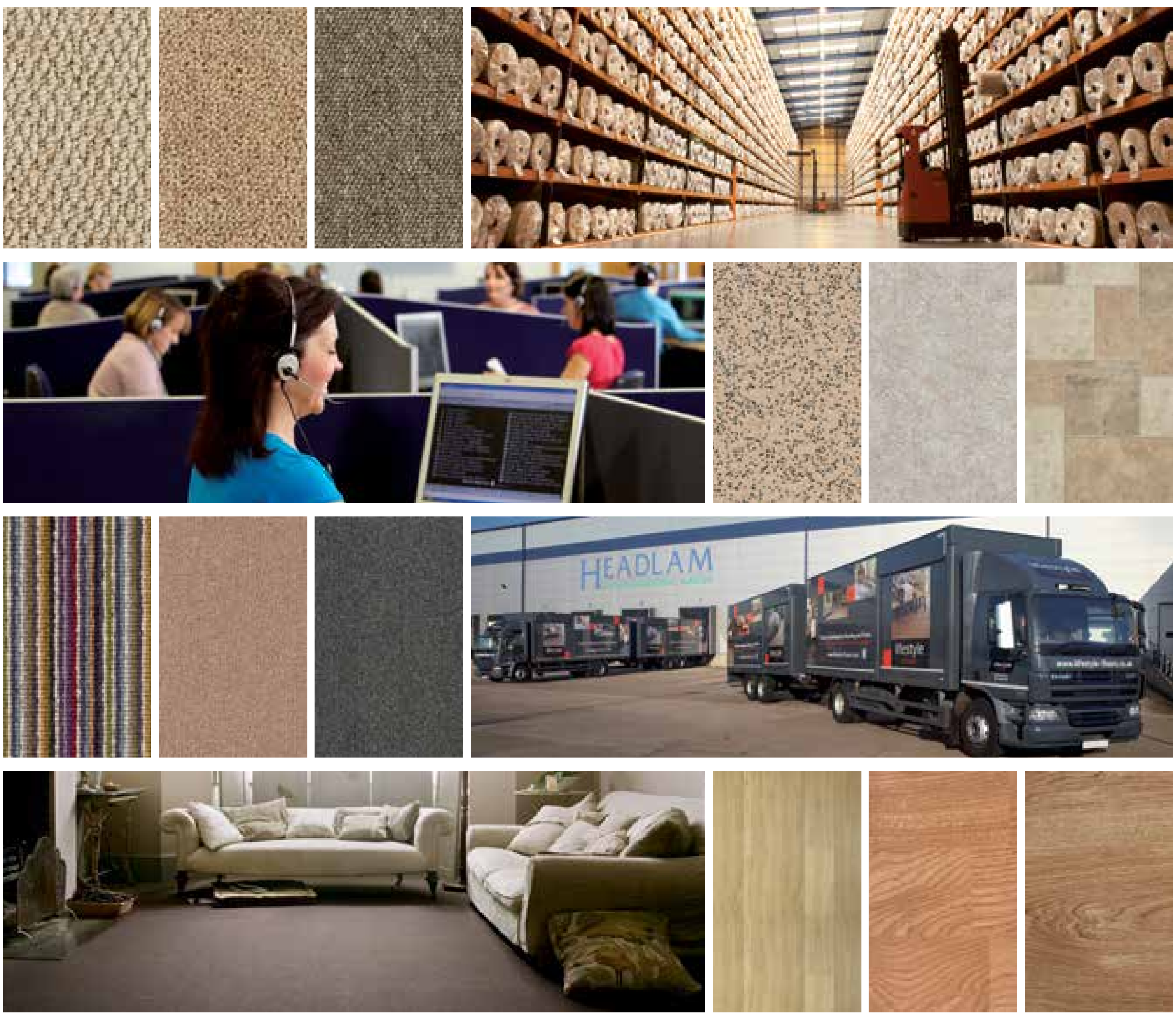
headlam group plc

Condensed Consolidated Interim Financial Statements 2012

Europe's leading floorcovering distributor



Headlam markets, supplies and distributes an extensive range of floorcovering products to independent flooring retailers and contractors throughout the UK, France, Switzerland and the Netherlands.

