headlam group plc

Half Year Report
for the six months ended 30 June 2016

Our actions are the ground we walk on

www.headlam.com
Stock code: Head

Europe's leading floorcovering distributor

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 us online at
www.headlam.com

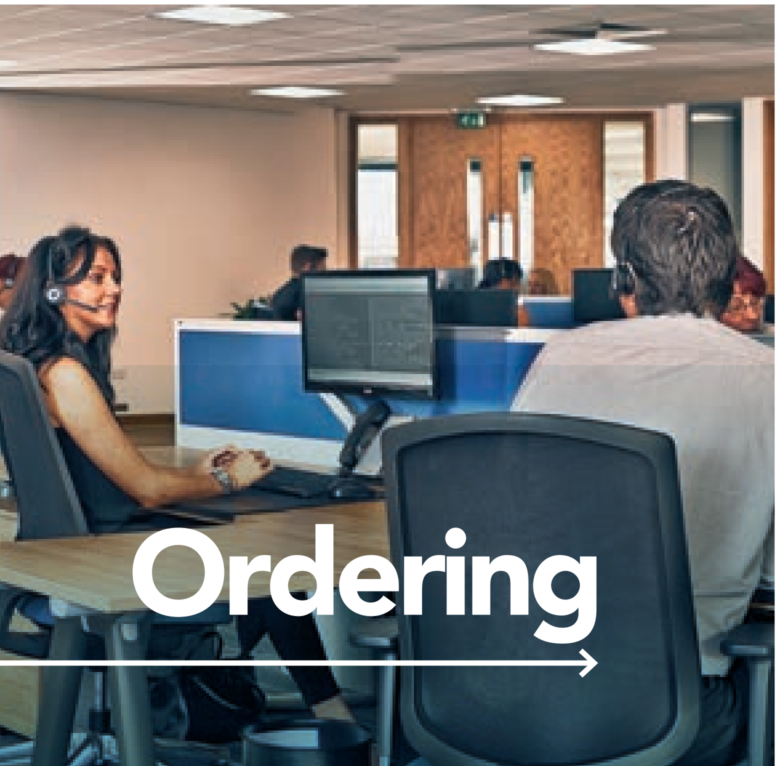
About us

Headlam is involved with 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 values

Headlam's business model and strategy are underpinned by its corporate values, which cover a commitment to manage the business and behave responsibly across the three key areas of Health & Safety, People and the Environment.

Visit our corporate website for more information plus a PDF version of the Interim Report, available to download.



Performance Highlights

FINANCIAL HIGHLIGHTS

Revenue £million

£328.7 +4.8%

H1 2015: £313.5

Operating Profit £million

£15.4 +18.5%

H1 2015: £13.0

Earnings Per Share pence

14.4 +23.1%

H1 2015: 11.7

Interim Dividend pence

6.70 +11.7%

H1 2015: 6.00

Net Funds £million

£33.9

H1 2015: £26.0

OPERATIONAL HIGHLIGHTS

- Further gains achieved in UK market share with like-for-like revenues increasing by 3.4% and an additional working day in 2016 adding a further increase of 0.9%
- Headlam Corporate, the group's newest business stream, making good progress in its target market of specified commercial flooring
- Lifestyle Floors' revenue up 34.8% to £21.1 million (H1 2015: £15.6 million)
- Further expansion of the service centre network with centres in Croydon, Hull and Bristol opened in the first half bringing the total to 32 with a further three centres in development

Our 2016 interim report

Chairman's Statement

Group revenue increased by 4.8% to £328.7 million, reflecting continued growth in the UK market, an improving trend in Continental Europe and the delivery of our strategy to increase market share.

It is pleasing to report further progress during the first half of 2016 with group revenue increasing by 4.8% from £313.5 million to £328.7 million, reflecting the continued outperformance of our UK business, a modest improvement in our Continental European businesses and the ongoing delivery of our strategy to increase market share.

