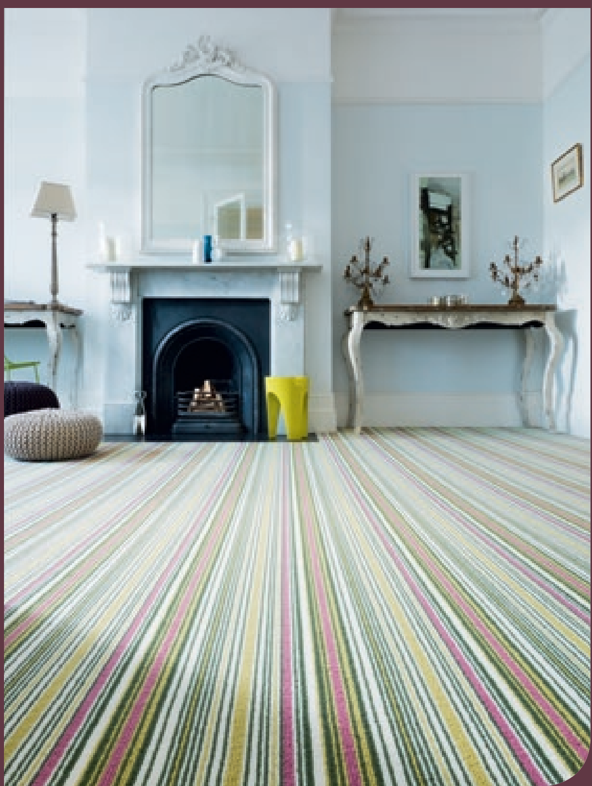
As a result of the reduced first half working capital investment, cash generated from operations amounted to £5.1 million compared with a cash outflow of £1.7 million during the corresponding period in 2013.

Cash outflows from investing activities during the first half of 2014 totalled £3.8 million, which was £2.0 million down on the previous year's cash outflow due to the completion of the investment in the Coleshill extension and no acquisition activity during this year's first half.





"Assuming that normal seasonality prevails in the traditionally busy autumn period, the group is well placed to build upon the positive performance of the first half."



Cash outflows from financing activities were up £5.0 million on the previous year due to the repayment of term debt.

Overall, cash and cash equivalents decreased during the first six months by £7.5 million compared with a decrease of £11.4 million during the equivalent period in 2013. As shown below, the group ended the first six months with net funds of £11.7 million compared with £4.8 million at 30 June 2013, and £14.0 million at 31 December 2013.

Changes in net funds

	At 1 January 2014 £000	Cash flows £000	Translation differences £000	At 30 June 2014 £000
Cash at bank and in hand	47,477	(6,591)	(67)	40,819
Bank overdraft	–	(944)	19	(925)
	47,477	(7,535)	(48)	39,894
Debt due within one year	(218)	–	8	(210)
Debt due after one year	(33,239)	5,089	120	(28,030)
	14,020	(2,446)	80	11,654

Employee benefits

The actuarial assumptions at the half year have been derived using the same methodology adopted for 31 December 2013, but based on economic market conditions as at 30 June 2014. Over the six month period, there has been a fall in the discount rate of 0.2%, which has increased all the liabilities, and a fall in the assumed rate of inflation of 0.1%, which has reduced the liabilities linked to inflation, compared to the assumptions used at 31 December 2013. Therefore, the change in the discount rate assumption has been the predominant factor giving rise to the modest increase in the employee benefits liability, £16.0 million, compared with the liability at 31 December 2013 of £15.6 million.

The net actuarial losses arising from changes in the financial assumptions in the disclosures at 31 December 2013 of £0.08 million were lower than at 30 June 2014, £1.1 million, because during 2013, the increase in the inflation assumption of 0.5% had a greater impact in offsetting the increase in the discount rate of 0.3%.

