6 September 2022

Headlam Group plc

(‘Headlam’ or the ‘Company’)

Interim Results

Improved profitability despite economic backdrop

Pleasing progress in delivery on the strategy

Headlam Group plc (LSE: HEAD), the leading floorcoverings distributor, today announces its interim results for the six months ended 30 June 2022 (the ‘Period’) and an update on current trading.

Period Overview

Financials[1]

- Total revenue of £323.8 million (H1 2021: £329.9 million), with a 5.2% uplift in Continental Europe helping to offset a 2.9% decline in the UK related to weakness in the residential sector
- Gross margin temporarily lifted to a high of 33.7% (H1 2021: 32.7%) due to the unprecedented inflationary environment
- Underlying[2] distribution costs and administrative expenses comparable with H1 2021 despite widespread operational cost inflation due to focus on operational efficiency and cost control (H1 2022: £91.1 million; H1 2021: £90.5 million)
- Improved underlying[2] operating profit and underlying[2] profit before tax of £17.9 million and £17.3 million respectively (H1 2021: underlying[2] operating profit £17.4 million; underlying[2] profit before tax £16.7 million)
- Statutory profit before tax of £21.6 million (H1 2021: £14.0 million), an uplift on underlying[2] profit due to proceeds received as part of an ongoing insurance claim creating a net profit from non-underlying items
- Undrawn banking facilities of £74.0 million and net funds[3] of £6.0 million at the Period end (31 December 2021: £53.7 million net funds[3])
- Progressive dividend reflecting the improved profit performance, with a 2022 interim ordinary dividend of 6.2 pence per share (2021 interim ordinary dividend: 5.8 pence per share)

Operational

- Good progress in demonstrating and delivering on the revenue growth and operational efficiency strategy
- Commissioned specialist research indicating improved market share in the Period
- New and improved trade counter sites demonstrating strong KPIs against uninvested sites. On track to have a total of 59 sites (of which 28 invested) by year end towards the 90 target by 2025 (all invested)
- New customers gained in the multiple retailer / larger customer space, including recent contracts signed with a top 10 UK housebuilder and Homebase
- Continued progress towards 30% target of sales coming from new and improved digital channels, 26% at the Period end from a base of 11% in 2019
- New and exclusive ‘Everyroom’ brand launched post the Period end offering great quality and design at affordable prices, with initial feedback very positive
- Ongoing investment in the network (sites and equipment) and systems to optimise performance and support future revenue growth

Current Trading and Outlook

- Revenue performance year to date continuing to be only marginally below the prior year period
- Company remains on track to meet market expectations[4] for the year, although trading remains challenging and operational cost inflation continues

Commenting, Chris Payne, Chief Executive, said:

"The financial performance in the Period was pleasing given the economic environment and inflationary impact on consumer spending. Underlying[2] profitability improved year on year, and revenue was only marginally below the prior year period despite a weak residential sector. Commissioned specialist research indicated that the Company improved its market share in the Period, and new customers have also been secured within the multiple retailers / larger customers space. All of this provides a high degree of confidence that the Company's strategy of driving additional revenue opportunities from a more efficient and modernised operating base and improving the service offering to all customers is the right one. Headlam should be set fair for when the current headwinds ease, and the Company is focused on long term success."

Presentations

The Company's interim results presentation accompanying this announcement is available on its website at Reports & presentations | Headlam.

The Company will be hosting an in person presentation for analysts in London today at 10:00am BST. To register your interest, please email headlam@almapr.co.uk.

The Company will also be hosting an online presentation and Q&A for investors today at 1:00pm BST. The presentation is open to all existing and potential shareholders. Investors can register to attend the webinar at the following link: https://bit.ly/HEAD_H1_Results. A recording of the webinar will be made available on the Company's website following its conclusion.

Footnotes

[1]The financial results represent continuing operations only, and exclude the contribution from the Swiss business Belcolor AG ('Belcolor') in the comparative period(s), following its disposal in May 2021 (as detailed in Note 8 to the Financial Statements).

[2]Underlying is before non-underlying items, which comprises: i) amortisation of acquired intangible assets; ii) impairment of intangibles, fixed assets and right of use assets; iii) property disposal profit; iv) business restructuring costs; v) fire-related impairment of property, plant and equipment and inventory and related insurance recovery.

[3]Net funds numbers are given excluding lease liabilities, with this being an Alternative Performance Measure ('APM'), see Financial Review for detail on APMs.

[4]Company-compiled consensus market expectations for revenue and underlying profit before tax, on a mean basis, are available on the Company's website at www.headlam.com.

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Notes for Editors:

Operating for 30 years, Headlam is the leading floorcoverings distributor, providing the channel between suppliers and trade customers of floorcoverings.

Headlam works with suppliers across the globe manufacturing a diverse range of floorcovering products, and provides them with a cost efficient and effective route to market for their products into the highly fragmented trade customer base.

To maximise customer reach, Headlam operates 66 businesses across the UK and Continental Europe (France and The Netherlands). Each business operates under its own trade brand and utilises individual sales teams to capture regional and national sales while being supported by the group's network and centralised teams and processes.

The Company's extensive customer base covers both the residential and commercial sectors, with principal customer groups being independent retailers and smaller flooring contractors alongside other customer segments such as larger (multiple) retailers, housebuilders, specifiers, and larger contractors (including local government / authorities).

Headlam provides customers with a market leading service through:

- the broadest product offering;
- unrivalled product knowledge;
- tailored service propositions and solutions;
- sales team and marketing support;
- ecommerce support and digital applications;
- nationwide delivery; and
- trade counter and collection service.

www.headlam.com

Chief Executive's Statement and Financial Review

Introduction

Headlam is now in its 30th year, although some businesses within the group have far longer heritages, and the Company is the clear market leader. The Company's comprehensive strategy detailed below is designed to further this leadership position and support the long-term success of the Company. Key elements of it include investing in and growing the nationwide network, developing new customer segments and channels to market, and improving the customer service proposition to all market segments.

While weak trading environments such as that being experienced across many consumer facing industries currently may subdue some growth metrics in the short-term, the Company is still able to deliver on its strategy and capture market share. This positions it well for when markets improve.

As stated within the July 2022 Pre-Close Trading Update, the financial performance in the Period was pleasing given the economic environment and inflationary impact on consumer spending. Underlying[2] profitability improved year on year, and revenue was only marginally below the prior year period despite a weak residential sector which accounts for roughly two-thirds of the Company's revenue. Commissioned specialist research indicated that the Company improved its market share in the Period, and new customers have also been secured within the multiple retailers / larger customers space. All of this provides a high degree of confidence that the Company's strategy is the right one.

With four months to go, the group still remains on track to meet market expectations for the year, although trading remains challenging and operational cost inflation continues so headwinds remain. However, Headlam should be set fair for when the current headwinds ease, especially as the group enjoys a high degree of operating leverage, and the Company is focused on long term success.

Financial Performance for the Period

Revenue

Total revenue in the Period was £323.8 million (H1 2021: £329.9 million), with a 5.2% uplift in Continental Europe (France and The Netherlands) helping to offset a 2.9% decline in the UK related to weakness in the residential sector. The UK and Continental Europe accounted for 86.3% and 13.7% of total revenue respectively in the Period (H1 2021: UK 87.3%; Continental Europe 12.7%).

Within the UK, the commercial sector was a positive contributor, up 4.8%, as it showed recovery from mainly COVID-19 related issues in the prior two years. Conversely the residential sector declined 6.3% as it was particularly affected by the inflationary impact on consumer spending. However, it is worth noting that residential sector performance was strong in the prior year period due to being a beneficiary of limited avenues for discretionary expenditure due to ongoing COVID-19 restrictions. Continental Europe was a positive contributor across both the residential and commercial sectors, being up 5.0% and 5.7% respectively in the Period.

