2 September 2021

Headlam Group plc
('Headlam' or the 'Company')

Interim Results

Strong recovery to 2019 levels

Headlam Group plc (LSE: HEAD), Europe's leading floorcoverings distributor, today announces its interim results for the six months ended 30 June 2021 (the 'Period') and an update on current trading.

Period Overview

Financials[1]

- Strong recovery to 2019 levels, with total revenue of £329.9 million being in-line with H1 2019 (£335.0 million), and 45.2% ahead of H1 2020 (£227.2 million)
- Gross margin increased to 32.7% (H1 2020: 32.3%; H1 2019: 32.4%) owing to increased proportion of total revenue from higher-margin residential sector and an inflationary environment through Q2 2021
- Underlying[2] operating margin in-line with H1 2019 at 5.3%, in part reflecting ability to keep underlying[2] distribution costs and administrative expenses flat through cost benefits from Operational Improvement Programme ('OIP') and restructuring activities offsetting wage inflation and additional costs
- Underlying[2] operating profit and underlying[2] profit before tax of £17.4 million and £16.7 million respectively, representing a strong reversal from the losses in H1 2020 (£1.1 million and £1.8 million losses respectively) (H1 2019: £17.9 million underlying[2] operating profit; £16.8 million underlying[2] profit before tax)
- Statutory operating profit and statutory profit before tax of £14.7 million and £14.0 million respectively, after non-underlying items of £2.7 million (H1 2020: £23.8 million and £24.5 million losses respectively, after £22.7 million of non-underlying items; H1 2019: £16.9 million and £15.8 million profit respectively, after £1.0 million of non-underlying items)
- Average net funds[3] of £30.5 million, representing a strong reversal of the £35.3 million and £8.6 million average net debt[3] position for H1 2020 and full-year 2020 respectively
- Net funds at Period-end, excluding impact of IFRS 16 'Leases', of £53.9 million (as at 30 June 2020: £22.4 million net debt; 31 December 2020: £51.6 million net funds)

Operational

- Operated effectively throughout the Period despite lockdowns
- Able to maintain inventory position despite industry-wide supply issues
- Significant progress made under the OIP during the Period
- On-track to achieve stated ambition of a 7.5% UK operating margin run-rate during 2023 through successful delivery of the OIP

Post Period-End and Current Trading

- Subdued commercial sector activity, although with regional variations, and residential sector performance pleasing
- Continuing to trade in-line with market expectations[4] which were significantly upgraded in July 2021
- Resumption of normalised level of dividend payments with 2021 interim ordinary dividend of 5.8 pence per share

Commenting, Steve Wilson, Chief Executive, said:

"The pleasing performance in the Period demonstrates a strong and sustained recovery following the initial impact of COVID-19, with the Company operating effectively throughout despite further lockdowns at the start of the year. As a consequence of this performance, along with balance sheet strength and confidence in the prospects for the business, we have returned to a normal dividend profile more rapidly than initially anticipated. Notwithstanding the presence of some industry-wide and other COVID-19 related headwinds, we remain positive on prospects and look forward to our busiest trading months in the fourth-quarter."

The Company's interim results presentation accompanying this announcement is available on its website at Reports & presentations | Headlam. A video of the presentation will also be available shortly to view on the website.

[1]The financial results represent continuing operations only, and exclude the contribution from the Swiss business Belcolor AG ('Belcolor') in the Period, and the comparator years, following its disposal in May 2021 (as detailed below and in Note 6 to the Financial Statements).

[2]Underlying is before non-underlying items, which includes amongst other items i) amortisation of acquired intangible assets, ii) impairment of goodwill, iii) property disposal profit, and iv) business restructuring costs (as detailed below and in Note 3 to the Financial Statements).

[3]Average net funds / debt is calculated by aggregating the net funds / debt position, excluding the impact of IFRS 16 'Leases', for each business day and dividing by the total number of business days.