Principal risks and uncertainties

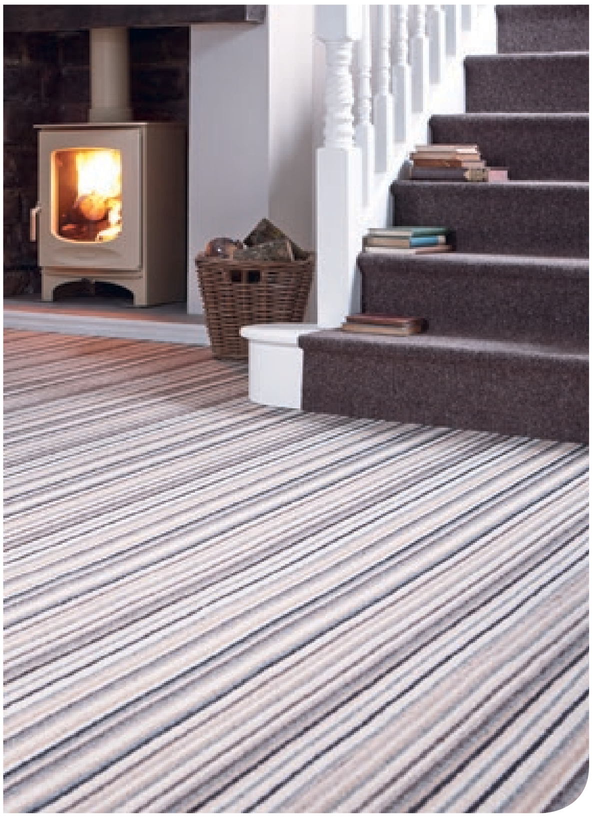
The board has ultimate responsibility for identifying and managing the effect of risk and uncertainty on the group's business, results and financial condition. Whilst the board maintains a policy of continuous identification and review, it nevertheless recognises that a number of risks and uncertainties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

Currently, the key risks and uncertainties, which have or can potentially 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 2013 Annual Report and Accounts.

Outlook

The particularly positive performance for the first six months, due in part to improved market conditions, is principally as a result of the various business initiatives combined with the efforts of management, sales representatives and all employees.

The momentum created during the first half as a result of these factors has continued into July and August and is evident in both the commercial and residential sectors. Assuming that normal seasonality in the traditionally busy autumn selling period prevails, the group is very well placed to continue this trend for the remainder of 2014.



Dick Peters

Chairman, 29 August 2014

Condensed Consolidated Interim Income Statement (unaudited)

Six months ended 30 June 2014

	Note	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	*Year ended 31 December 2013 £000
Revenue	2	**301,580**	280,385	603,051
Cost of sales		**(212,104)**	(195,751)	(421,796)
Gross profit		**89,476**	84,634	181,255
Distribution expenses		**(58,515)**	(56,161)	(115,067)
Administrative expenses		**(19,630)**	(18,735)	(43,860)
Operating profit	2	**11,331**	9,738	22,328
Finance income	3	**126**	96	629
Finance expenses	3	**(698)**	(758)	(1,870)
Net finance costs		**(572)**	(662)	(1,241)
Profit before tax		**10,759**	9,076	21,087
Taxation	4	**(2,313)**	(2,110)	(6,146)
Profit for the period attributable to the equity shareholders	2	**8,446**	6,966	14,941
Dividend paid per share	6	**15.30p**	14.85p	14.85p
Earnings per share				
Basic	5	**10.2p**	8.4p	18.0p
Diluted	5	**10.0p**	8.3p	17.9p

All group operations during the financial periods were continuing operations.

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

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

Six months ended 30 June 2014

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Profit for the year attributable to the equity shareholders	**8,446**	6,966	14,941
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Re-measurement of defined benefit plans	**(1,391)**	(410)	450
Related tax	**291**	(124)	(529)
	(1,100)	(534)	(79)
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations	**(548)**	999	397
Effective portion of changes in fair value of cash flow hedges	**(15)**	75	115
Transfers to profit or loss on cash flow hedges	**67**	68	137
Related tax	**(13)**	(14)	(65)
	(509)	1,128	584
Other comprehensive (expense)/income for the period	**(1,609)**	594	505
Total comprehensive income attributable to the equity shareholders for the period	**6,837**	7,560	15,446

Condensed Consolidated Interim Statement of Financial Position (unaudited)