For the group as a whole, residential sector revenue declined 5.0% in the Period and accounted for 66.4% of total revenue (H1 2021: 68.5%), with commercial sector revenue increasing 4.9% and accounting for 33.6% of total revenue (H1 2021: 31.5%).

Gross Margin

Gross margin was temporarily lifted to a high of 33.7% in the Period (H1 2021: 32.7%) despite the higher margin residential sector accounting for a lower proportion of revenue, and was due to the unprecedented inflationary environment. The proliferation of manufacturer-led price increases in the Period were passed directly through to customers, with the Company benefiting from pricing uplifts on its existing inventory position. This level of gross margin is therefore not expected to be maintained, and is anticipated to normalise as the number and scale of price increases reduces in the second half.

Expenses

Due to the continued focus on operational efficiency and cost control as part of the Company's strategy, underlying[2] distribution costs and administrative expenses in the Period were comparable with the prior year period despite widespread operational cost inflation (Period: £91.1 million; H1 2021: £90.5 million). Certain actions taken in the prior year had full period effects in the Period, including network and transport consolidations, and streamlining of the sales team and other functions. Further actions taken in the Period such as reducing temporary staff and a focus on continuous improvement in the efficiency of operations provided further support to managing costs. An adverse impact on costs later in the year will be a significant rise in the Company's energy costs from October 2022 following the expiry of a fixed price energy contract. The Company has actions and plans in place to reduce energy usage, which will help offset some of these rising costs going forward (see ESG Strategy below). Statutory distribution costs and administrative expenses in the Period were £91.8 million (H1 2021: £93.2 million), marginally higher than underlying[2] due to non-cash amortisation of acquired intangibles detailed below. There was a higher level of non-underlying expenses, including non-recurring business restructuring costs, in the prior year period.

Profit and Non-underlying items

The positive gross margin and expenses performances led to an improved underlying[2] operating profit and underlying[2] profit before tax of £17.9 million and £17.3 million respectively (H1 2021: underlying[2] operating profit £17.4 million; underlying[2] profit before tax £16.7 million). The underlying[2] operating margin in the Period was 5.5% (H1 2021: 5.3%). The statutory profit before tax in the Period was £21.6 million (H1 2021: £14.0 million), an uplift on underlying[2] due to proceeds received as part of an ongoing insurance claim creating a net profit from non-underlying items.

Total non-underlying items before tax reflected a net profit of £4.3 million in the Period, and comprised a £5.0 million of received and expected proceeds from the insurance claim offset by a £0.7 million non-cash amortisation of acquired intangibles. In the 2021 Annual Report and Accounts the Company recognised a non-underlying impairment of £7.3 million (pre-tax) following a fire that completely destroyed the MCD Kidderminster distribution centre in December 2021. As part of the insurance claim, £5.0 million of proceeds relating to inventory losses were recognised in the Period, with further proceeds anticipated to be determined once the plans for the proposed reinstatement of the building are finalised. MCD Kidderminster is currently operating effectively out of a temporary site where it was quickly relocated to in January 2022 and is being supported by other group sites.

Basic earnings per share on an underlying[2] basis increased from 14.7 pence per share in the prior year period to 16.5 pence per share. 1.6 pence of this improvement reflected the increased profit performance and 0.2 pence was as a result of the impact of the Share Buyback programme which reduced the weighted average number of shares (as detailed in Note 6 to the Financial Statements). Statutory basic earnings per share was 20.6 pence (H1 2021: 11.6 pence).

Tax

The Company's consolidated underlying effective tax rate for the Period was 20.2%, which reflects the expected effective tax rate for the full year. This is higher than the standard rate of corporation tax in the UK of 19.0% primarily due to expenses not deductible for tax purposes and overseas profit taxed at a higher rate. The planned increase in the UK headline tax rate to 25% will increase the effective tax rate in 2023.

Investments

During the Period investments were made to support delivery of the strategy. As planned, investment levels will increase in the second half as the investment momentum builds, although overall capital expenditure will continue to be modest due to the relatively capital light nature of the strategy (see the constituents of the strategy in Strategy section).

Capital expenditure in the Period was £2.8 million (H1 2021: £3.4 million) and primarily focused on trade counter improvement and roll-out (detailed below), and investment in equipment and systems to optimise performance and support future revenue growth.

Total capital expenditure for the year is anticipated to be in excess of £10 million, with the majority accounted for by trade counters, and the balance going towards the ongoing programme to modernise and improve the existing network and equipment. This will have the benefit of improving service levels to all customers.

Cash flows and Balance Sheet

There was a cash outflow of £29.8 million in the Period, the largest component of which was £25.8 million of shareholder returns (a return of surplus capital alongside the 2021 final ordinary dividend). There was also a working capital outflow relating to an investment in inventory of £16.9 million and a net increase in supplier payments of £21.3 million to protect against product supply, to prepare for the busier second half trading months and to support new product launches to capture market share (see Everyroom below). Inventory at Period end was £148.1 million (30 June 2021: £120.6 million; 31 December 2021: £130.9 million). There is an ongoing relatively low risk of inventory obsolescence. This inventory position, alongside the net funds[3] position detailed below and £109.5 million nationwide freehold property portfolio[5], underpin the Company's strong balance sheet.

The Company had undrawn banking facilities totalling £74.0 million and net funds[3] of £6.0 million at the Period end (31 December 2021: £53.7 million net funds[3]). The Company had drawn £26.4 million of banking facilities at 30 June 2022.

Dividend and Share Buyback Programme

Reflecting the improved underlying[2] profitability in the Period, the Board is declaring a progressive dividend payment with a 2022 interim ordinary dividend of 6.2 pence per share (2021 interim ordinary dividend: 5.8 pence per share). This will be payable on 28 November 2022 to shareholders on the register as at 28 October 2022, and amount to a total payment of approximately £5.2 million. Reflecting the traditional trading profile of the group, a higher weighting is typically given to the final ordinary dividend.

The Company is engaged in an ongoing total £15 million Share Buyback Programme ('SBB') via its brokers which is designed to be earnings per share enhancing and which formed part of a total £30 million return of surplus capital to shareholders announced in March 2022. The outflow in the Period related to the SBB was £3.7 million. As at market close on 2 September 2022, the Company had purchased 1,281,998 shares through the SBB, all of which are held in treasury, resulting in a cash outflow to-date since the start of the programme of £4.3 million.

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs') to assess its financial, operational and social performance towards the achievement of its strategy. Such measures may either exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable statutory measure (where one exists), calculated and presented in accordance with IFRS. Such exclusions or inclusions give in the Company's opinion more normalised performance measures, and the Company believes that these APMs are also used by investors, analysts and other interested parties in their analysis.

The APMs have limitations and may not be comparable to other similarly titled measures used by other companies. They should not be viewed in isolation, but as supplementary information.

An explanation of each APM is provided in the Financial Review of the 2021 Annual Report and Accounts and a reconciliation of the adjustments made to the Income Statement to derive underlying profit measures is shown at the end of the Financial Statements. Underlying items are calculated before charges associated with the acquisition of businesses and other items which by virtue of their nature, size or/and expected frequency require adjustment to show the performance of the group in a consistent manner which is comparable year on year. These underlying measures are relevant to investors and other stakeholders, as supplementary information, to fully understand the underlying performance of the business. A limitation of underlying profit measures is that they exclude the recurring amortisation of intangible assets acquired in business combinations but do not similarly exclude the related revenue.