[4]Company-compiled consensus market expectations for 2021 revenue and underlying profit before tax are £684.8 million and £35.0 million respectively (on a mean and post IFRS 16 adoption basis).

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Notes for Editors:

Headlam is Europe's 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 customer base. Alongside long-established processing and distribution expertise, suppliers benefit from Headlam's marketing and customer servicing into the most extensive 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 while being supported by the Company's network and centralised resources.

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

Headlam is focused on providing customers with a market-leading service through:

- the broadest product offering;
- unrivalled product knowledge and tailored solutions;
- sales team and marketing support;
- e-commerce support; and
- nationwide delivery and collection service.

www.headlam.com

Chief Executive's Statement and Financial Review

Introduction

The Company's overall performance was remarkably unaffected by COVID-19 and related issues during the Period, particularly given the further lockdowns and UK non-essential retail businesses being closed from January through to April 2021. This is testament to the Company's effective operating procedures, including established COVID-19 related measures, the resilience of the customer base who managed to trade successfully throughout, long-held supplier relationships, and the hard work and commitment of its people.

Operations continued throughout the Period with an overarching focus on the safety and protection of the Company's people, and total revenue for the Period was in-line with H1 2019 and 45.2% ahead of H1 2020 which was significantly impacted by extensive COVID-19 related temporary closures.

This pleasing performance demonstrates a strong and sustained recovery following the initial impact of COVID-19. It confirms the resilience of the Company's business model, with the ongoing Operational Improvement Programme ('OIP') detailed below providing significant scope for operational and financial improvement and the capturing of a greater share of the overall £3 billion UK market (Source: LEK Consulting, 2020, calculated at distributors' selling price and inclusive of sales direct from manufacturers).

Whilst the Company was able to operate effectively in the Period and the financial performance rebounded strongly from 2020, there continued to be many COVID-19 related considerations and issues, and the Company wishes to express its thanks for the commitment and support shown by all its stakeholders, especially its people.

Financial Performance for the Period

The following financial results represent continuing operations only, and exclude the contribution from the Swiss business Belcolor AG ('Belcolor') in the Period, and the comparator years, following its disposal in May 2021 (as detailed below and in Note 6 to the Financial Statements).

In the commentary below the Company has chosen to give the financial comparators for both H1 2019 and H1 2020, with H1 2019 being a more appropriate comparator than H1 2020 which was impacted by extensive COVID-19 related temporary closures of operations.

Total revenue for the Period was £329.9 million, being in-line with H1 2019 (£335.0 million) and 45.2% ahead of H1 2020 (£227.2 million). Performance improved through the Period, with initial soft trading in the first two months being recovered by the following stronger monthly performances.

The residential sector showed strength throughout, with the weak commercial sector curtailing overall performance to H1 2019 levels. For the Period, residential sector revenue was up 4.7% and commercial sector revenue down 12.8% against H1 2019, with the residential and commercial sectors accounting for 68.5% and 31.5% respectively of total revenue in the Period (H1 2019: 64.4% residential; 35.6% commercial). However, the commercial sector weakness continued to be recouped as the Period progressed, and in June 2021 commercial sector revenue was only 3.2% below June 2019. The residential sector was notably strong in June 2021 being up 22.5% against June 2019.

The UK and Continental Europe accounted for 87.3% and 12.7% respectively of total revenue in the Period. The total and Continental European revenue is presented on a continuing operations basis and, therefore, excludes any contribution from the Swiss business Belcolor which was disposed of in the Period for a total of £12.0 million cash (see Note 6 to the Financial Statements). While Belcolor is highly established and a market-leading distributor in Switzerland, from the Company's perspective there were limited avenues for meaningful organic or acquisitive growth. Additionally, the Swiss market varies significantly from the

Company's other geographic territories in terms of supplier base and product mix, and therefore there was limited ability to leverage group synergies.