The group's operational strategy is focused on providing our customers with an up to date comprehensive range of competitively priced floorcovering products with the support of a next day delivery.

As part of this strategy, Headlam offers its suppliers the opportunity to achieve wide market penetration backed by cost effective distribution.

In implementing this strategy, Headlam has developed a diverse and autonomous structure with 50 businesses in the UK and a further five in Continental Europe.

A key factor contributing to the group's success is the individuality of experienced management teams who are responsible for the market presence, development and ultimate profitability of their business.

Each business is supported by the commitment to continued investment in people, product, facilities and IT. This commitment has provided the basis for the group's growth and performance enabling it to develop into Europe's leading floorcovering distributor.

Financial highlights

	2012 £000	2011 £000	Change
Revenue	279,441	269,016	+3.9%
Operating profit	10,759	10,440	+3.1%
Profit before tax	10,388	9,941	+4.5%
Basic earnings per share	9.4p	8.7p	+8.0%
Dividend per share	4.65p	4.30p	+8.1%

Key points

- UK revenues increased by 5.8% on a like for like basis
- UK performance represents continued growth in market share
- Continental European revenue reduced by 3.5% on a like for like basis
- Earnings per share increased by 8.0%
- Dividend increased by 8.1% to 4.65p
- Investment in distribution facilities proceeding as planned

Chairman's Statement

The first six months of 2012 witnessed the group achieving further progress, with total revenue increasing by 3.9%. The result was an amalgam of a very satisfactory performance from the UK, where revenue increased by 6.6%, and decline in the collective Continental European revenue which, during the period, amounted to 8.0%.

Your board believes the result is due to our UK businesses increasing their share of the floorcovering market whilst the performance from our businesses on the Continent is a consequence of continued market contraction.

As highlighted in our May trading update, markets remain challenging and increasingly competitive. Inevitably, these conditions have hindered improvement in the group's gross margin performance and during the first six months, overall, gross margin was eroded by 70 basis points compared with the first six months of 2011. However, firm control of overheads leaves the operating margin for the period, at 3.9%, unchanged on last year.

Earnings and dividend

Basic earnings per share increased by 8.0% from 8.7p to 9.4p and the board have declared an 8.1% increase in the interim dividend from 4.30p to 4.65p. The dividend will be paid on 2 January 2013 to shareholders on the register at 7 December 2012.

UK operations

The positive performance in the UK was achieved as a result of each of our five market sectors, *regional multi-product, national multi-product, regional commercial, residential specialist and commercial specialist*, increasing their revenue compared to the corresponding period last year. Furthermore, the 50 autonomous businesses within these five market sectors also increased revenue across each of the principal product categories.

This performance indicates that our customers, principally independent floorcovering retailers and flooring contractors, are trading positively despite difficult market conditions. The continued relative health of the independent sector is further evidenced by an increase in active accounts year on year, a continuation of customers paying to terms resulting in stable debtor days and bad debt occurrence reducing slightly compared with the corresponding period.

The management teams within our businesses continue to develop new products with our suppliers and the launch of 1,958 new products, supported by 414,023 point of sale items positioned in the market by our 389 sales people during the period, has contributed to the improved trading performance with our customers.

We have also maintained the development of our Lifestyle Floors marketing initiative. Due to the very positive reception from independent floorcovering retailers, Lifestyle Floors has allowed us to significantly enlarge our market presence and underpins the progress achieved by the national and regional multi-product businesses throughout the UK.

The introduction of iPads during the autumn of 2011 has continued to improve the productivity of our sales representatives, enabling instant access to customer data and information, providing an enhanced service and customer support, whilst facilitating immediate communication to sales managers.