Strategy and Operational Performance in the Period

The Company's strategy is focused on driving additional revenue opportunities from a more efficient and modernised operating base, and improving the service offering to all customers. The key revenue growth drivers are:

- Accelerating roll-out of new and improved **Trade Counter** sites nationwide
- Actively targeting the **Multiple Retailers and other Larger Customer** segments where the Company is very underweight with tailored service propositions
- Enhanced **Digital and Ecommerce** capabilities and applications to increase revenue opportunities in all customer segments
- New launches and relaunches of **Products and Brands** to increase sales and capture market share

Alongside these revenue drivers, the Company is focused on operating efficiency and cost control, continuous improvement, and investment in the network (sites and equipment) and systems to optimise performance and support revenue growth. The development of the Company's articulated ESG Strategy, which sits as part of the overall strategy, is also an important opportunity for commercial advantage.

Pleasing progress was made in the Period in demonstrating and delivering on the strategy, which will continue to be built upon during the second half.

Trade Counters

The Company is on-track to have 59 trade counter sites by year end, of which 28 will be new or refurbished, with a maintained target of 90 fully invested sites by 2025 targeted to add approximately £120 million of revenue to the £80 million reported for 2021. The sites that have been invested in to-date have demonstrated strong KPIs against uninvested sites in terms of revenue, new account openings, and margins. In the Period, the revenue performance of invested sites was up 12% on the same period last year (on a like for like basis). In line with the accelerating roll-out, the Company is generating a strong pipeline of prospective sites, and has the target of a further 25 invested sites in 2023 of which 13 will be new. The capital investment in relation to the target of 90 sites is currently estimated at £18 million in total, of which £3.0 million has been incurred thus far with £1.2 million in the Period.

Multiple Retailers and Larger Customers

In the last 12 months, following the commencement of a concerted approach and assembly of a dedicated team, a number of new customers have been gained in the multiple retailer / larger customer space. These include a DIY chain, a builders merchant, a furniture retailer with a new flooring offering, and a top 10 UK housebuilder. This demonstrates the breadth and size of the opportunity open to Headlam in this area, with considerable scalability opportunity as the number of SKUs with these customers is increased. Headlam has traditionally held a modest position in this area, belying its market leading position and strong service proposition, reducing complexity and cost for the supplier and the customer.

As an example of a new customer, in May 2022 the Company signed a two year contract with Homebase, a leading home improvement retailer and garden centre with over 150 stores across the United Kingdom and Republic of Ireland. An initial number of laminate SKUs are now being delivered to their entire store network, with the potential to add further products.

Additionally, last month Headlam signed a contract with a top 10 UK housebuilder representing a potential substantial new revenue opportunity, particularly as the vast majority of all new homes in the UK are sold with flooring specified. This is the Company's first national contract with a housebuilder, and Headlam is providing a product range, sampling, and training package to the regional sales centres to help secure sales.

Revenue contribution from the trade counters and multiple retailer / larger customers will have a higher contribution in the second half compared with the Period as activity rolls out. This will mitigate anticipated weakness in the Company's existing revenue in the multiple retailer space, which was evident in the Period due to the economic environment.

Digital and Ecommerce

Enhanced Digital and Ecommerce capabilities and applications not only increase revenue opportunities by supporting and appealing to a wider base of customers, but also helps lower the cost to serve customers. The Company continues to make progress towards its target of 30% of sales coming from its new and improved digital channels, being 26% at the Period end from a base of 11% in 2019. Since its launch in November 2021, over £3.7 million of sales have now been received by the Company's industry-leading app *myheadlam*, with 2,100 registered customers. Importantly, the app is now available to download at Apple and Google Play stores.

The Company is focused on the development and expansion of its digital and marketing strategy so it can effectively support the strategy of growth and efficiency. Investment is being made in people skills, digital capability, product brand awareness, the core operating system, and further systems integration to particularly support larger customers and suppliers.

Products and Brands

The Company has a number of well regarded and recognised product brands spanning price points from less than £10 per sq metre to over £150 per sq metre (at average selling retail prices), with the majority of the Company's product offering at lower to middle price points. Several existing brands have been refreshed / relaunched so far this year, with improved websites to keep them relevant and help increase sales. Additionally, after the Period end the Company launched Everyroom, its new and exclusive brand available to all Headlam customers offering great quality and design at affordable prices. Initial feedback from customers has been very positive, with the new brand helping customers secure sales at a time when end-consumers are more cost conscious.

ESG Strategy

The Company is committed to a bi-annual update on its ESG Strategy and progress against its actions, with the next timetabled update in November 2022. As a brief summary ahead of this:

- The Company now has an established Executive ESG Committee assisting the Board on the development of the Company's ESG Strategy, and ensuring the progression of all constituents within it;
- The Company is engaged in Net Zero emissions transition planning in support of its 2035 ambition;
- The Company is already actively engaged in reducing its energy usage (Scope 1 and 2), which will help offset some of its rising energy costs referred to above. The Company intends rolling out the installation of solar panels at its larger sites from the start of next year[6]; and
- In relation to People and Communities, a number of recent actions have been taken: i) the locally focused Community Programme launched ii) increased number of Mental Health First Aiders towards the Company's target iii) review of National Living Wage completed with a small number of colleagues' base pay increased; and iv) DEI survey completed, with initial insights and next steps shared across the group.

People

The Company announced at the beginning of this month the appointment of Karen Hubbard to the Board as an Independent Non-Executive Director. Karen has over 25 years' experience in retail, at both Executive and Director levels across various industries and markets and will further enhance the skills on the Board and oversight of delivery of the strategy. She was previously Chief Executive Officer of Card Factory plc, the UK's leading specialist retailer of greeting cards, gifts, wrap and bags, where she diversified their income from a UK High Street business to a Multi Channel, International, Wholesale and Franchised operation. Karen has also served as Chief Operating Officer at B&M, on the ASDA Stores Executive Board as Executive Director for Property, Multi-Channel and Format Development, in addition to working for BP Oil in their Retail divisions.

The Company is still in the process of appointing a permanent Chief Financial Officer due to a candidate withdrawing at the very end of the process specifying location reasons. However, the Board is pleased with the calibre of candidates currently being interviewed and hopes to reach a conclusion in the near future. In the meantime, Patrick Butcher, formerly Group CFO at Capita plc, The Go-Ahead Group plc and Network Rail, will continue as Interim Chief Financial Officer while the independent search process is ongoing.

A number of senior management appointments have been made since the beginning of the year which have materially increased the team's depth and breadth, and built capability to support and accelerate the strategy. These include the new position of Managing Director of Trade Counters to head-up this fast growing business unit, and the strengthening of other functions with the hiring of a new Chief People Officer and Chief Information Officer.

Headlam's people are its greatest asset, and the pleasing performance in the Period against the documented headwinds would not have been possible without their dedication and expertise, and the Board shares its thanks to all. The Company continues to focus on making Headlam a great place to work at, and ensure colleagues share in the Company's long-term success. Building on the improvements detailed in the 2021 Annual Report including in the areas of pension, holiday entitlement and sick pay, the Company is launching a recognition programme to celebrate colleagues' great performances and commitment. Additionally, to recognise and applaud the long heritage of businesses and colleagues within the group, an awards scheme for long service is planned.

Current Trading and Summary

The revenue performance in the past two months has continued that of the Period, with revenue year to date continuing to be only marginally below the prior year period. Within this, the UK residential sector performance has weakened slightly further since the Period end. However, the Company's UK commercial sector activity has continued to be more buoyant, with its strengthening helping to offset the residential weakness. Additionally, Continental Europe has again been a positive contributor across both sectors.

The opportunities now available to the group are much expanded from recent years given the comprehensive strategy being pursued. The maximization and acceleration of these opportunities is an immediate priority given the current economic backdrop which is continuing to suppress underlying volumes in the residential sector. Thus far, the strategy has proven to have provided a countermeasure and protection against the weaker market. The Company currently remains on track to meet market expectations[4] for the year, although the marketplace will undeniably continue to present weakness and uncertainty, and the operational cost inflation headwinds remain including the Company's energy costs referred to above. Should the market weakness deepen, the Company has a number of measures it could take to help offset. It is important though to look beyond the near-term environment, and as previously highlighted, the group believes it is set fair especially for when headwinds ease.