Six months ended 30 June 2014

	At 30 June 2014 £000	At 30 June 2013 £000	At 31 December 2013 £000
Assets			
Non-current assets			
Property, plant and equipment	**104,434**	99,608	103,079
Intangible assets	**10,013**	13,210	10,013
Deferred tax assets	**2,393**	2,173	2,388
	116,840	114,991	115,480
Current assets			
Inventories	**120,624**	120,656	115,678
Trade and other receivables	**113,525**	109,932	119,488
Cash and cash equivalents	**40,819**	40,444	47,477
	274,968	271,032	282,643
Total assets	**391,808**	386,023	398,123
Liabilities			
Current liabilities			
Bank overdraft	**(925)**	(1,918)	–
Other interest-bearing loans and borrowings	**(210)**	(225)	(218)
Trade and other payables	**(169,024)**	(159,061)	(164,519)
Employee benefits	**(2,887)**	(2,798)	(2,842)
Income tax payable	**(5,687)**	(5,863)	(7,022)
	(178,733)	(169,865)	(174,601)
Non-current liabilities			
Other interest-bearing loans and borrowings	**(28,030)**	(33,468)	(33,239)
Employee benefits	**(13,096)**	(13,917)	(12,780)
	(41,126)	(47,385)	(46,019)
Total liabilities	**(219,859)**	(217,250)	(220,620)
Net assets	**171,949**	168,773	177,503
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	**(5,165)**	(4,639)	(4,742)
Retained earnings	**119,334**	115,632	124,465
Total equity	**171,949**	168,773	177,503

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

Six months ended 30 June 2014

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2013	4,268	53,512	88	5,768	(339)	(11,329)	121,361	173,329
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	6,966	6,966
Other comprehensive income	–	–	–	999	143	–	(548)	594
Total comprehensive income for the period	–	–	–	999	143	–	6,418	7,560
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	166	166
Share options exercised by employees	–	–	–	–	–	31	(16)	15
Deferred tax on share options	–	–	–	–	–	–	3	3
Dividends to equity holders	–	–	–	–	–	–	(12,300)	(12,300)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	31	(12,147)	(12,116)
Balance at 30 June 2013	4,268	53,512	88	6,767	(196)	(11,298)	115,632	168,773
Balance at 1 July 2013	4,268	53,512	88	6,767	(196)	(11,298)	115,632	168,773
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	7,975	7,975
Other comprehensive income	–	–	–	(602)	109	–	404	404
Total comprehensive income for the period	–	–	–	(602)	109	–	8,379	7,886
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	122	122
Share options exercised by employees	–	–	–	–	–	390	(162)	228
Deferred tax on share options	–	–	–	–	–	–	494	494
Total contributions by and distributions to equity shareholders	–	–	–	–	–	390	454	844
Balance at 31 December 2013	4,268	53,512	88	6,165	(87)	(10,908)	124,465	177,503

Condensed Consolidated Interim Statement of Changes in Equity (unaudited) continued

Six months ended 30 June 2014

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 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

Condensed Consolidated Interim Cash Flow Statements (unaudited)

Six months ended 30 June 2014

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Cash flows from operating activities			
Profit before tax for the period	**10,759**	9,076	21,087
Adjustments for:			
Depreciation, amortisation and impairment	**2,380**	2,412	10,136
Finance income	**(126)**	(96)	(629)
Finance expense	**698**	758	1,870
Profit on sale of property, plant and equipment	**(14)**	(10)	(177)
Share-based payments	**233**	166	288
Operating profit before changes in working capital and other payables	**13,930**	12,306	32,575
Change in inventories	**(5,409)**	(3,790)	1,967
Change in trade and other receivables	**5,406**	(19)	(9,114)
Change in trade and other payables	**(3,497)**	(5,119)	9,421
Cash generated from the operations	**10,430**	3,378	34,849
Interest paid	**(429)**	(314)	(1,565)
Tax paid	**(3,370)**	(3,307)	(6,344)
Additional contributions to defined benefit plan	**(1,495)**	(1,449)	(2,913)
Net cash flow from operating activities	**5,136**	(1,692)	24,027
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**115**	66	479
Interest received	**161**	64	613
Acquisition of subsidiaries, net of cash acquired	**–**	(600)	(1,974)
Acquisition of property, plant and equipment	**(4,065)**	(5,343)	(13,267)
Net cash flow from investing activities	**(3,789)**	(5,813)	(14,149)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**63**	15	243
Repayment of borrowings	**(5,089)**	(93)	(223)
Dividends paid	**(3,856)**	(3,850)	(12,300)
Net cash flow from financing activities	**(8,882)**	(3,928)	(12,280)
Net decrease in cash and cash equivalents	**(7,535)**	(11,433)	(2,402)
Cash and cash equivalents at 1 January	**47,477**	49,798	49,798
Effect of exchange rate fluctuations on cash held	**(48)**	161	81
Cash and cash equivalents at end of period	**39,894**	38,526	47,477

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 2014.