The Continental European businesses, comprising LMS SA in France and Headlam BV and Dersimo BV in the Netherlands, fared well in the Period. Their collective revenue in the Period was up 3.8% on H1 2019 at £42.0 million (H1 2020: £34.1 million), with the residential sector being strong and the commercial sector not as weak as the UK, and accounting for 62.1% and 37.9% of revenue respectively.

The Company's gross margin rose to 32.7% for the Period (H1 2020: 32.3%; H1 2019: 32.4%), owing to the increased proportion of total revenue from the higher-margin residential sector and an inflationary environment through Q2 2021.

Underlying distribution costs and administrative expenses were in-line with H1 2019 at £90.5 million (H1 2020: £74.5 million; H1 2019: £90.5 million), with H1 2020 being below due to COVID-19 impacts for three months of the period. Cost benefits from the OIP projects and restructuring activities undertaken in the Period were able to offset wage inflation, additional network costs incurred prior to realising the benefit of the Network Consolidation project, and the accrual of full performance-related employee bonus payments due to the current outperformance in 2021.

Profit and Non-underlying items

Underlying operating profit and underlying profit before tax was £17.4 million and £16.7 million respectively in the Period, a strong reversal from the losses in H1 2020 (£1.1 million and £1.8 million losses respectively) (H1 2019: £17.9 million underlying operating profit; £16.8 million underlying profit before tax). Statutory operating profit and statutory profit before tax was £14.7 million and £14.0 million respectively (H1 2020: £23.8 million and £24.5 million losses respectively, after £22.7 million of non-underlying items. H1 2019: £16.9 million and £15.8 million profit respectively, after £1.0 million of non-underlying items).

The underlying operating margin for the Period was 5.3% and in-line with H1 2019 (5.3%), in part reflecting the ability to keep underlying distribution costs and administrative expenses flat as described above (H1 2020: (0.5)%; FY 2020: 3.0%). Restructuring activities undertaken in the Period will have a full six months contribution in the second-half.

The non-underlying items from continuing operations in the Period reflect a net charge of £2.7 million to the Income Statement (H1 2020: £22.7 million; H1 2019: £1.0 million). This comprised non-underlying costs of £3.6 million, offset by £0.9 million profit on disposal of a freehold property under the OIP's Network Consolidation project. Of the £3.6 million non-underlying costs, £2.1 million is non-cash in nature (amortisation of acquired intangibles plus impairment of goodwill arising in relation to a business in Northern Ireland affected by COVID-19), with the remaining £1.5 million cash item relating to restructuring activities, and associated reductions in headcount, some of which occurred as a further mitigation against COVID-19 and associated consequences.

Total non-underlying items reflect a net profit of £1.9 million in the Period, and are detailed in Note 3 to the Financial Statements.

Tax

The Company's consolidated effective tax rate for the Period was 26.3%, 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% primarily due to the effect of restating the opening UK deferred tax liability to reflect the change in the UK tax rate from 19% to 25%, which was substantively enacted in the Period. Without the impact of the deferred tax rate change the effective tax rate would have been 20.4%.

Dividends and Capital Allocation

In May 2021, following a recovery in trading in the preceding months after the initial impact of COVID-19, the Company resumed the payment of dividends in a nominal way having suspended payments as a consequence of the significant financial impact of COVID-19 in 2020.

As indicated at the time of the July 2021 Pre-Close Trading announcement, the Board is now expediting the resumption of a normalised level of dividend payments with a 2021 interim ordinary dividend of 5.8 pence per share being declared. This dividend, payable on 29 November 2021 to shareholders on the register as at 29 October 2021, has been calculated in-line with the targeted parameters with the Company's published Capital Allocation Priorities, namely a total annual pay-out equivalent to a 2x earnings cover ratio for the anticipated full-year statutory performance with a higher weighting to the final ordinary dividend. This quicker than initially anticipated return to a normal dividend profile reflects the trading performance in the Period, the strong balance sheet described below, and confidence in the prospects for the business.