Going Concern and Viability

The viability modelling exercise performed for the 2021 Annual Report and Accounts, including a reverse stress test, has been refreshed (as described in Note 1 to the Financial Statements) to assess going concern for this interim report.

The Board has a reasonable expectation that the Company has adequate resources to continue in operation during the next 12 months and that it is appropriate for the going concern basis to be adopted in preparing this interim report and financial statements.

Principal Risks and Uncertainties

Headlam is exposed to a number of principal risks which may affect its performance, business model, solvency or liquidity. The group has a well-established framework for reviewing and assessing these risks on a regular basis; and has put in place appropriate processes, procedures and actions to mitigate against them. However, no system of control or series of mitigations can completely eliminate all risks. The principal risks and uncertainties that may affect the group were last reported on within the 2021 Annual Report and Accounts (on pages 34 to 38).

The principal risks remain broadly unchanged since last reported, and the Board does not see material changes in the overall, post mitigation likelihood and impact of principal risks, although specific elements continue to evolve.

The economic backdrop, for example, could impact 'Market Demand' risk. Market demand in certain consumer facing industries has been adversely impacted by the current inflationary environment which is reducing consumers' disposable income and therefore affecting sales.

Directors' Responsibility Statement

We confirm that, to the best of our knowledge:

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

(b) the interim report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the Period and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

For and on behalf of the Board

Chris Payne

Director

6 September 2022

[5]*Value of the Company's current freehold property portfolio at the last independent valuation date of January 2020, plus the book value of the freehold Ipswich distribution centre which was built and became operational in July 2020.*

[6]*Both the Coleshill and Ipswich sites already have solar panels installed.*

Condensed Consolidated Interim Income Statement

	Note	Underlying 2022 £M	Non-underlying (Note 3) 2022 £M	Six months ended 30 June 2022 £M	Underlying 2021 £M	Non-underlying (Note 3) 2021 £M	Six months ended 30 June 2021 £M	Underlying 2021 £M	Non-underlying (Note 3) 2021 £M	Year ended 31 December 2021 £M
Continuing operations		**Unaudited**			Unaudited			Audited		
Revenue	2	**323.8**	**–**	**323.8**	329.9	–	329.9	667.2	–	667.2
Cost of sales		**(214.8)**	**–**	**(214.8)**	(222.0)	–	(222.0)	(446.7)	–	(446.7)
Gross profit		**109.0**	**–**	**109.0**	107.9	–	107.9	220.5	–	220.5
Distribution costs		**(64.6)**	**–**	**(64.6)**	(61.8)	–	(61.8)	(125.9)	–	(125.9)
Administrative expenses		**(26.5)**	**(0.7)**	**(27.2)**	(28.7)	(2.7)	(31.4)	(57.3)	(8.2)	(65.5)
Other operating income		–	**5.0**	**5.0**	–	–	–	–	–	–
Operating profit/(loss)	2	**17.9**	**4.3**	**22.2**	17.4	(2.7)	14.7	37.3	(8.2)	29.1
Finance income	4	**0.4**	**–**	**0.4**	0.2	–	0.2	0.4	–	0.4
Finance expenses	4	**(1.0)**	**–**	**(1.0)**	(0.9)	–	(0.9)	(1.9)	–	(1.9)
Net finance costs		**(0.6)**	**–**	**(0.6)**	(0.7)	–	(0.7)	(1.5)	–	(1.5)
Profit/(loss) before tax		**17.3**	**4.3**	**21.6**	16.7	(2.7)	14.0	35.8	(8.2)	27.6
Taxation	5	**(3.5)**	**(0.8)**	**(4.3)**	(4.4)	0.2	(4.2)	(9.2)	1.5	(7.7)
Profit/(loss) from continuing operations	2	**13.8**	**3.5**	**17.3**	12.3	(2.5)	9.8	26.6	(6.7)	19.9
Profit from discontinued operation		**–**	**–**	**–**	0.1	4.4	4.5	0.1	4.4	4.5
Profit/loss) for the period attributable to the equity shareholders		**13.8**	**3.5**	**17.3**	12.4	1.9	14.3	26.7	(2.3)	24.4
Earnings per share for profit from continuing operations										
Basic	6	**16.5p**		**20.6p**	14.7p		11.6p	31.5p		23.5p
Diluted	6	**16.3p**		**20.4p**	14.4p		11.4p	31.1p		23.2p
Earnings per share for profit from discontinued operations										
Basic					0.1p		5.3p	0.2p		5.3p
Diluted					0.1p		5.2p	0.2p		5.2p
Ordinary dividend per share										
Interim dividend proposed for the financial period	7			**6.2p**			5.8p			5.8p
Final dividend declared for the financial period	7			**–**			–			8.6p
Declared special dividend for the financial period	7			**–**			–			17.7p

Condensed Consolidated Interim Statement of Comprehensive Income

	Six months ended 30 June 2022 £M Unaudited	Six months ended 30 June 2021 £M Unaudited	Year ended 31 December 2021 £M Audited
Profit for the period attributable to the equity shareholders	**17.3**	14.3	24.4
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Re-measurement of defined benefit plans	**0.1**	(2.6)	(2.6)
Related tax	**–**	0.6	0.8
	0.1	(2.0)	(1.8)
Items that are or may be reclassified to profit or loss			
Exchange differences arising on translation of overseas operations	**0.2**	(0.8)	(1.2)
Reclassification of foreign currency translation reserve on disposal of subsidiary	**–**	(4.8)	(4.8)
	0.2	(5.6)	(6.0)
Other comprehensive income/(expense) for the period	**0.3**	(7.6)	(7.8)
Total comprehensive income attributable to the equity shareholders for the period	**17.6**	6.7	16.6

Total comprehensive income attributable to the equity shareholders for the period arising from:			
Continuing operations	**17.6**	7.0	16.9
Discontinued operations	–	(0.3)	(0.3)
	17.6	6.7	16.6

Condensed Consolidated Interim Statement of Financial Position

	At 30 June 2022 £M Unaudited	At 30 June 2021 £M Unaudited	At 31 December 2021 £M Audited
Assets			
Non-current assets			
Property, plant and equipment	**112.9**	115.9	113.3
Right-of-use assets	**32.6**	37.4	35.0
Intangible assets	**17.9**	19.0	18.1
	163.4	172.3	166.4
Current assets			
Inventories	**148.1**	120.6	130.9
Trade and other receivables	**118.8**	109.6	114.0
Cash and cash equivalents	**32.4**	62.7	61.2
	299.3	292.9	306.1
Non-current assets classified as held for sale	**-**	1.5	-
	299.3	294.4	306.1
Total assets	**462.7**	466.7	472.5
Liabilities			
Current liabilities			
Bank overdrafts	**(0.9)**	(0.1)	-
Other interest-bearing loans and borrowings	**(25.5)**	(1.9)	(0.6)
Lease liabilities	**(10.5)**	(10.7)	(10.5)
Trade and other payables	**(169.3)**	(176.9)	(178.0)
Income tax payable	**(2.6)**	(1.1)	(1.0)
Employee benefits	**(1.0)**	(1.0)	(1.0)
	(209.8)	(191.7)	(191.1)
Non-current liabilities			
Other interest-bearing loans and borrowings	**-**	(6.8)	(6.9)
Lease liabilities	**(23.2)**	(27.7)	(25.5)
Provisions	**(2.7)**	(2.1)	(2.7)
Deferred tax liabilities	**(10.3)**	(8.3)	(10.3)
Employee benefits	**(3.3)**	(4.0)	(3.9)
	(39.5)	(48.9)	(49.3)
Total liabilities	**(249.3)**	(240.6)	(240.4)
Net assets	**213.4**	226.1	232.1
Equity attributable to equity holders of the parent			
Share capital	**4.3**	4.3	4.3
Share premium	**53.5**	53.5	53.5
Other reserves	**(16.0)**	(2.0)	(1.6)
Retained earnings	**171.6**	170.3	175.9
Total equity	**213.4**	226.1	232.1