The UK businesses now operate from 18 distribution centres and 18 service centres, the number of service centres having increased by three during the period due to additions located in Liverpool, Middlesbrough and Sheffield. In line with our strategy, we have plans to further increase our network of service centres, with a particular emphasis on enlarging our presence and improving service to customers in the commercial flooring market.

Work has commenced on the construction of an extension to our Tamworth distribution centre which will increase its footprint from 147,400 square feet to 160,200 square feet and provide additional capacity for a number of our residential and commercial specialist businesses.

In addition, the project to increase the size of the Coleshill distribution hub from 159,500 square feet to 283,800 square feet is due to commence during September which, when completed, will facilitate the provision of enhanced service levels across many of the group's activities.

We are also working towards finalising the land purchase in Ipswich that will enable us to relocate the Faithfulls regional multi-product business to a new 127,000 square feet purpose built distribution centre.

Continental Europe

We have encountered more difficult trading conditions in France, Switzerland and the Netherlands because of the increasing intensity of market challenges and, as a consequence, revenue has declined during the period compared with last year.

Notwithstanding these circumstances, the management teams of these respective businesses have been able to produce a creditable performance and all three territories have remained profitable. Our structure and strategy in Continental Europe remains in place and over the longer term in conjunction with improved market conditions, we would look for these businesses to increase their profitability.

Cash flow

Cash flow from operating activities, totalling £13.5 million, was broadly in line with the £13.4 million achieved in the corresponding period in the prior year.

During the first six months, the net investment in working capital reduced by £3.5 million compared with an increase in the prior year period amounting to £10.5 million. This significant swing, £14.0 million, resulted in the cash flow from operating activities increasing from £2.9 million to £17.1 million.

The group's additional cash contribution arising in connection with eliminating the UK defined benefit pension plan deficit was slightly ahead of last year's contribution at £1.4 million. No further cash payments have been made in relation to the enhanced transfer value exercise undertaken during 2010 and 2011 and it is not the group's intention to make any further significant payments in the foreseeable future.

Cash outflows from investing activities during the period were broadly in line with last year at £1.7 million (2011: £1.5 million) although as already noted, with the extension of the Tamworth and Coleshill distribution facilities respectively now underway and shortly to occur, capital expenditure during the second half of 2012 is expected to be £10.2 million.

Overall, cash increased by £7.1 million during the first six months compared with a decrease of £7.4 million in 2011 and the group ended the first six months with net funds of £14.8 million compared with net funds at 30 June 2011 and 31 December 2011 of £3.3 million and £7.6 million respectively.

Principal risks and uncertainties

The group's business, results and financial condition are influenced by a range of risks and uncertainties many of which are beyond the control of the board. Your board has ultimate responsibility for risk management within the group and maintains a policy of continuous identification and review.

The group's principal risks and uncertainties are market demand, competitor risk, development of the distribution and service centre infrastructure, IT systems, transport, people, pension funding costs, government legislation and financial risks, the main ones being credit risk and quality, liquidity and market risks arising from interest rate and foreign currency. These are set out in more detail on pages 26 and 27 and pages 94 to 101 of the 2011 Annual Report and Accounts.

All aspects of the group's risk management objectives and policies are consistent with those disclosed in the 2011 Annual Report and Accounts.

Outlook

The group's diverse sales and marketing activities combined with ongoing product development and a comprehensive logistics service, enable us to support the generally positive trading of our customers, and as a result, we continue to gain market share.

Whilst a challenging and competitive market environment persists, the revenue performance achieved in the first six months has been maintained during July and August. Therefore, assuming trading exhibits normal autumn seasonality, the group is confident it will achieve its internal objectives for the year.