Operational Performance in the Period and Strategy

The Company was able to adjust working practices to operate effectively throughout the Period despite lockdowns. COVID-19 did, however, present or exacerbate some industry-wide issues, including the shortage of HGV drivers and product supply issues, both of which are persisting into the second-half. Despite the supply issues, the Company was able to maintain its inventory position, which stood at £120.6 million as at 30 June 2021 (31 December 2020: £118.5 million) by working closely with its suppliers on product availability during the Period. Outside of COVID-19, the Company experienced some minor and regional Brexit-related disruption to product flow during the Period.

As a consequence of the industry supply issues, including upstream raw material shortages, supplier price increases were a particular feature in the second-quarter of the Period, with price increases across product categories ranging from 3% to 14% in the Period. However, as is typical of the industry, these price increases are passed directly into the marketplace, with them being easily absorbed as demand for floorcoverings tends to be inelastic to price increases due to the relative infrequency of purchase by the end-consumer and proliferation of product at all price points.

A key strategic objective of the Company is to continue improving its operational performance, and the comprehensive programme of projects under the OIP are designed to:

- Improve the service propositions for each customer segment
- Capture a larger share of the overall £3 billion UK market
- Increase operational efficiencies and remove complexity within the group
- Modernise process and systems, additionally improving the working environment
- Deliver significant cost savings

Significant progress was made under a number of the projects* during the Period, with the key accomplishments listed below:

- Network Consolidation - the consolidation of six businesses into the Ipswich distribution centre completed on-time in the Period, simplifying the network going forward and allowing for the sale of two freehold properties (one post Period-end)
- Sales Force Effectiveness - reorganisation of the sales team completed in the Period allowing for more effective sales generation, an increased focus on generating new revenue, as well as a reduction in costs
- Multiple Retailer / Key Account Management - dedicated team recruited to actively target multiple retailers, a customer segment where the Company is significantly underweight, with

customer wins in the Period through a limited number of SKUs and, therefore, substantial scope to develop the revenue opportunity

- Ecommerce - web-sales from the relaunched B2B websites rising to 17%** by Period-end (2019: 11%**), with the associated benefits of an improved offer to all customer segments and lower cost to serve. Development of 'first-to-market' feature-rich fully transactional app in the Period, with full launch later this month
- Trade Counters - business plan developed to grow the current approximate £80 million trade counter business to £200 million through the roll-out from 54 to 90 new and improved sites by 2025, expanding the national footprint and engaging with a broader range of customers
- Transport Integration - project implemented over 70% of national coverage by the Period-end, with completed regions hitting key performance indicators. On-track for completion in Q1 2022 and £3 million savings (net benefit) per annum from 2022
- ESG - accelerated focus and expansion of initiatives in the Period, with first Materiality Assessment and ESG Strategy Report (including Scope 3 emissions) both published. Updating report to be published in November 2021

**Full detail on each of the projects can be found within the July 2021 Capital Markets Day presentation, and accompanying webinar, available on the Company's website www.headlam.com*

***As a percentage of total sales*

The Board believes the Company continues to be on-track to achieve its stated ambition of a 7.5% UK operating margin run-rate during 2023 through successful delivery of the OIP (unless exceptional or unforeseen circumstances prevail).

Board Appointments and Governance

The Board has been expanded and enhanced during 2021, with further highly relevant skills and experience being brought on to the Board through the Non-Executive Director appointments of Simon King in May 2021 and the previously announced forthcoming appointment of Stephen Bird with effect from 13 September 2021. Both have extensive executive experience leading growth and customer-led strategies, Simon as the former CEO of Wickes, one of the UK's leading home improvement retailers, and Stephen as the current Group Chief Executive of The Vitec Group plc (LSE: VTC), the international provider of premium branded hardware products and software solutions to the growing content creation market. Their addition to the Board increases oversight of the Company's strategic and corporate objectives, including the effective implementation of the OIP and continued development and effectiveness of internal controls including risk management.