Condensed Consolidated Interim Statement of Changes in Equity
Unaudited

	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2022	**4.3**	**53.5**	**0.1**	**1.5**	**1.7**	**(4.9)**	**175.9**	**232.1**
Profit for the period attributable to the equity shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**17.3**	**17.3**
Other comprehensive income	**-**	**-**	**-**	**-**	**0.2**	**-**	**0.1**	**0.3**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**0.2**	**-**	**17.4**	**17.6**
Transactions with equity shareholders, recorded directly in equity								
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**0.6**	**0.6**
Repurchase of own shares	**-**	**-**	**-**	**-**	**-**	**(15.0)**	**-**	**(15.0)**
Share options exercised by employees	**-**	**-**	**-**	**-**	**-**	**0.4**	**(0.2)**	**0.2**
Dividends to equity holders	**-**	**-**	**-**	**-**	**-**	**-**	**(22.1)**	**(22.1)**
Total contributions by and distributions to equity shareholders	**-**	**-**	**-**	**-**	**-**	**(14.6)**	**(21.7)**	**(36.3)**
Balance at 30 June 2022	**4.3**	**53.5**	**0.1**	**1.5**	**1.9**	**(19.5)**	**171.6**	**213.4**

Condensed Consolidated Interim Statement of Changes in Equity
Unaudited

	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2021	4.3	53.5	0.1	1.5	7.7	(5.9)	158.8	220.0
Profit for the period attributable to the equity shareholders	-	-	-	-	-	-	14.3	14.3
Other comprehensive expense	-	-	-	-	(5.6)	-	(2.0)	(7.6)
Total comprehensive (expense)/income for the period	-	-	-	-	(5.6)	-	12.3	6.7
Transactions with equity shareholders, recorded directly in equity								
Share based payments	-	-	-	-	-	-	0.4	0.4
Share options exercised by employees	-	-	-	-	-	0.2	(0.1)	0.1
Deferred tax on share options	-	-	-	-	-	-	0.6	0.6
Dividends to equity holders	-	-	-	-	-	-	(1.7)	(1.7)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	0.2	(0.8)	(0.6)
Balance at 30 June 2021	4.3	53.5	0.1	1.5	2.1	(5.7)	170.3	226.1

Condensed Consolidated Interim Statement of Changes in Equity continued
Audited

	Share capital £M	Share premium £M	Capital redemption reserve £M	Special Reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2021	4.3	53.5	0.1	1.5	7.7	(5.9)	158.8	220.0
Profit for the period attributable to the equity shareholders	-	-	-	-	-	-	24.4	24.4
Other comprehensive expense	-	-	-	-	(6.0)	-	(1.8)	(7.8)
Total comprehensive (expense)/income for the period	-	-	-	-	(6.0)	-	22.6	16.6
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	-	-	-	-	-	-	1.2	1.2
Share options exercised by employees	-	-	-	-	-	1.0	(0.3)	0.7
Deferred tax on share options	-	-	-	-	-	-	0.2	0.2
Dividends to equity holders	-	-	-	-	-	-	(6.6)	(6.6)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	1.0	(5.5)	(4.5)
Balance at 31 December 2021	4.3	53.5	0.1	1.5	1.7	(4.9)	175.9	232.1

Condensed Consolidated Interim Cash Flow Statements

	Six months ended 30 June 2022 £M Unaudited	Restated* Six months ended 30 June 2021 £M Unaudited	Year ended 31 December 2021 £M Audited
Cash flows from operating activities			
Profit before tax for the period:			
Continuing operations	**21.6**	14.0	27.6
Discontinued operations	**-**	5.8	5.8
	21.6	19.8	33.4
Adjustments for:			
Depreciation of property, plant and equipment, amortisation and impairment	**3.6**	5.0	9.2
Depreciation of right of use assets	**5.8**	6.8	13.5
Finance income	**(0.4)**	(0.2)	(0.4)
Finance expense	**1.0**	0.9	1.9
Profit on sale of property, plant and equipment	**-**	(6.8)	(11.1)
Insurance proceeds for property, plant and equipment following fire	**(0.4)**	-	-
Impairment of property, plant and equipment and inventory following fire	**-**	-	7.3
Loss on sale of subsidiary	**-**	0.1	0.1
Share-based payments	**0.6**	0.4	1.2
Operating cash flows before changes in working capital and other payables	**31.8**	26.0	55.1
Change in inventories	**(16.9)**	(11.5)	(26.6)
Change in trade and other receivables	**(4.4)**	(12.0)	(16.6)
Change in trade and other payables	**(21.3)**	5.1	5.4
Cash generated from the operations	**(10.8)**	7.6	17.3
Interest paid	**(1.0)**	(1.5)	(0.5)
Interest received	**0.5**	0.3	0.5
Tax paid	**(2.7)**	(2.2)	(3.5)
Net cash flow from operating activities	**(14.0)**	4.2	13.8
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**-**	14.1	19.7
Disposal of discontinued operation, net of cash disposed of	**-**	(3.5)	(3.5)
Acquisition of property, plant and equipment	**(2.2)**	(3.4)	(6.1)
Insurance proceeds for property, plant and equipment following fire	**0.4**	-	-
Acquisition of intangible assets	**(0.6)**	-	(0.8)
Net cash flow from investing activities	**(2.4)**	7.2	9.3
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**0.2**	0.1	0.7
Payment to acquire own shares**	**(3.7)**	-	-
Proceeds from borrowings	**25.0**	-	-
Repayment of borrowings	**(7.0)**	(0.1)	(1.2)
Principal elements of lease payments	**(5.8)**	(7.5)	(15.0)
Dividends paid	**(22.1)**	(1.7)	(6.6)
Net cash flow from financing activities	**(13.4)**	(9.2)	(22.1)
Net increase in cash and cash equivalents	**(29.8)**	2.2	1.0
Cash and cash equivalents at 1 January	**61.2**	60.8	60.8
Effect of exchange rate fluctuations on cash held	**0.1**	(0.4)	(0.6)
Cash and cash equivalents at end of period	**31.5**	62.6	61.2

* Operating cash flows have been restated to separately disclose the loss on sale of subsidiary.

**During the Period 1,044,042 shares were acquired for £3.7 million under the Group's share buy-back initiative.

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 2022.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2021 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2021 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 Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority and UK adopted International Accounting Standard IAS 34, Interim Financial Reporting.

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 2021, which were prepared in accordance with UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on 6 September 2022.

Significant accounting policies
As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published Consolidated Financial Statements for the year ended 31 December 2021 and has adopted accounting policies as follows:

Insurance proceeds
Insurance proceeds are recognised when recovery is virtually certain and the amounts can be measured reliably. Insurance proceeds recognised are shown as other operating income, separately from any related costs. Insurance proceeds recoverable at the period end are recognised within other receivables.

Taxation
In the prior year, the Group has modified its taxation accounting policy so that the effect of the taxation rate change from 19% to 25% on deferred taxation was spread over the full year.

Impacts of standards and interpretations in issue but not yet effective
There are no other new standards, amendments to existing standards, or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Going concern

The Group's performance, position and business activities, together with the factors likely to affect its future development, are described in the Chief Executive's Statement and Financial Review.

The Directors have reviewed current performance and forecasts, combined with borrowing facilities and expenditure commitments, and three downside trading scenarios, as summarised below.

i) A sustained recession, characterised by a long period of underperformance throughout the assessment period;
ii) An economic crash with a sharp 15% year on year decline in the first year, before a recovery; and
iii) A less likely, more severe scenario (reverse stress test) where the Company experiences a significant 22% year on year decline in revenue in the first year.