Graham Waldron
31 August 2012

Changes in net funds

	At 1 January 2012 £000	Cash flows £000	Translation differences £000	At 30 June 2012 £000
Cash at bank and in hand	41,494	7,126	(87)	48,533
Debt due within one year	(30,219)	30,000	7	(212)
Debt due after one year	(3,691)	(29,910)	114	(33,487)
	7,584	7,216	34	14,834

Condensed Consolidated Interim Income Statement

Unaudited

	Note	Six months ended 30 June 2012 £000	Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Revenue	2	279,441	269,016	569,795
Cost of sales		(195,949)	(186,772)	(394,056)
Gross profit		83,492	82,244	175,739
Distribution expenses		(54,504)	(54,039)	(110,623)
Administrative expenses		(18,229)	(17,765)	(37,064)
Operating profit	2	10,759	10,440	28,052
Finance income	3	1,837	1,854	4,520
Finance expenses	3	(2,208)	(2,353)	(4,984)
Net finance costs		(371)	(499)	(464)
Profit before tax		10,388	9,941	27,588
Taxation	4	(2,597)	(2,684)	(7,184)
Profit for the period attributable to the equity shareholders	2	7,791	7,257	20,404
Dividend paid per share	6	14.15p	12.40p	12.40p
Earnings per share				
Basic	5	9.4p	8.7p	24.6p
Diluted	5	9.3p	8.7p	24.4p

All group operations during the financial periods were continuing operations.

Condensed Consolidated Interim Statement of Comprehensive Income

Unaudited

	Six months ended 30 June 2012 £000	Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Profit for the period attributable to the equity shareholders	7,791	7,257	20,404
Other comprehensive income:			
Foreign exchange translation differences arising on translation of overseas operations	(498)	1,648	(234)
Actuarial gains and losses on defined benefit plans	(2,326)	(1,048)	(7,839)
Transfers to profit or loss on cash flow hedges	(226)	–	–
Income tax on other comprehensive income	433	285	1,855
Other comprehensive (expenses)/income for the period	(2,617)	885	(6,218)
Total comprehensive income attributable to the equity shareholders for the period	5,174	8,142	14,186

Condensed Consolidated Interim Statement of Financial Position

Unaudited

	At 30 June 2012 £000	At 30 June 2011 £000	At 31 December 2011 £000
Assets			
Non-current assets			
Property, plant and equipment	93,416	97,037	94,201
Intangible assets	13,210	13,210	13,210
Deferred tax assets	1,327	–	962
	107,953	110,247	108,373
Current assets			
Inventories	114,304	115,990	114,196
Trade and other receivables	104,129	105,475	111,656
Cash and cash equivalents	48,533	37,697	41,494
Assets held for sale	–	362	362
	266,966	259,524	267,708
Total assets	374,919	369,771	376,081
Liabilities			
Current liabilities			
Other interest-bearing loans and borrowings	(212)	(237)	(30,219)
Trade and other payables	(158,830)	(158,901)	(154,490)
Employee benefits	(2,711)	(2,627)	(2,669)
Income tax payable	(6,362)	(5,451)	(6,678)
	(168,115)	(167,216)	(194,056)
Non-current liabilities			
Other interest-bearing loans and borrowings	(33,487)	(34,129)	(3,691)
Employee benefits	(12,733)	(6,445)	(11,789)
Deferred tax liabilities	–	(102)	–
	(46,220)	(40,676)	(15,480)
Total liabilities	(214,335)	(207,892)	(209,536)
Net assets	160,584	161,879	166,545
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	(7,737)	(4,900)	(7,013)
Retained earnings	110,541	108,999	115,778
Total equity	160,584	161,879	166,545