Investments

Investment, both opex and capex, in the core distribution business to optimise performance and support organic revenue growth is listed as the second priority within the Company's Capital Allocation Priorities, after maintenance of a strong balance sheet. There were no acquisitions in the Period (H1 2020: one acquisition, cash consideration of £1.1 million), with the current focus being on internal performance improvement.

Areas of current and near-term investment include i) replacing and upgrading material-handling equipment and cutting tables; ii) IT and customer-support systems; and iii) Trade Counters as referred to above and below.

Capex of £3.4 million in the Period was primarily focused on improvements to the Trade Counter network, warehouse equipment, and the refurbishment of a sales office. H1 2020 capex was higher at £10.1 million due to completion of spend on the Ipswich distribution centre which opened in July 2020.

The Company anticipates its annual maintenance capex to increase in 2021 and beyond from that in previous years as it focuses on investing in modernising and improving its estate and systems. Additional capex will also be incurred in relation to the Trade Counter roll-out, with approximately £2 million in 2021, and an anticipated total capital investment of £18 million between 2022 and 2024 as the roll-out accelerates to reach the targeted 90 sites.

Cash and Cash Flows

The Company is characterised as being highly cash generative, which was demonstrated during 2020 despite the initial impact of COVID-19.

Cash inflow from operating activities was £4.1 million in the Period (H1 2020: £23.4 million cash outflow; H1 2019: £17.4 million cash inflow). There was a modest investment in working capital in the Period following the recovery in trading against 2020, which was increased by the payment of £12.1 million of VAT deferred from 2020.

Net funds at Period-end, excluding the impact of IFRS 16 'Leases', was £53.9 million (as at 30 June 2020: £22.4 million net debt; 31 December 2020: £51.6 million net funds) and reflects the operating cash generated above combined with £14.1 million received from the disposal of Belcolor and sale of a freehold property, offset by the nominal dividend payment of £1.7 million and other payments for corporation tax, capital expenditure and lease payments.

Average net funds in the Period, excluding the impact of IFRS 16 'Leases', were £30.5 million, representing a strong reversal of the £35.3 million and £8.6 million average net debt position for H1 2020 and full-year 2020 respectively.

Post the Period-end, an additional freehold property was sold as part of the Network Consolidation project with cash proceeds of £5.8 million received in July 2021. The 2021 interim ordinary dividend declared above will result in a cash outflow of £4.9 million in November 2021.

Pensions

The accounting valuation for the UK pension scheme shows a surplus of £5.1 million. However, as the Company does not have an unconditional right for a surplus refund, the pension scheme is recorded as a deficit of £4.7 million as at June 2021 reflecting the level of UK deficit recovery plan payments that the Company committed to following the last actuarial valuation as at March 2020. The Company no longer has a liability for the Swiss pension scheme following the disposal of Belcolor in the Period.

Post Period-End and Current Trading

Trading post the Period-end in July and August 2021 has been below the same months in 2019, although not materially. These two months typically have a higher level of commercial sector activity due to summer refurbishment of educational and other establishments, and the commercial sector has continued to be subdued albeit with regional variations. A proportion of this activity will likely be recouped at a future stage owing to it being repair and maintenance, and therefore relatively essential in nature. The residential sector performance has continued to be pleasing. The Company now looks forward to its busiest trading months in the fourth-quarter, and remains positive on prospects albeit it with headwinds from the industry-wide issues and continuing backdrop and consequences of COVID-19. The Company is trading in-line with market expectations which were significantly upgraded in July 2021.

Banking Facilities and Liquidity

As above, net funds at the Period-end, excluding the impact of IFRS 16 'Leases', were £53.9 million. Total banking facilities available to the Company as at 30 June 2021 were £106.6 million, with headroom of £97.8 million (see Note 1 to the Financial Statements). The maturities of the committed credit facilities remain unchanged at 30 April 2023, with the only change being the removal of the facility related to Belcolor following its disposal.