The impact of inflation on the results for the Period and the inflationary impact on consumer spending which could contribute to the occurrence of these scenarios have been considered as part of the assessment.

In each scenario, even in the absence of any significant mitigating actions, the Group continues to operate within its current banking facilities and the covenant restrictions set out therein.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operation, including contractual and commercial commitments, for the next 12 months. For these reasons, the going concern basis has been adopted in preparing the financial statements.

Bank facilities at 30 June 2022

	Committed credit facilities £ million	Uncommitted credit facilities £ million	Total facilities £ million
Drawn funds	25.5	0.9	26.4
Undrawn funds	56.5	17.5	74.0
	82.0	18.4	100.4

Judgements and 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 2021, with the addition of the following:

Judgement – Recognition of insurance proceeds

Insurance proceeds are recognised when their recovery is virtually certain and the amounts can be measured reliably. This therefore requires judgement over whether the assets can be measured reliably. The Directors judge that the insurance amounts relating to the reinstatement of the damaged property and contents, following the fire that destroyed a building in Kidderminster in December 2021, cannot be measured reliably at June 2022 because:

- the decision to progress with the reinstatement is not yet final and a change to that decision would cause the insurance refund to be based on a negotiated settlement rather than the like-for-like reinstatement costs and the resulting values could be materially different;
- there is uncertainty about whether some significant construction preparation items will be required for the reinstatement;

- the competitive tendering process for the construction has not yet started and so the construction costs are not known; and
- the insurance receipts are due as reinstatement progresses alongside a volatile construction market.

It has therefore been concluded that the insurance proceeds for the insurance claim relating to the reinstatement of the damaged property and contents should not be recognised but that a contingent asset should be disclosed.

Risks and uncertainties
The risk factors which could cause the Group's results to differ materially from expected results are set out in detail in the 2021 Annual Report and Accounts, with the result of a review of those risks subsequent to the publication of this interim report listed above.

2 SEGMENT REPORTING

At 30 June 2022, the Group had 63 operating segments in the UK and three operating segments in Continental Europe. Each segment represents an individual trading operation and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Chief Executive. Discrete financial information is available for each segment and used by the Chief Executive to assess performance and decide on resource allocation.

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

Continuing operations

	UK			**Continental Europe**			**Total**		
	30 June 2022 £M	30 June 2021 £M	31 December 2021 £M	**30 June 2022 £M**	30 June 2021 £M	31 December 2021 £M	**30 June 2022 £M**	30 June 2021 £M	31 December 2021 £M
Revenue									
External revenues	**279.6**	287.9	585.8	**44.2**	42.0	81.4	**323.8**	329.9	667.2
Reportable segment underlying operating profit	**16.3**	17.1	37.0	**2.4**	1.8	3.1	**18.7**	18.9	40.1
Reportable segment assets	**316.2**	292.8	280.6	**37.7**	38.9	30.3	**353.9**	331.7	310.9
Reportable segment liabilities	**(211.2)**	(197.9)	(196.4)	**(20.2)**	(27.6)	(27.1)	**(231.4)**	(225.5)	(223.5)

During the periods shown above there have been no inter-segment revenues for the reportable segments *(2021: £nil).*

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

	30 June 2022 £M	30 June 2021 £M	31 December 2021 £M
Profit for the period			
Total underlying profit for reportable segments	**18.7**	18.9	40.1
Non-underlying items	**4.3**	(2.7)	(8.2)
Unallocated expense	**(0.8)**	(1.5)	(2.8)
Operating profit	**22.2**	14.7	29.1
Finance income	**0.4**	0.2	0.4
Finance expense	**(1.0)**	(0.9)	(1.9)
Profit before taxation	**21.6**	14.0	27.6
Taxation	**(4.3)**	(4.2)	(7.7)
Profit from continuing operations	**17.3**	9.8	19.9
Profit from discontinued operations	**-**	4.5	4.5
Profit for the period	**17.3**	14.3	24.4

	30 June 2022 £M	30 June 2021 £M	31 December 2021 £M
Assets			
Total assets for reportable segments	**353.9**	331.7	310.9
Unallocated assets:			
Properties, plant and equipment	**93.8**	98.1	97.5
Right of use assets	**0.6**	0.7	0.7
Non-current assets classified as held for sale	**-**	1.5	-
Cash and cash equivalents	**14.4**	34.7	63.4
Total assets	**462.7**	466.7	472.5
Liabilities			
Total liabilities for reportable segments	**(231.4)**	(225.5)	(223.5)
Unallocated liabilities:			
Lease liabilities	**(0.7)**	(0.7)	(0.7)
Employee benefits	**(4.3)**	(5.0)	(4.9)
Other interest-bearing loans and borrowings	**-**	-	-
Income tax payable	**(2.6)**	(1.1)	(1.0)
Deferred tax liabilities	**(10.3)**	(8.3)	(10.3)
Total liabilities	**(249.3)**	(240.6)	(240.4)

Continuing operations:	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 30 June 2022					
Capital expenditure	**2.2**	**-**	**2.2**	**-**	**2.2**
Depreciation	**1.7**	**0.2**	**1.9**	**1.0**	**2.9**
Depreciation of right of use assets	**4.9**	**0.9**	**5.8**	**-**	**5.8**
Non-underlying items (excluding finance expenses and impairments)	**(4.4)**	**0.1**	**(4.3)**	**-**	**(4.3)**
Other material items 30 June 2021					
Capital expenditure	2.9	0.1	3.0	0.4	3.4
Impairment of goodwill	1.2	-	1.2	-	1.2
Depreciation	1.5	0.4	1.9	1.0	2.9
Depreciation of right of use assets	5.8	1.0	6.8	-	6.8
Non-underlying items (excluding finance expenses and impairments)	1.4	0.1	1.5	-	1.5
Other material items 31 December 2021					
Capital expenditure	5.7	0.4	6.1	-	6.1
Impairment of goodwill	1.2	-	1.2	-	1.2
Impairment of intangible assets	0.9	-	0.9	-	0.9
Impairment of property, plant and equipment and inventory (following fire)	7.3	-	7.3	-	7.3
Depreciation	2.3	0.4	2.7	2.5	5.2
Depreciation of right of use assets	11.6	1.9	13.5	-	13.5
Non-underlying items (excluding finance expenses and impairments)	(1.1)	(0.1)	(1.2)	-	(1.2)

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

Each segment is a continuing operation.

The Chief Executive, the Board and the executive 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 2022 £M	30 June 2021 £M	31 December 2021 £M	**30 June 2022 £M**	30 June 2021 £M	31 December 2021 £M	**30 June 2022 £M**	30 June 2021 £M	31 December 2021 £M
Revenue									
Residential	**187.5**	200.0	407.2	**27.4**	26.1	49.7	**214.9**	226.1	456.9
Commercial	**92.1**	87.9	178.6	**16.8**	15.9	31.7	**108.9**	103.8	210.3
	279.6	287.9	585.8	**44.2**	42.0	81.4	**323.8**	329.9	667.2

3 NON-UNDERLYING ITEMS

Non-underlying items relate to the following:

	Six months ended 30 June 2022 £M	Six months ended 30 June 2021 £M	Year ended 31 December 2021 £M
Continuing operations:			
Impairment of intangibles, fixed assets and right of use assets	**-**	1.2	2.1
Amortisation of acquired intangibles	**0.7**	0.9	1.6
Property disposal	**-**	(0.9)	(5.1)
Impairment of property, plant and equipment and inventory (following fire)	**-**	-	7.3
Business restructuring	**-**	1.5	2.3
Insurance proceeds (following fire)	**(5.0)**	-	-
	(4.3)	2.7	8.2
Taxation on non-underlying items	**0.8**	(0.2)	(1.5)
	(3.5)	2.5	6.7
Discontinued operation:			
Disposal of subsidiary (including Swiss property disposal)	**-**	(4.4)	(4.4)
	(3.5)	(1.9)	2.3

4 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2022 £M	Six months ended 30 June 2021 £M	Year ended 31 December 2021 £M
Interest income:			
Bank interest	**0.1**	0.1	0.3
Other	**0.3**	0.1	0.1
Finance income	**0.4**	0.2	0.4
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(0.2)**	(0.2)	(0.4)
Interest on lease liability	**(0.6)**	(0.7)	(1.3)
Net interest on defined benefit plan obligation	**-**	-	(0.1)
Other	**(0.2)**	-	(0.1)
Finance expenses	**(1.0)**	(0.9)	(1.9)

5 TAXATION

The Group's consolidated underlying effective tax rate ('ETR') for the interim period is 20.2%. This is slightly higher than the standard rate of corporation tax in the UK due to expenses not deductible for tax purposes and overseas profits taxed at a higher rate.