The Consolidated Financial Statements of the group as at and for the year ended 31 December 2013 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2013 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 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 2013.

These Condensed Consolidated Interim Financial Statements were approved by the board of directors on 29 August 2014.

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 2013, except as explained below.

Adoption of new and revised standards

The following standards and interpretations are applicable to the group and have been adopted in 2014 as they are mandatory for the year ended 31 December 2014.

- IFRS 10 Consolidated Financial Statements: This standard provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12.
- IFRS 11 Joint Arrangements: This standard carves out from IAS 31, those cases in which there is a separate vehicle but that separation is overcome by form, contract or other facts and circumstances and removes the choice of equity or proportionate accounting for jointly controlled entities (as was under IAS 31).
- IFRS 12 Disclosure of Interests in Other Entities: Contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.
- IAS 27 Separate Financial Statements 2011: IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications.
- IAS 28 Investments in Associates and Joint Ventures 2011: Amendments relating to held for sale interests and changes of classification.
- Amendments to IAS 32 and IFRS 7 for 'Offsetting Financial Assets and Financial Liabilities': Amendments to clarify offsetting criteria and specific disclosures.

There are no other new standards, amendments to standards or interpretations mandatory for the first time for the year ending 31 December 2014. The above standards have not had a significant impact on the financial statements of the group.

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.

The group has undrawn borrowing facilities, at 30 June 2014 totalling £57.2 million. This comprised committed credit facilities of £15 million and uncommitted of £42.2 million. At 30 June 2014, the group had drawn upon £28.2 million of the committed credit facilities, and £0.9 million of the uncommitted credit facilities.

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 2013.

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

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

	UK			Continental Europe			Total		
	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000	**30 June 2014 £000**	30 June 2013 £000	31 Dec 2013 £000	**30 June 2014 £000**	30 June 2013 £000	31 Dec 2013 £000
Revenue									
External revenues	**257,770**	234,708	509,340	**43,810**	45,677	93,711	**301,580**	280,385	603,051
Reportable segment operating profit	**11,356**	9,936	26,877	**614**	498	1,678	**11,970**	10,434	28,555
Reportable segment assets	**232,288**	217,195	233,913	**32,590**	38,611	35,708	**264,878**	255,806	269,621
Reportable segment liabilities	**(144,868)**	(134,740)	(148,457)	**(16,213)**	(17,593)	(15,975)	**(161,081)**	(152,333)	(164,432)

During the periods shown above there have been no inter-segment revenues for the reportable segments (2013: £nil).

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

2 SEGMENT REPORTING continued

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

	30 June 2014 £000	30 June 2013 £000	31 December 2013 £000
Profit for the period			
Total profit for reportable segments	**11,970**	10,434	28,555
Impairment of intangibles and assets	**–**	–	(5,352)
Unallocated expense	**(639)**	(696)	(875)
Operating profit	**11,331**	9,738	22,328
Finance income	**126**	96	629
Finance expense	**(698)**	(758)	(1,870)
Profit before taxation	**10,759**	9,076	21,087
Taxation	**(2,313)**	(2,110)	(6,146)
Profit for the period	**8,446**	6,966	14,941

	30 June 2014 £000	30 June 2013 £000	31 December 2013 £000
Assets			
Total assets for reportable segments	**264,878**	255,806	269,621
Unallocated assets:			
Properties, plant and equipment	**96,449**	92,364	93,883
Deferred tax assets	**2,393**	2,173	2,388
Cash and cash equivalents	**28,088**	35,680	32,231
Total assets	**391,808**	386,023	398,123
Liabilities			
Total liabilities for reportable segments	**(161,081)**	(152,333)	(164,432)
Unallocated liabilities:			
Employee benefits	**(15,983)**	(16,714)	(15,622)
Other interest-bearing loans and borrowings	**(28,240)**	(33,693)	(33,457)
Income tax payable	**(5,687)**	(5,863)	(7,022)
Proposed dividend	**(8,833)**	(8,450)	–
Derivative liabilities	**(35)**	(196)	(87)
Total liabilities	**(219,859)**	(217,250)	(220,620)

2 SEGMENT REPORTING continued

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
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 30 June 2013					
Capital expenditure	1,333	470	1,803	3,540	5,343
Depreciation	1,110	318	1,428	905	2,333
Amortisation	–	–	–	79	79
Other material items 31 December 2013					
Capital expenditure	3,043	649	3,692	9,847	13,539
Depreciation	2,171	666	2,837	1,797	4,634
Amortisation	–	–	–	150	150
Impairment of assets	–	–	–	2,155	2,155
Impairment of intangible assets	–	–	–	3,197	3,197

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

Each segment is a continuing operation.