Going Concern and Viability

Given the demonstrated strong recovery from the initial impact of COVID-19, sustained trading and financial performance for the Period despite ongoing measures against COVID-19 including lockdowns, and previously enacted and effective mitigating actions, the Directors consider that the adverse trading scenarios and conclusions contained within the 2020 Annual Report's Viability Statement remain valid for the going concern assessment for this interim report, as summarised in Note 1 to the Financial Statements. The viability modelling exercise based on similar scenarios, including a reverse stress test, has been refreshed to confirm this.

As such, and given the Company's current balance sheet strength detailed above, 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

It is the Directors opinion that the Principal Risks and Uncertainities as set out on pages 32 to 35 within the 2020 Annual Report remain valid, including in their level of risk, and remain applicable for the remaining six months of 2021. The Principal Risks are listed below (not in order of significance), with additional mitigating actions put in place during the Period.

Area of risk	**Additional mitigating actions put in place during the Period**
Market demand	Ongoing roll-out of the OIP, and key accomplishments in the Period as detailed above, along with restructuring activities undertaken during the Period to more effectively align headcount.
Competitor risk	Ongoing roll-out of the OIP, and key accomplishments in the Period as detailed above.
IT resilience and cyber security	All critical recommendations arising from an independent security assessment following a cyber security incident in 2020 now complete. Correspendance received from Information Commissioner's Office to-date states they have decided not to take any formal regulatory action following the incident (notwithstanding their right to revisit the matter if anything further comes to light). On-line employee training using a third-party platform being introduced during the Period, with further roll-out including increasing employees' ability to identify and reduce cyber security risks through monthly training. Board briefings on IT resilience and cyber security increased, with three briefings by senior management in the Period. The two Non-Executive Director appointments detailed above enlarging the

	Audit Committee which has direct oversight of IT resilience and cyber security, and adding additional knowledge and experience. The Audit Committee is comprised of only independent non-executive directors.
People	‘Leading through Change’ workshops for senior managers commenced in the Period.
Health and safety	Recommendations arising from a commissioned independent audit largely complete in the Period.
Supply chain (incorporating Brexit)	Working closely with its suppliers on product availability during the Period, and able to maintain inventory position.
Legislation and regulation	Implementation of an on-line compliance training portal, with certain modules including Anti-Bribery and Social Media Awareness rolled-out in the Period.
Environmental	First ESG Strategy Report (including Scope 3 emissions) published in May 2021, setting out the Company’s initial focuses and broader ambitions in sustainability and ESG. ESG becoming a standalone project within the OIP during the Period, with a senior steering group. Steps being taken towards ISO environmental accreditation.
Change and decision making	Increased project management and Board oversight of projects under the OIP, and its overall implementation. New Board appointments increasing oversight and adding additional expertise.