In the UK, overall revenue growth was 4.3%, with like-for-like revenue increasing by 3.4% and an additional working day in the first half of 2016 adding additional growth of 0.9%.

During the year to date, we have continued to concentrate on developing and maintaining the group's operational excellence and achieving further benefits from the development of our infrastructure, staff and IT systems.

The group's cash balances remain robust, with net funds at 30 June 2016 of £33.9 million, an increase of 30.4% compared with £26.0 million at 30 June 2015, despite the first half including the payment of a special dividend in April 2016 totalling £5.0 million and the repayment of £5.0 million on a term loan. The increase in net funds highlights the cash generative nature of the group's operations.

Earnings and dividend

Basic earnings per share increased by 23.1% from 11.7p to 14.4p compared with the first six months of 2015. As a result, the Board has decided to increase the interim dividend by 11.7% to 6.7p (H1 2015: 6.0p). The interim dividend will be paid on 3 January 2017 to shareholders on the register as at 2 December 2016.

UK operations

Business performance

The UK is by far the largest part of Headlam's business, representing 87.1% (H1 2015: 87.6%) of group revenue during the first half of the year. UK revenues in the first half were up 4.3% at £286.3 million (H1 2015: £274.6 million), which is comfortably ahead of the estimated market growth in 2016 of 3.2% forecast by AMA Research Ltd.

The split of residential and commercial revenue moved slightly in favour of residential at 70% with commercial at 30% (H1 2015: residential 69%, commercial 31%). Residential demand has been robust and the movement in the split is due to stronger residential growth during the first half.

On a like-for-like basis, the total commercial business grew by 0.4% (H1 2015: 6.1%) and residential by 4.7% (H1 2015: 5.0%). The lower growth rate in commercial against last year can be attributed, anecdotally at least, to the run-up to the referendum in June on the UK's membership of the European Union, which gave rise to some order deferral.

As we highlighted in our July 2016 Half Year Trading Update, the weakening of sterling following the referendum has increased the cost to the group of imported residential floorcoverings, which predominantly come from Belgium and the Netherlands. We have passed this increased cost on to our customers by introducing earlier this month an average price rise of 6% for these products. To date, we have not seen any adverse impact on residential revenues following these price increases.

The continuing resilience in residential revenues is in part owing to the affordability of a typical purchase by a residential end-user, who tends to replace carpets one room at a time with an average purchase size of 20 square metres. In contrast, a typical commercial purchase amounts to 200 square metres. In both cases, orders are processed in our distribution centres using sophisticated, computer-controlled picking, cutting and packing machines prior to delivery which is usually on the next day following receipt of the order.

The residential trend towards carpet colours based on a grey palette and the use of polypropylene and nylon yarns with a softer touch has continued and the increasing demand for luxury vinyl tile products has been maintained.

All of the group's principal product groups comprising carpets, vinyl, wood and laminate, luxury vinyl tile, commercial, rugs and underlay showed growth over the same period last year.

Sales at Lifestyle Floors (www.lifestyle-floors.co.uk/home), the group's contemporary floorcovering brand continued to grow well compared with the first half last year.

During the first half we continued to develop the group's newest business Headlam Corporate, which is targeting the specified commercial flooring market. The business, which has a showroom in London's Clerkenwell, is seeking 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.

The Headlam Corporate sales team has already visited 250 of the 500 architects' practices in the Clerkenwell area and is targeting projects ranging in size from 100 to 10,000 square metres with a typical order being between 250 and 750 square metres.

Investment

In the UK, the group operates with 56 businesses (H1 2015: 56) served from four national distribution hubs (H1 2015: 4), 14 distribution centres (H1 2015: 14) and 32 service centres (H1 2015: 29).

The three new service centres opened in the first half are in Croydon, Hull and Bristol and we anticipate opening a further three service centres in the second half, in Peterborough, Derby and Warrington.

This investment in the service centre network, which has a bias towards the commercial sector, is aimed at providing an enhanced service to our customers, and attracting new customers, through the establishment of readily accessible product collection points.