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

	UK			Continental Europe			Total		
	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000	**30 June 2014 £000**	30 June 2013 £000	31 Dec 2013 £000	**30 June 2014 £000**	30 June 2013 £000	31 Dec 2013 £000
Revenue									
Residential	**178,268**	160,567	350,020	**19,917**	20,816	47,608	**198,185**	181,383	397,628
Commercial	**79,502**	74,141	159,320	**23,893**	24,861	46,103	**103,395**	99,002	205,423
	257,770	234,708	509,340	**43,810**	45,677	93,711	**301,580**	280,385	603,051

3 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Interest income:			
Bank interest	**29**	65	629
Other	**97**	31	–
Finance income	**126**	96	629
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(361)**	(392)	(1,044)
Net change in fair value of cash flow hedges transferred from equity	**(67)**	(68)	(137)
Interest on net defined benefit plan deficit	**(270)**	(298)	(578)
Other	**–**	–	(111)
Finance expenses	**(698)**	(758)	(1,870)

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

4 TAXATION

The group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2014 was 21.5% (for the six months ended 30 June 2013: 23.25%; for the year ended 31 December 2013: 23.25% based on results prior to including non-underlying items that relate to the impairment of intangible and tangible fixed assets, totalling £5,352,000).

The Budget 2013, issued on 20 March 2013, announced that the main rate of corporation tax would be reduced to 21% from 1 April 2014 and to 20% with effect from 1 April 2015. These future rate reductions were substantively enacted on 2 July 2013 and have been applied reducing the company's current tax charge accordingly.

The deferred tax asset at 30 June 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

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 2014 £000	Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent	**8,446**	6,966	14,941

	2014	2013	2013
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	**(2,328,375)**	(2,422,387)	(2,383,937)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**83,035,368**	82,941,356	82,979,806
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**83,035,368**	82,941,356	82,979,806
Dilutive effect of share options	**1,072,187**	744,954	646,209
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,107,555**	83,686,310	83,626,015

6 DIVIDENDS

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Interim dividend for 2013 of 4.65p paid 2 January 2014	**3,856**	–	–
Final dividend for 2013 of 10.65p proposed	**8,833**	–	–
Interim dividend for 2012 of 4.65p paid 2 January 2013	**–**	3,850	3,850
Final dividend for 2012 of 10.20p proposed	**–**	8,450	8,450
	12,689	12,300	12,300

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. The final proposed dividend for 2012 of 10.20p per share was authorised by shareholders at the Annual General Meeting on 24 May 2013 and paid on 1 July 2013.

7 CAPITAL COMMITMENTS

As at 30 June 2014, the group had contractual commitments relating to the purchase of property, plant and equipment of £198,000 (30 June 2013: £8,969,000, 31 December 2013: £2,261,000).

8 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.

9 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 matter described below.

On 2 July 2014, the group completed the acquisition of the business and certain assets of Kalm Investments Limited. Kalm Investments consisted of two trading entities; RPS Flooring based in Mansfield and Mytton Flooring based in Norwich. The combined annual sales revenue of the two businesses is approximately £2.8 million. Consideration at completion amounted to £297,000 and a further £158,000 was paid following the verification of the fair value of assets acquired.

At the end of July, the RPS Flooring business was transferred to and now operates from our distribution facility in Nottingham, whilst retaining its autonomous sales and marketing identity.

Mytton Flooring remains in Norwich and will now also provide an enhanced logistics service for our businesses operating from Tamworth and Coleshill for customers located in East Anglia.

Statement of Directors' Responsibilities

We confirm to the best of our knowledge:

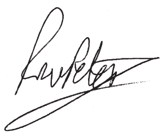
(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;

(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



Dick Peters

Chairman, 29 August 2014

Shareholder Notes

Shareholder Notes

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