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

Steve Wilson Director	Chris Payne Director

2 September 2021

Condensed Consolidated Interim Income Statement

	Note	**Underlying 2021 £M**	**Non-underlying (Note 3) 2021 £M**	**Six months ended 30 June 2021 £M**	Underlying 2020 £M	Non-underlying (Note 3) 2020 £M	Six months ended 30 June 2020 £M	Underlying 2020 £M	Non-underlying (Note 3) 2020 £M	Year ended 31 December 2020 £M
					Re-presented*					
Continuing operations			**Unaudited**			Unaudited			Audited	
Revenue	2	**329.9**	**–**	**329.9**	227.2	–	227.2	578.1	–	578.1
Cost of sales		**(222.0)**	**–**	**(222.0)**	(153.8)	–	(153.8)	(400.0)	–	(400.0)
Gross profit		**107.9**	**–**	**107.9**	73.4	–	73.4	178.1	–	178.1
Distribution costs		**(61.8)**	**–**	**(61.8)**	(52.7)	–	(52.7)	(113.9)	–	(113.9)
Administrative expenses		**(28.7)**	**(2.7)**	**(31.4)**	(21.8)	(22.7)	(44.5)	(46.8)	(29.6)	(76.4)
Operating profit/(loss)	2	**17.4**	**(2.7)**	**14.7**	(1.1)	(22.7)	(23.8)	17.4	(29.6)	(12.2)
Finance income	4	**0.2**	**–**	**0.2**	0.6	–	0.6	0.8	–	0.8
Finance expenses	4	**(0.9)**	**–**	**(0.9)**	(1.3)	–	(1.3)	(2.8)	(0.1)	(2.9)
Net finance costs		**(0.7)**	**–**	**(0.7)**	(0.7)	–	(0.7)	(2.0)	(0.1)	(2.1)
Profit/(loss) before tax		**16.7**	**(2.7)**	**14.0**	(1.8)	(22.7)	(24.5)	15.4	(29.7)	(14.3)
Taxation	5	**(4.4)**	**0.2**	**(4.2)**	(0.5)	(0.1)	(0.6)	(3.8)	0.7	(3.1)
Profit/(loss) from continuing operations	2	**12.3**	**(2.5)**	**9.8**	(2.3)	(22.8)	(25.1)	11.6	(29.0)	(17.4)
Profit/(loss) from discontinued operation	6	**0.1**	**4.4**	**4.5**	0.5	–	0.5	0.4	(3.3)	(2.9)
Profit/loss) for the period attributable to the equity shareholders		**12.4**	**1.9**	**14.3**	(1.8)	(22.8)	(24.6)	12.0	(32.3)	(20.3)
Earnings/(loss) per share for profit from continuing operations										
Basic	7	**14.7p**		**11.6p**	(2.7)p		(29.8)p	13.7p		(20.7)p
Diluted**	7	**14.4p**		**11.4p**	(2.7)p		(29.8)p	13.7p		(20.7)p
Earnings/(loss) per share for profit from discontinued operations										
Basic	7	**0.1p**		**5.3p**	0.5p		0.5p	0.5p		(3.4)p
Diluted**	7	**0.1p**		**5.2p**	0.5p		0.5p	0.5p		(3.4)p
Ordinary dividend per share										
Interim dividend proposed for the financial period	8			**5.8p**			–			–
Dividend proposed for the financial period	8			**–**			–			2.0p

* The results for the year ended 31 December 2020 and interim results ended 30 June 2020, have been re-presented to reflect the presentation of the Belcolor business as discontinued.

** For the six months ended 30 June 2020 and year ended 31 December 2020, diluted earnings/(loss) per share are reported the same as basic earnings/(loss) per share, as a result of the earnings being negative so the impact of them is anti-dilutive.

Condensed Consolidated Interim Statement of Comprehensive Income

	Six months ended 30 June 2021 £M Unaudited	Six months ended 30 June 2020 £M Unaudited	Year ended 31 December 2020 £M Audited
Profit for the period attributable to the equity shareholders	**14.3**	(24.6)	(20.3)
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Re-measurement of defined benefit plans	**(2.6)**	(1.8)	(0.3)
Related tax	**0.6**	0.4	0.1
	(2.0)	(1.4)	(0.2)
Items that are or may be reclassified to profit or loss			
Exchange differences on translation of overseas operations	**(0.8)**	2.4	0.9
Exchange differences on translation of discontinued operation	**(4.8)**	–	–
	(5.6)	2.4	0.9
Other comprehensive (expense)/income for the period	**(7.6)**	1.0	0.7
Total comprehensive income attributable to the equity shareholders for the period	**6.7**	(23.6)	(19.6)
Total comprehensive income attributable to the equity shareholders for the period arising from:			
Continuing operations	**7.0**	(24.1)	(17.5)
Discontinued operations	**(0.3)**	0.5	(2.1)
	6.7	(23.6)	(19.6)