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 are making progress in the planned construction of the 160,000 square foot purpose built distribution centre in Ipswich for Faithfull's Floorcovering, one of our regional multi-product businesses. The cost of the land is approximately £3.2 million and the total cost of the project, including land cost, is expected to be around £15.0 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 2016 with construction commencing during early 2017 and the facility operational by the end of 2017 or early 2018. The new facility will enable Faithfull's to increase its presence and improve the level of customer service across the south east of England.

In addition to the expansion of our distribution infrastructure, we have continued to develop our IT and digital capabilities. Highlights in the first half have included the roll-out of the driver app on the iPhone Plus which provides the delivery drivers with a comprehensive range of information aimed at increasing customer satisfaction and business efficiency.

Chairman's Statement continued

Customers

Our 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 2,054 new products (H1 2015: 2,057) supported by 377,430 point of sale items (H1 2015: 414,498).

Continental Europe

Headlam's businesses in Continental Europe, which are located in the Netherlands, France and Switzerland, collectively achieved further progress during the first half. The businesses on the Continent represent a relatively modest part of Headlam's revenues, contributing 12.9% of group revenues in the first six months of the year at £42.4 million (H1 2015: £39.0 million).

Continental Europe's overall like-for-like revenues were up 2.8% at constant currency, 8.9% when translated into sterling, reflecting improvements in France and the Netherlands. Whilst revenues have continued to be a little more subdued in Switzerland, the business is still the most significant contributor to the combined Continental profitability.

Trading performance

Gross margin

Gross margin increased by 30 basis points from 29.7% to 30.0% during the period, the improvement being driven by favourable pricing and product mix. In absolute terms, gross margin increased by £5.6 million from £93.1 million to £98.7 million of which £1.1 million was attributable to pricing and mix.

Expenses

Distribution and administrative expenses increased by £3.2 million, up 4.1% from £80.1 million to £83.3 million. People cost continues to be the single largest contributor to the overall increase, which at £2.7 million represents 83% of the total movement compared with the first half of 2015. A cost of living award implemented at the start of the year amounting to 2.5% accounts for 46.3% of the increase with the balance attributable to an increase in people numbers, 91, compared with the first half of 2015, recruited to support the organic growth.

Other expense increases tended to relate to the revenue improvement and in total amounted to £1.0 million. However, a one-off currency gain of £0.5 million reduced the overall increase to £0.5 million.

Operating profit

	£000
Operating profit 2015	13,022
Gross margin improvement:	
Volume benefit	4,492
Pricing benefit	1,102
	5,594
Expenses increase:	
Distribution	(2,985)
Administration	(266)
Total increase	(3,251)
Operating profit 2016	**15,365**

Drop through rate as a percentage of incremental revenue	**15.5%**

Operating profit during the first six months of 2016 increased by 18.0% compared with 2015 with the operating margin improving from 4.2% to 4.7%. The drop through rate of additional operating profit arising from the additional revenue generated in 2016 compared with 2015 amounted to 15.5%.

New Products Launched in the UK

2,054

(H1 2015: 2,057)

Number of Orders from UK Customers

2,532,735

(H1 2015: 2,391,864)

New Point of Sale Items in the UK

377,430

(H1 2015: 414,498)

Cash flow

As highlighted in the table below, the movement in cash flows during the first six months of 2016 compared with 2015 amounted to a net outflow of £16.2 million.

	£000
Cash flow first half of 2015	986
Cash flow from operating activities	2,464
Working capital	(9,501)
Dividends	(5,741)
Taxation	(1,286)
Acquisitions	1,978
Movement in net debt	(4,921)
Other	798
	(16,209)
Cash flow first half of 2016	**(15,223)**

The three principal contributors to the movement were the net working capital investment of £9.5 million, dividend payments of £5.7 million and a decrease in net debt of £4.9 million.

The working capital investment was simply due to re-establishing a normalised working capital position following the unusually favourable working capital reduction at 31 December 2015.

The movement in dividend payments was a consequence of the special dividend payment during April and the reduction in debt due to a repayment of £5.0 million on the term loan.