Condensed Consolidated Interim Statement of Changes in Equity

Unaudited

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2011	4,268	53,512	88	6,391	–	(13,050)	112,529	163,738
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	7,257	7,257
Other comprehensive income	–	–	–	1,648	–	–	(763)	885
Total comprehensive income for the period	–	–	–	1,648	–	–	6,494	8,142
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	381	381
Share options exercised by employees	–	–	–	–	–	23	(13)	10
Deferred tax on share options	–	–	–	–	–	–	(97)	(97)
Dividends to equity holders	–	–	–	–	–	–	(10,295)	(10,295)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	23	(10,024)	(10,001)
Balance at 30 June 2011	4,268	53,512	88	8,039	–	(13,027)	108,999	161,879
Balance at 1 July 2011	4,268	53,512	88	8,039	–	(13,027)	108,999	161,879
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	13,147	13,147
Other comprehensive income	–	–	–	(1,882)	–	–	(5,221)	(7,103)
Total comprehensive income for the period	–	–	–	(1,882)	–	–	7,926	6,044
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	490	490
Consideration for purchase of own shares	–	–	–	–	–	(1,575)	–	(1,575)
Share options exercised by employees	–	–	–	–	–	1,344	(1,344)	–
Deferred tax on share options	–	–	–	–	–	–	(293)	(293)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	(231)	(1,147)	(1,378)
Balance at 31 December 2011	4,268	53,512	88	6,157	–	(13,258)	115,778	166,545

Condensed Consolidated Interim Statement of Changes in Equity continued

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 2012	4,268	53,512	88	6,157	–	(13,258)	115,778	166,545
Profit for the period attributable to the equity shareholders	–	–	–	–	–	–	7,791	7,791
Other comprehensive income	–	–	–	(498)	(226)	–	(1,893)	(2,617)
Total comprehensive income for the period	–	–	–	(498)	(226)	–	5,898	5,174
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	507	507
Deferred tax on share options	–	–	–	–	–	–	21	21
Dividends to equity holders	–	–	–	–	–	–	(11,663)	(11,663)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	–	(11,135)	(11,135)
Balance at 30 June 2012	4,268	53,512	88	5,659	(226)	(13,258)	110,541	160,584

Condensed Consolidated Interim Cash Flow Statements

Unaudited

	Six months ended 30 June 2012 £000	Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Cash flows from operating activities			
Profit before tax for the period	10,388	9,941	27,588
Adjustments for:			
Depreciation, amortisation and impairment	2,326	2,452	4,883
Net settlement loss on enhanced transfer value exercise	–	189	56
Finance income	(1,837)	(1,854)	(4,520)
Finance expense	2,208	2,353	4,984
Profit on sale of property, plant and equipment	(44)	(68)	(86)
Share-based payments	507	381	871
Operating profit before changes in working capital and other payables	13,548	13,394	33,776
Change in inventories	(501)	(9,189)	(8,700)
Change in trade and other receivables	7,506	(2,169)	(9,764)
Change in trade and other payables	(3,473)	841	5,544
Cash generated from the operations	17,080	2,877	20,856
Interest paid	(336)	(499)	(1,342)
Tax paid	(2,827)	(301)	(3,380)
Additional contributions to defined benefit plan	(1,413)	(1,393)	(2,781)
Enhanced transfer value exercise payments	–	(3,295)	(3,302)
Net cash flow from operating activities	12,504	(2,611)	10,051
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	109	87	110
Interest received	30	18	751
Acquisition of property, plant and equipment	(1,883)	(1,618)	(2,035)
Net cash flow from investing activities	(1,744)	(1,513)	(1,174)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	–	10	10
Payment to acquire own shares	–	–	(1,575)
Repayment of borrowings	(90)	(96)	(228)
Dividends paid	(3,544)	(3,180)	(10,295)
Net cash flow from financing activities	(3,634)	(3,266)	(12,088)
Net increase/(decrease) in cash and cash equivalents	7,126	(7,390)	(3,211)
Cash and cash equivalents at 1 January	41,494	44,758	44,758
Effect of exchange rate fluctuations on cash held	(87)	329	(53)
Cash and cash equivalents at end of period	48,533	37,697	41,494

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 2012.

The Consolidated Financial Statements of the group as at and for the year ended 31 December 2011 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2011 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 2011.

These Condensed Consolidated Interim Financial Statements were approved by the board of directors on 31 August 2012.