The UK headline corporation tax rate for the six months ended 30 June 2022 was 19% (six months ended 30 June 2021: 19%; 12 months ended 31 December 2021: 19%). The deferred tax balance in respect of UK entities has been calculated at 25% (30 June 2021: 25%; 31 December 2021: 25%) following the enactment in 2021 of the increase in the UK tax rate from 1 April 2023.

6 EARNINGS PER SHARE

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

	Six months ended 30 June 2022 £M	Six months ended 30 June 2021 £M	Year ended 31 December 2021 £M
Continuing operations earnings			
Earnings for basic and diluted earnings per share	**17.3**	9.8	19.9
Earnings for underlying basic and underlying diluted earnings per share	**13.8**	12.3	26.6
Discontinued operations earnings			
Earnings for basic and diluted earnings per share	**-**	4.5	4.5
Earnings for underlying basic and underlying diluted earnings per share	**-**	0.1	0.1

	Six months ended 30 June 2022	Six months ended 30 June 2021	Year ended 31 December 2021
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**83,872,158**	84,409,416	84,484,084
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**83,872,158**	84,409,416	84,484,084
Dilutive effect of share options	**906,056**	1,242,836	1,070,830
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,778,214**	85,652,252	85,554,914
Continuing operations earnings per share			
Basic	**20.6p**	11.6p	23.5p
Diluted	**20.4p**	11.4p	23.2p
Underlying basic	**16.5p**	14.7p	31.5p
Underlying diluted	**16.3p**	14.4p	31.1p
Discontinued operations earnings per share			
Basic	**-**	5.3p	5.3p
Diluted	**-**	5.2p	5.2p
Underlying basic	**-**	0.1p	0.2p
Underlying diluted	**-**	0.1p	0.2p

7 DIVIDENDS

	Six months ended 30 June 2022 £M	Six months ended 30 June 2021 £M	Year ended 31 December 2021 £M
Final dividend for 2021 of 8.60p paid 27 May 2022	**7.2**	-	-
Special dividend of 17.70p paid 27 May 2022	**14.9**	-	-
Dividend of a nominal amount of 2.00p paid 28 May 2021	**-**	1.7	1.7
Interim dividend for 2021 of 5.80p paid 29 November 2021	**-**	-	4.9
	22.1	1.7	6.6

The Board of Directors have declared for 2022, an interim ordinary dividend of 6.2 pence per share. This dividend is payable on 28 November 2022 to shareholders on the register as at 28 October 2022, and is discussed further in the Chief Executive's Statement and Financial Review above.

8 DISCONTINUED OPERATIONS

On 28 April 2021, the Group entered into a sale agreement to dispose of Belcolor AG ('Belcolor'). Belcolor is a floorcoverings distribution business based in St. Gallen, Switzerland, and represents the entirety of Headlam's Swiss operations.

On 29 April 2021, as a condition of the sale agreement, Belcolor undertook a sale and leaseback of its property for gross proceeds of £12.4 million and paid a dividend of £11.1 million to its parent company, Headlam Group plc. Gross assets disposed of were £18.8 million. Cash consideration before costs of £0.9 million was received on sale of the subsidiary.

The subsidiary was sold on 28 April 2021 with effect from 17 May 2021 and was reported in the financial statements for the year ending 31 December 2021 as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance of discontinued operation

	Restated * Period ended 17 May 2021		
	Underlying £M	Non-underlying £M	Total £M
Revenue	9.1	–	9.1
Expenses	(9.0)	–	(9.0)
Other gains (profit on sale of building)	–	5.8	5.8
Profit before tax	–	5.8	5.9
Attributable tax expense	–	(1.3)	(1.3)
Profit after tax of discontinued operation	0.1	4.5	4.6
Loss on sale of subsidiary after tax	–	(0.1)	(0.1)
Profit from discontinued operation	0.1	4.4	4.5
Reclassification of foreign currency translation reserve on disposal of subsidiary			4.8
Other comprehensive income from discontinued operation			4.8

The information reported within this note for Belcolor relates to the prior year only as the business was discontinued on 17 May 2021.

	Restated * Period ended 17 May 2021 £M
Consideration received:	
Cash	0.9
Costs of disposal	(0.1)
Net disposal consideration	0.8
Carrying amount of net assets sold	(5.7)
Loss on sale before tax and reclassification of foreign currency translation reserve	(4.9)
Reclassification of foreign currency translation reserve on disposal of subsidiary	4.8
Tax expense on loss	—
Loss on sale after tax	(0.1)
Cash flows from discontinued operation	
Net cash outflow from ordinary activities	(1.8)
Net cash inflow from investing activities	12.4
Net increase in cash generated by the subsidiary	10.6

Effect of disposal on the financial position of the Group

	Restated * Period ended 17 May 2021 £M
Property, plant and equipment	(1.4)
Right-of-use-assets	(1.2)
Inventories	(8.7)
Trade and other receivables	(3.2)
Cash and cash equivalents	(4.3)
Employee benefits	2.8
Current tax liability	1.5
Trade and other payables	3.0
Deferred tax liabilities	0.3
Lease liabilities	5.5
Net assets and liabilities	(5.7)
Net disposal consideration	0.8
Cash and cash equivalents disposed of	(4.3)
Net cash outflow	(3.5)

The net cash consideration of £0.8 million represents the residual consideration following the £11.1 million dividend previously paid up to the parent company. Cash balances of £4.3 million were held by Belcolor on disposal.

*At the year end 31 December 2021, the allocation of amounts between the loss on sale of subsidiary and the profit on sale of building was reassessed. As a result, the disclosures in relation to the discontinued operations made as part of the 2021 Interim Results have been restated. Other gains (profit on sale of building) and the attributable tax expense were restated from £8.6m and £nil, to £5.8m and £(1.3)m respectively, whilst the loss on sale of subsidiary after tax was restated from £(4.2)m to £(0.1)m. There has been no change to the total profit from discontinued operations or the Income Statement previously disclosed in the 2021 Interim Results.

9 FINANCIAL INSTRUMENTS

The fair value of the Group's financial assets and liabilities as detailed below at 30 June 2022 were not materially different to the carrying value.

The table below sets out the Group's accounting classification of each class of financial assets and liabilities at 30 June 2022.