The favourable acquisitions movement is due to absence of further activity during the first half compared with the prior year when the group acquired Matty's Wholesale Carpets. We will continue to look at making additional acquisitions as opportunities arise.

Chairman's Statement continued

Changes in net funds

As shown below, the group's net funds at 30 June 2016, £33.9 million, highlights further improvement compared with £26.0 million as at 30 June 2015. The contraction in net funds during the first half compared with the position at 31 December 2015 is not unusual and tends to be a typical feature of the first half cash flow.

	At 1 January 2016 £000	Cash flows £000	Translation differences £000	**At 30 June 2016 £000**
Cash at bank and in hand	63,932	(14,818)	184	**49,298**
Bank overdraft	–	(405)	(24)	**(429)**
	63,932	(15,223)	160	**48,869**
Debt due within one year	–	(15,000)	–	**(15,000)**
Debt due after one year	(20,000)	20,000	–	**–**
	43,932	(10,223)	160	**33,869**

The group's total bank facilities at 30 June 2016 amounted to £82.2 million, of which £42.2 million is repayable on demand and £40.0 million relates to committed facilities which expire on 7 March 2017. Given the expiry date falls within the next twelve months, the amount drawn on the facility, £15.0 million, has been reclassified as a current liability in the Consolidated Interim Statement of Financial Position and therefore transferred from debt due after one year to debt due within one year in the table above. The group is satisfied that renewed facilities will be in place prior to 7 March 2017.

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 38 and 39 of the 2015 Annual Report and Accounts.

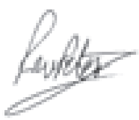
Outlook

It is pleasing to report further progress during the first half of 2016, reflecting the continued outperformance of our UK business, an improving trend in our Continental Europe businesses and the ongoing delivery of our strategy to increase market share.

August is traditionally one of the group's peak trading months in the UK with the annual summer refurbishment of educational institutions. To date, this seasonal business seems to have been unaffected by the result of June's referendum on EU membership.

However, the referendum result gave rise to a weakening in sterling, and the group has sought to mitigate this adverse inflationary effect by implementing price increases earlier this month for residential floorcoverings imported from Continental Europe. It is pleasing that these price increases appear to have had no adverse impact on the level of residential revenues to date.

Our market appears to be robust and, subject to the key trading period in the run-up to Christmas, the board remains confident of achieving full year expectations.



Dick Peters
Chairman
24 August 2016

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 endorsed and 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
Group Chief Executive
24 August 2016

Condensed Consolidated Interim Income Statement (unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Year ended 31 December 2015 £000
Revenue	2	**328,673**	313,546	654,078
Cost of sales		**(229,961)**	(220,428)	(453,568)
Gross profit		**98,712**	93,118	200,510
Distribution expenses		**(62,150)**	(59,165)	(120,070)
Administrative expenses		**(21,197)**	(20,931)	(43,663)
Operating profit	2	**15,365**	13,022	36,777
Finance income	3	**498**	115	738
Finance expenses	3	**(752)**	(789)	(1,891)
Net finance costs		**(254)**	(674)	(1,153)
Profit before tax		**15,111**	12,348	35,624
Taxation	4	**(3,022)**	(2,500)	(7,213)
Profit for the period attributable to the equity shareholders	2	**12,089**	9,848	28,411
Dividend paid per share	6	**20.70p**	17.50p	17.50p
Earnings per share				
Basic	5	**14.4p**	11.7p	33.8p
Diluted	5	**14.3p**	11.7p	33.7p

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 2016

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Year ended 31 December 2015 £000
Profit for the period attributable to the equity shareholders	**12,089**	9,848	28,411
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit plans	**908**	2,039	1,292
Related tax	**(61)**	(396)	(554)
	847	1,643	738
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations	**778**	(132)	6
Effective portion of changes in fair value of cash flow hedges	**362**	(14)	(556)
Transfers to profit or loss on cash flow hedges	**205**	63	172
Related tax	**(102)**	(12)	58
	1,243	(95)	(320)
Other comprehensive income for the period	**2,090**	1,548	418
Total comprehensive income attributable to the equity shareholders for the period	**14,179**	11,396	28,829