Significant accounting policies
Impact of newly adopted accounting standards
The Condensed Consolidated Interim Financial information 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 2011. These were prepared in accordance with International Financial Reporting Standards as adopted by the EU, except for an amendment to International Accounting Standard (IAS) 12 'Deferred Tax: Recovery of Underlying Assets' which was effective for the group from 1 January 2012. This amendment has not had a material impact on the group's Interim Financial Statements.

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.

On 8 March 2012 the group refinanced the terms of its banking facilities in the UK. The refinancing increased the availability of committed facilities from £33.7 million to £43.7 million and extended the availability of committed facilities for a further four years with an option, at the lender's discretion, to extend by an additional year. The lending parties were extended from one to two but there was no change to the financial covenants associated with the utilisation of the facilities. Uncommitted facilities, which are renewable on an annual basis, have been maintained at £53.3 million.

At 30 June 2012, the group had drawn upon £33.7 million of the committed credit facilities. None of the uncommitted facilities were being utilised at this date.

Notes to the Condensed Consolidated Interim Financial Statements continued
Unaudited

1 BASIS OF REPORTING continued

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 2011.

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 50 operating segments in the UK and 5 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 senior executive management team and forms the basis for the presentation of operating segment information given below.

	UK			Continental Europe			Total		
	30 June 2012 £000	30 June 2011 £000	31 Dec 2011 £000	**30 June 2012 £000**	30 June 2011 £000	31 Dec 2011 £000	**30 June 2012 £000**	30 June 2011 £000	31 Dec 2011 £000
Revenue									
External revenues	**232,779**	218,290	466,968	**46,662**	50,726	102,827	**279,441**	269,016	569,795
Reportable segment operating profit	**10,685**	9,692	25,696	**707**	1,421	2,830	**11,392**	11,113	28,526
Reportable segment assets	**218,573**	213,807	220,878	**38,242**	45,624	45,427	**256,815**	259,431	266,305
Reportable segment liabilities	**(134,127)**	(132,536)	(136,358)	**(16,585)**	(19,252)	(18,132)	**(150,712)**	(151,788)	(154,490)

During the periods shown above there have been no inter-segment revenues for the reportable segments.

Notes to the Condensed Consolidated Interim Financial Statements continued
Unaudited

2 SEGMENT REPORTING continued

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

	30 June 2012 £000	30 June 2011 £000	31 December 2011 £000
Profit for the period			
Total profit for reportable segments	11,392	11,113	28,526
Unallocated expense	(633)	(673)	(474)
Operating profit	10,759	10,440	28,052
Finance income	1,837	1,854	4,520
Finance expense	(2,208)	(2,353)	(4,984)
Profit before taxation	10,388	9,941	27,588
Taxation	(2,597)	(2,684)	(7,184)
Profit for the period	7,791	7,257	20,404

	30 June 2012 £000	30 June 2011 £000	31 December 2011 £000
Assets			
Total assets for reportable segments	256,815	259,431	266,305
Unallocated assets:			
Properties, plant and equipment	86,078	88,166	84,531
Deferred tax assets	1,327	–	962
Assets held for sale	–	362	362
Cash and cash equivalents	30,699	21,812	23,921
Total assets	374,919	369,771	376,081
Liabilities			
Total liabilities for reportable segments	(150,712)	(151,788)	(154,490)
Unallocated liabilities:			
Employee benefits	(15,444)	(9,072)	(14,458)
Net borrowings	(33,699)	(34,366)	(33,910)
Income tax payable	(6,361)	(5,451)	(6,678)
Proposed dividend	(8,119)	(7,115)	–
Deferred tax liabilities	–	(102)	–
Total liabilities	(214,335)	(207,892)	(209,536)

Notes to the Condensed Consolidated Interim Financial Statements continued
Unaudited