	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total carrying value £M
Cash and cash equivalents	-	**32.4**	**32.4**
Bank overdraft	-	**(0.9)**	**(0.9)**
Borrowings due within one year	-	**(25.5)**	**(25.5)**
Trade payables	-	**(119.3)**	**(119.3)**
Non-trade payables	-	**(38.5)**	**(38.5)**
Leasing liability	-	**(33.7)**	**(33.7)**
Trade receivables	-	**84.9**	**84.9**
Other receivables	-	**19.1**	**19.1**
Provisions	-	**(2.7)**	**(2.7)**
Derivative asset	**0.1**	-	**0.1**
	0.1	**(84.2)**	**(84.1)**

Financial instruments carried at fair value are categorised according to their valuation method. The different levels have been defined below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, as prices or indirectly, derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has forward currency contracts which were fair valued in accordance with level 2 (30 June and 31 December 2021: level 2).

Fair values

The carrying amounts shown in the Statement of Financial Position for financial instruments are a reasonable approximation of fair value.

Trade receivables, trade payables and cash and cash equivalents

Fair values are assumed to approximate to cost due to the short-term maturity of the instrument.

Borrowings, other financial assets and other financial liabilities

Where available, market values have been used to determine fair values. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

10 CAPITAL COMMITMENTS

As at 30 June 2022, the Group had contractual commitments relating to the purchase of property, plant and equipment of £10.5 million and intangibles of £1.5 million (*30 June 2021: £3.1 million and £nil; 31 December 2021: £0.4 million and £1.9 million*).

11 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.

12 CONTINGENT ASSET

At June 2022, the Group identified a contingent asset relating to parts of an insurance claim for losses arising from damage to the Group's property and contents, as a result of the Kidderminster fire in December 2021, whilst the asset relating to the inventory losses has been recognised in the financial statements.

The insurers have accepted liability in respect of the Kidderminster fire claim. However, the refund relating to the property and contents damage cannot be reliably measured because:

- the decision to progress with the reinstatement is not yet final and a change to that decision would cause the insurance refund to be based on a negotiated settlement rather than the like-for-like reinstatement costs and the resulting values could be materially different;
- there is uncertainty about whether some significant construction preparation items will be required for the reinstatement;
- the competitive tendering process for the construction has not yet started and so the construction costs are not known; and
- the insurance receipts are due as reinstatement progresses alongside a volatile construction market.

An amount of £0.6 million was recognised in the financial statements at June 2022 relating to refunds for property and contents damage, with £0.4 million received in cash and a further £0.2 million interim payment having been recommended by the loss adjusters to the insurers.

The £4.4 million insurance claim refund relating to inventory losses as a result of the Kidderminster fire was recognised in the financial statements at June 2022, with £2.6 million received in cash in the period and the remaining £1.8 million payment having been recommended by the loss adjusters to the insurers at June 2022.

13 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 other than detailed in the Chief Executive's Statement and Financial Review.

Adjusted Results Reconciliation
30 June 2022

Continuing operations	Total Results £M	Insurance proceeds (following fire) £M	Amortisation of acquired intangibles £M	Adjusted Results (underlying) £M
Revenue	323.8	—	—	323.8
Cost of sales	(214.8)	—	—	(214.8)
Gross profit	109.0	—	—	109.0
Distribution costs	(64.6)	—	—	(64.6)
Administrative expenses	(27.2)	—	0.7	(26.5)
Other operating income	5.0	(5.0)	—	—
Operating profit/(loss)	22.2	(5.0)	0.7	17.9
Finance income	0.4	—	—	0.4
Finance expenses	(1.0)	—	—	(1.0)
Net finance costs	(0.6)	—	—	(0.6)
Profit/(loss) before tax	21.6	(5.0)	0.7	17.3
Taxation	(4.3)	1.0	(0.2)	(3.5)
Profit/(loss) from continuing operations	17.3	(4.0)	0.5	13.8
Profit/(loss) for the year attributable to the equity shareholders	17.3	(4.0)	0.5	13.8
Earnings/(loss) per share for profit from continuing operations				
Basic	20.6p	(4.8)p	0.7p	16.5p
Diluted	20.4p	(4.8)p	0.7p	16.3p

Adjusted Results Reconciliation
30 June 2021

Continuing operations	Total Results £M	Impairment of goodwill and intangibles £M	Amortisation of acquired intangibles £M	Business restructuring £M	Property disposal £M	Profit from discontinued operation £M	Adjusted Results (underlying) £M
Revenue	329.9	—	—	—	—	—	329.9
Cost of sales	(222.0)	—	—	—	—	—	(222.0)
Gross profit	107.9	—	—	—	—	—	107.9
Distribution costs	(61.8)	—	—	—	—	—	(61.8)
Administrative expenses	(31.4)	1.2	0.9	1.5	(0.9)	—	(28.7)
Operating profit/(loss)	14.7	1.2	0.9	1.5	(0.9)	—	17.4
Finance income	0.2	—	—	—	—	—	0.2
Finance expenses	(0.9)	—	—	—	—	—	(0.9)
Net finance costs	(0.7)	—	—	—	—	—	(0.7)
Profit/(loss) before tax	14.0	1.2	0.9	1.5	(0.9)	—	16.7
Taxation	(4.2)	(0.1)	0.1	(0.2)	—	—	(4.4)
Profit/(loss) from continuing operations	9.8	1.1	1.0	1.3	(0.9)	—	12.3
Profit/(loss) from discontinued operation	4.5	—	—	—	—	(4.4)	0.1
Profit/(loss) for the year attributable to the equity shareholders	14.3	1.1	1.0	1.3	(0.9)	(4.4)	12.4
Earnings/(loss) per share for profit from continuing operations							
Basic	11.6p	1.5p	1.1p	1.5p	(1.0)p	—	14.7p
Diluted	11.4p	1.5p	1.1p	1.5p	(1.1)p	—	14.4p
Earnings/(loss) per share for profit from discontinued operations							
Basic	5.3p	—	—	—	—	(5.2)p	0.1p
Diluted	5.2p	—	—	—	—	(5.1)p	0.1p

Adjusted Results Reconciliation
31 December 2021

Continuing operations	Total Results £M	Impairment of goodwill and intangibles £M	Impairment of property, plant and equipment and inventory following fire £M	Amortisation of acquired intangibles £M	Business restructuring £M	Property disposal £M	Profit from discontinued operation £M	Adjusted Results (underlying) £M
Revenue	667.2	—	—	—	—	—	—	667.2
Cost of sales	(446.7)	—	—	—	—	—	—	(446.7)
Gross profit	220.5	—	—	—	—	—	—	220.5
Distribution costs	(125.9)	—	—	—	—	—	—	(125.9)
Administrative expenses	(65.5)	2.1	7.3	1.6	2.3	(5.1)	—	(57.3)
Operating profit/(loss)	29.1	2.1	7.3	1.6	2.3	(5.1)	—	37.3
Finance income	0.4	—	—	—	—	—	—	0.4
Finance expenses	(1.9)	—	—	—	—	—	—	(1.9)
Net finance costs	(1.5)	—	—	—	—	—	—	(1.5)
Profit/(loss) before tax	27.6	2.1	7.3	1.6	2.3	(5.1)	—	35.8
Taxation	(7.7)	(0.2)	(1.0)	0.2	(0.4)	(0.1)	—	(9.2)
Profit/(loss) from continuing operations	19.9	1.9	6.3	1.8	1.9	(5.2)	—	26.6
Profit/(loss) from discontinued operation	4.5	—	—	—	—	—	(4.4)	0.1
Profit/(loss) for the year attributable to the equity shareholders	24.4	1.9	6.3	1.8	1.9	(5.2)	(4.4)	26.7
Earnings/(loss) per share for profit from continuing operations								
Basic	23.5p	2.3p	7.5p	2.2p	2.2p	(6.2)p	—	31.5p
Diluted	23.5p	2.3p	7.4p	2.2p	2.2p	(6.2)p	—	31.1p
Earnings/(loss) per share for profit from discontinued operations								
Basic	5.3p	—	—	—	—	—	(5.1)p	0.2p
Diluted	5.2p	—	—	—	—	—	(5.0)p	0.2p

-Ends-