Condensed Consolidated Interim Statements of Financial Position (unaudited)

AT 30 JUNE 2016

	At 30 June 2016 £000	At 30 June 2015 £000	At 31 December 2015 £000
Assets			
Non-current assets			
Property, plant and equipment	**100,749**	102,581	101,263
Intangible assets	**10,388**	10,013	10,388
Deferred tax assets	**1,981**	2,509	2,238
	113,118	115,103	113,889
Current assets			
Inventories	**128,029**	122,598	119,143
Trade and other receivables	**123,499**	119,714	120,154
Cash and cash equivalents	**49,298**	49,061	63,932
	300,826	291,373	303,229
Total assets	**413,944**	406,476	417,118
Liabilities			
Current liabilities			
Bank overdraft	**(429)**	(393)	–
Other interest-bearing loans and borrowings	**(15,000)**	(2,681)	–
Trade and other payables	**(172,300)**	(168,983)	(172,701)
Dividends payable	**(12,368)**	(10,300)	–
Employee benefits	**(2,135)**	(2,980)	(2,171)
Income tax payable	**(5,640)**	(5,514)	(6,974)
	(207,872)	(190,851)	(181,846)
Non-current liabilities			
Other interest-bearing loans and borrowings	–	(20,000)	(20,000)
Employee benefits	**(15,301)**	(15,842)	(16,843)
	(15,301)	(35,842)	(36,843)
Total liabilities	**(223,173)**	(226,693)	(218,689)
Net assets	**190,771**	179,783	198,429
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	**1,076**	(1,632)	(275)
Retained earnings	**131,915**	123,635	140,924
Total equity	**190,771**	179,783	198,429

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2016	**4,268**	**53,512**	**88**	**5,429**	**(516)**	**(5,276)**	**140,924**	**198,429**
Profit for the period attributable to the equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**12,089**	**12,089**
Other comprehensive income	**–**	**–**	**–**	**778**	**567**	**–**	**745**	**2,090**
Total comprehensive income for the period	**–**	**–**	**–**	**778**	**567**	**–**	**12,834**	**14,179**
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**714**	**714**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**6**	**(2)**	**4**
Current tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Deferred tax on share options	**–**	**–**	**–**	**–**	**–**	**–**	**(93)**	**(93)**
Dividends to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**(22,464)**	**(22,464)**
Total contributions by and distributions to equity shareholders	**–**	**–**	**–**	**–**	**–**	**6**	**(21,843)**	**(21,837)**
Balance at 30 June 2016	**4,268**	**53,512**	**88**	**6,207**	**51**	**(5,270)**	**131,915**	**190,771**
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
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	–	–	–	–	–	–	28,411	9,848
Other comprehensive income	–	–	–	6	(384)	–	796	1,548
Total comprehensive income for the period	–	–	–	6	(384)	–	29,207	11,396
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	1,100	1,100
Share options exercised by employees	–	–	–	–	–	1,824	(819)	1,005
Current tax on share options	–	–	–	–	–	–	95	95
Deferred tax on share options	–	–	–	–	–	–	(22)	(22)
Dividends to equity holders	–	–	–	–	–	–	(14,655)	(14,655)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	1,824	(14,301)	(12,477)
Balance at 31 December 2015	4,268	53,512	88	5,429	(516)	(5,276)	140,924	198,429