2 SEGMENT REPORTING continued

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
Other material items 30 June 2012					
Capital expenditure	**1,026**	**128**	**1,154**	**728**	**1,882**
Depreciation	**1,076**	**329**	**1,405**	**921**	**2,326**
Other material items 30 June 2011					
Capital expenditure	1,230	368	1,598	20	1,618
Depreciation	1,142	379	1,521	931	2,452
Other material items 31 December 2011					
Capital expenditure	1,358	593	1,951	84	2,035
Depreciation	2,240	798	3,038	1,845	4,883

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 2012 £000	30 June 2011 £000	31 Dec 2011 £000	**30 June 2012 £000**	30 June 2011 £000	31 Dec 2011 £000	**30 June 2012 £000**	30 June 2011 £000	31 Dec 2011 £000
Revenue									
Residential	**159,076**	148,739	320,290	**22,258**	25,217	50,047	**181,334**	173,956	370,337
Commercial	**73,703**	69,551	146,678	**24,404**	25,509	52,780	**98,107**	95,060	199,458
	232,779	218,290	466,968	**46,662**	50,726	102,827	**279,441**	269,016	569,795

Notes to the Condensed Consolidated Interim Financial Statements continued
Unaudited

3 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2012 £000	Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Interest income:			
Bank interest	118	60	657
Other	–	1	49
Return on defined benefit plan assets	1,719	1,793	3,814
Finance income	1,837	1,854	4,520
Interest expense:			
Bank loans, overdrafts and other financial expenses	(457)	(294)	(1,188)
Other	(58)	(219)	–
Interest on defined benefit plan obligation	(1,693)	(1,840)	(3,796)
Finance expenses	(2,208)	(2,353)	(4,984)

4 TAXATION

The group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2012 was 25% (for the six months ended 30 June 2011: 27%; for the year ended 31 December 2011: 26%).

The 2012 Budget on 23 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014.

A reduction in the rate from 26% to 25%, effective from 1 April 2012, was substantively enacted on 5 July 2011, and further reductions to 24%, effective from 1 April 2012, and 23%, effective from 1 April 2013, were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

The proposed change to lower the main rate of UK corporation tax to 22% by 2014 will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 30 June 2012, which has been calculated based on the rate of 24% substantively enacted at the balance sheet date, by £110,600.

Notes to the Condensed Consolidated Interim Financial Statements continued
Unaudited

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 2012 £000	Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent	7,791	7,257	20,404
	2012	2011	2011
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	83,122,546	83,121,365	82,940,584
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	83,122,546	83,121,365	82,940,584
Dilutive effect of share options	885,026	769,300	596,479
Weighted average number of ordinary shares for the purposes of diluted earnings per share	84,007,572	83,890,665	83,537,063

6 DIVIDENDS

	Six months ended 30 June 2012 £000	Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Interim dividend for 2011 of 4.30p paid 3 January 2012	3,544	–	–
Final dividend for 2011 of 9.85p proposed	8,119	–	–
Interim dividend for 2010 of 3.83p paid 4 January 2011	–	3,180	3,180
Final dividend for 2010 of 8.57p proposed	–	7,115	7,115
	11,663	10,295	10,295

The final proposed dividend for 2011 of 9.85p per share was authorised by shareholders at the Annual General Meeting on 15 June 2012 and paid on 2 July 2012. The final proposed dividend for 2010 of 8.57p per share was authorised by shareholders at the Annual General Meeting on 17 June 2011 and paid on 1 July 2011.

7 CAPITAL COMMITMENTS

As at 30 June 2012, the group had contractual commitments relating to the purchase of property, plant and equipment of £5,647,000 (30 June 2011: £11,000, 31 December 2011: £709,000). These commitments are expected to be settled prior to 31 December 2012.

8 RELATED PARTIES

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

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

Graham Waldron
Chairman
31 August 2012

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Registered office
Headlam Group plc
PO Box 1
Gorsey Lane
Coleshill
Birmingham
B46 1LW
Tel: 01675 433000
Fax: 01675 433030

Website
www.headlam.com
E-mail
headlamgroup@headlam.com

Registration
Registered in England and Wales
Number 460129