Condensed Consolidated Interim Cash Flow Statements (unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Year ended 31 December 2015 £000
Cash flows from operating activities			
Profit before tax for the period	**15,111**	12,348	35,624
Adjustments for:			
Depreciation, amortisation and impairment	**2,389**	2,422	5,179
Finance income	**(498)**	(115)	(738)
Finance expense	**752**	789	1,891
Profit on sale of property, plant and equipment	**(11)**	(8)	(31)
Share-based payments	**714**	557	1,100
Operating profit before changes in working capital and other payables	**18,457**	15,993	43,025
Change in inventories	**(7,682)**	(5,506)	(1,827)
Change in trade and other receivables	**(4,251)**	(725)	(1,524)
Change in trade and other payables	**166**	3,965	7,270
Cash generated from the operations	**6,690**	13,727	46,944
Interest paid	**(487)**	(461)	(1,268)
Tax paid	**(4,306)**	(3,020)	(6,245)
Additional contributions to defined benefit plan	**(1,121)**	(1,447)	(2,925)
Net cash flow from operating activities	**776**	8,799	36,506
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**37**	119	277
Interest received	**512**	95	726
Acquisition of subsidiaries, net of cash acquired	**–**	(1,978)	(1,977)
Acquisition of property, plant and equipment	**(1,456)**	(1,768)	(2,856)
Net cash flow from investing activities	**(907)**	(3,532)	(3,830)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**4**	153	1,005
Repayment of borrowings	**(5,000)**	(79)	(2,817)
Dividends paid	**(10,096)**	(4,355)	(14,655)
Net cash flow from financing activities	**(15,092)**	(4,281)	(16,467)
Net (decrease)/increase in cash and cash equivalents	**(15,223)**	986	16,209
Cash and cash equivalents at 1 January	**63,932**	47,589	47,589
Effect of exchange rate fluctuations on cash held	**160**	93	134
Cash and cash equivalents at end of period	**48,869**	48,668	63,932

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 2016.

The Consolidated Financial Statements of the group as at and for the year ended 31 December 2015 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2015 are not the group's statutory accounts for that financial year. Those accounts have been reported on by the group's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2)or(3) of the Companies Act 2006.

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

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared and approved by the directors in accordance with the Disclosure 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 2015.

These Condensed Consolidated Interim Financial Statements were approved by the board of directors on 24 August 2016.

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 2015, 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 2016 and have not been early adopted by the group, will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 9 'Financial instruments' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 16 'Leases' (effective 1 January 2019)
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
- Equity Method in Separate Financial Statements – Amendments to IAS 27
- Disclosure Initiative – Amendments to IAS 1
- Annual Improvements to IFRSs – 2012-2014 Cycle

The directors 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 2016

	Committed credit facilities £ million	Uncommitted credit facilities £ million	Total facilities £ million
Drawn funds	15.0	0.4	15.4
Undrawn funds	25.0	41.8	66.8
	40.0	42.2	82.2

The group will renew the terms of its banking facilities by March 2017, and therefore the committed credit facilities drawn funds of £15 million are shown on the Statement of Financial Position as due within one year.

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 2015.

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.

	UK			Continental Europe			Total		
	30 June 2016 £000	30 June 2015 £000	31 December 2015 £000	**30 June 2016 £000**	30 June 2015 £000	31 December 2015 £000	**30 June 2016 £000**	30 June 2015 £000	31 December 2015 £000
Revenue									
External revenues	**286,260**	274,587	575,341	**42,413**	38,959	78,737	**328,673**	313,546	654,078
Reportable segment operating profit	**15,504**	13,786	37,363	**528**	206	575	**16,032**	13,992	37,938
Reportable segment assets	**255,194**	247,961	257,984	**34,333**	30,720	34,067	**289,527**	278,681	292,051
Reportable segment liabilities	**(156,387)**	(154,039)	(158,859)	**(16,342)**	(15,254)	(13,326)	**(172,729)**	(169,293)	(172,185)

During the periods shown above there have been no inter-segment revenues for the reportable segments (2015: £nil).

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

	30 June 2016 £000	30 June 2015 £000	31 December 2015 £000
Profit for the period			
Total profit for reportable segments	**16,032**	13,992	37,938
Unallocated expense	**(667)**	(970)	(1,161)
Operating profit	**15,365**	13,022	36,777
Finance income	**498**	115	738
Finance expense	**(752)**	(789)	(1,891)
Profit before taxation	**15,111**	12,348	35,624
Taxation	**(3,022)**	(2,500)	(7,213)
Profit for the period	**12,089**	9,848	28,411

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

2 SEGMENT REPORTING continued

	30 June 2016 £000	30 June 2015 £000	31 December 2015 £000
Assets			
Total assets for reportable segments	**289,527**	278,681	292,051
Unallocated assets:			
Properties, plant and equipment	**91,637**	95,403	89,828
Deferred tax assets	**1,981**	2,509	2,238
Cash and cash equivalents	**30,747**	29,883	33,001
Derivative assets	**52**	–	–
Total assets	**413,944**	406,476	417,118
Liabilities			
Total liabilities for reportable segments	**(172,729)**	(169,293)	(172,185)
Unallocated liabilities:			
Employee benefits	**(17,436)**	(18,822)	(19,014)
Other interest-bearing loans and borrowings	**(15,000)**	(22,681)	(20,000)
Income tax payable	**(5,640)**	(5,514)	(6,974)
Proposed dividend	**(12,368)**	(10,300)	–
Derivative liabilities	**–**	(83)	(516)
Total liabilities	**(223,173)**	(226,693)	(218,689)

	UK £000	Continental Europe £000	Reportable segment total £000	Unallocated £000	Consolidated total £000
Other material items 30 June 2016					
Capital expenditure	**991**	**412**	**1,403**	**53**	**1,456**
Depreciation	**1,108**	**276**	**1,384**	**1,005**	**2,389**
Other material items 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 31 December 2015					
Capital expenditure	2,064	543	2,607	287	2,894
Depreciation	2,246	538	2,784	2,020	4,804
Amortisation	–	–	–	375	375

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 2016 £000	30 June 2015 £000	31 December 2015 £000	**30 June 2016 £000**	30 June 2015 £000	31 December 2015 £000	**30 June 2016 £000**	30 June 2015 £000	31 December 2015 £000
Revenue									
Residential	**200,610**	189,972	399,453	**20,777**	19,345	40,281	**221,387**	209,317	439,734
Commercial	**85,650**	84,615	175,888	**21,636**	19,614	38,456	**107,286**	104,229	214,344
	286,260	274,587	575,341	**42,413**	38,959	78,737	**328,673**	313,546	654,078

3 FINANCE INCOME AND EXPENSE

	30 June 2016 £000	30 June 2015 £000	31 December 2015 £000
Interest income:			
Bank interest	**243**	115	699
Other	**255**	–	39
Finance income	**498**	115	738
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(449)**	(356)	(1,150)
Net change in fair value of cash flow hedges transferred from equity	**(23)**	(63)	(125)
Net interest on defined benefit plan obligation	**(280)**	(310)	(616)
Other	**–**	(60)	–
Finance expenses	**(752)**	(789)	(1,891)

4 TAXATION

The group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2016 was 20% (for the six months ended 30 June 2015: 20.25%; for the year ended 31 December 2015: 20.25%).

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 30 June 2016 has been calculated based on the rate of 18% 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 2016 £000	Six months ended 30 June 2015 £000	Year ended 31 December 2015 £000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent	**12,089**	9,848	28,411

	2016	2015	2015
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	**(1,330,565)**	(1,501,893)	(1,331,576)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,033,178**	83,861,850	84,032,167
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**84,033,178**	83,861,850	84,032,167
Dilutive effect of share options	**617,808**	402,528	282,078
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,650,986**	84,264,378	84,314,245

6 DIVIDENDS

	30 June 2016 £000	30 June 2015 £000	31 December 2015 £000
Interim dividend for 2015 of 6.00p paid 2 January 2016	**5,048**	–	–
Special dividend for 2015 of 6.00p paid 25 April 2016	**5,048**	–	–
Final dividend for 2015 of 14.70p proposed	**12,368**	–	–
Interim dividend for 2014 of 5.20p paid 2 January 2015	**–**	4,355	4,355
Final dividend for 2014 of 12.30p proposed	**–**	10,300	10,300
	22,464	14,655	14,655

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

7 CAPITAL COMMITMENTS

As at 30 June 2016, the group had contractual commitments relating to the purchase of property, plant and equipment of £408,000 (30 June 2015: £371,000, 31 December 2015: £728,000).

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 has 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 has concluded that there are no material adjusting or non-adjusting events to be disclosed in these Interim Financial Statements.

Shareholder Notes

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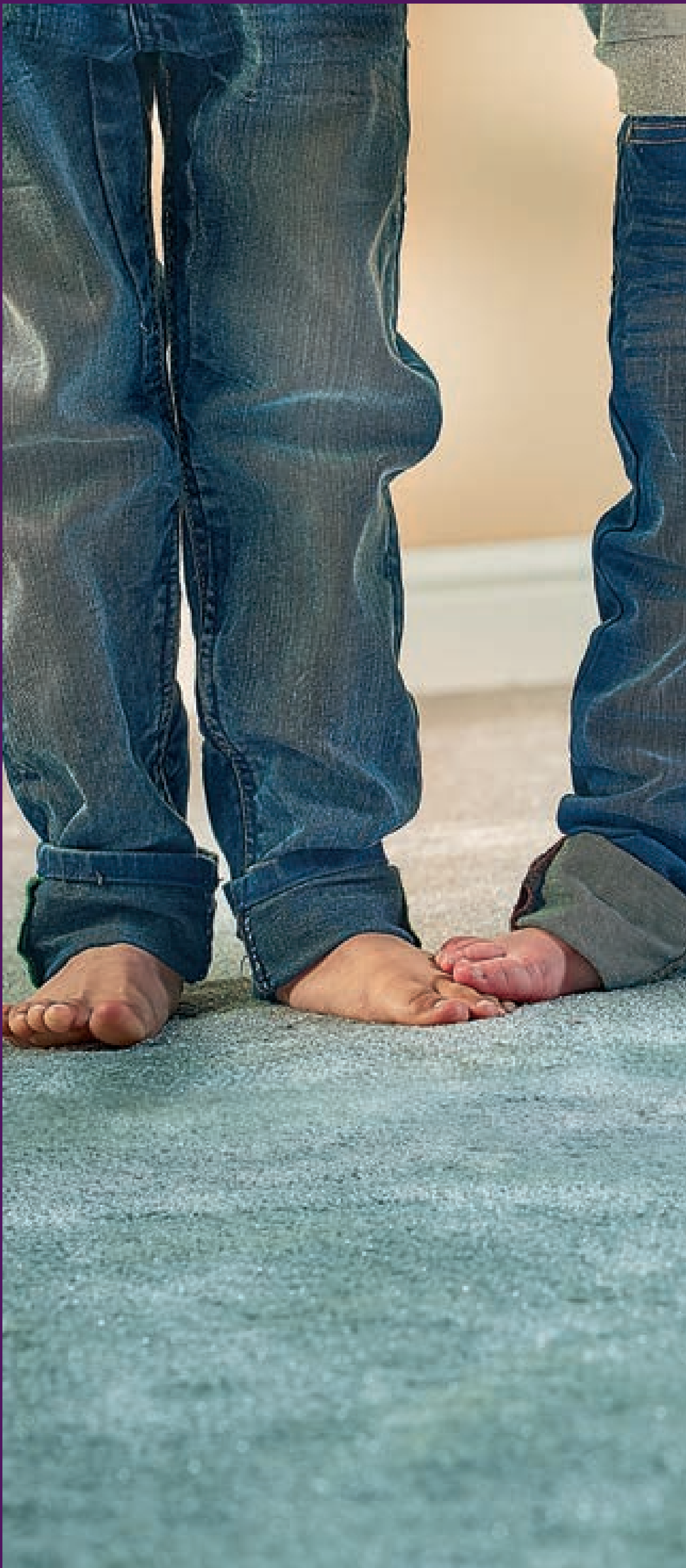

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