Condensed Consolidated Interim Statement of Financial Position

	At 30 June 2021 £M Unaudited	At 30 June 2020 £M Unaudited	At 31 December 2020 £M Audited
Assets			
Non-current assets			
Property, plant and equipment	**115.9**	120.5	122.9
Right-of-use assets	**37.4**	41.0	42.1
Intangible assets	**19.0**	27.5	21.1
Deferred tax assets	**-**	1.4	-
	172.3	190.4	186.1
Current assets			
Inventories	**120.6**	119.7	118.5
Trade and other receivables	**109.6**	89.1	101.6
Cash and cash equivalents	**62.7**	30.7	60.8
	292.9	239.5	280.9
Non-current assets classified as held for sale	**1.5**	-	0.4
	294.4	239.5	281.3
Total assets	**466.7**	429.9	467.4
Liabilities			
Current liabilities			
Bank overdrafts	**(0.1)**	(0.5)	-
Other interest-bearing loans and borrowings	**(1.9)**	(0.2)	(2.0)
Lease liabilities	**(10.7)**	(13.0)	(12.5)
Trade and other payables	**(176.9)**	(102.5)	(178.4)
Income tax payable	**(1.1)**	-	(0.2)
Employee benefits	**(1.0)**	-	-
	(191.7)	(116.2)	(193.1)
Non-current liabilities			
Other interest-bearing loans and borrowings	**(6.8)**	(52.4)	(7.2)
Lease liabilities	**(27.7)**	(29.1)	(30.8)
Provisions	**(2.1)**	(2.3)	(2.1)
Deferred tax liabilities	**(8.3)**	(8.3)	(8.7)
Employee benefits	**(4.0)**	(6.0)	(5.5)
	(48.9)	(98.1)	(54.3)
Total liabilities	**(240.6)**	(214.3)	(247.4)
Net assets	**226.1**	215.6	220.0
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	**(2.0)**	3.7	3.4
Retained earnings	**170.3**	154.1	158.8
Total equity	**226.1**	215.6	220.0

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 income	-	-	-	-	**(5.6)**	-	**(2.0)**	**(7.6)**
Total comprehensive 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
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 2020	4.3	53.5	0.0	0.5	6.8	(6.0)	186.0	245.1
Profit for the period attributable to the equity shareholders	-	-	-	-	-	-	(24.6)	(24.6)
Other comprehensive income	-	-	-	-	2.4	-	(1.4)	1.0
Total comprehensive income for the period	-	-	-	-	2.4	-	(26.0)	(23.6)
Transactions with equity shareholders, recorded directly in equity								
Share based payments	-	-	-	-	-	-	0.1	0.1
Deferred tax on share options	-	-	-	-	-	-	0.3	0.3
Dividends to equity holders	-	-	-	-	-	-	(6.3)	(6.3)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	-	(5.9)	(5.9)
Balance at 30 June 2020	4.3	53.5	0.0	0.5	9.2	(6.0)	154.1	215.6

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 2020	4.3	53.5	0.1	0.5	6.8	(6.1)	186.0	245.1
(Loss)/profit for the period attributable to the equity shareholders	-	-	-	-	-	-	(20.3)	(20.3)
Other comprehensive income/(expense)	-	-	-	-	0.9	-	(0.2)	0.7
Total comprehensive income/(expense) for the period	-	-	-	-	0.9	-	(20.5)	(19.6)
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	-	-	-	-	-	-	(0.1)	(0.1)
Share options exercised by employees	-	-	-	-	-	0.2	(0.1)	0.1
Ordinary shares issued	-	-	-	1.0	-	-	-	1.0
Deferred tax on share options	-	-	-	-	-	-	(0.2)	0.2
Dividends to equity holders	-	-	-	-	-	-	(6.3)	(6.3)
Total contributions by and distributions to equity shareholders	-	-	-	1.0	-	0.2	(6.7)	(5.5)
Balance at 31 December 2020	4.3	53.5	0.1	1.5	7.7	(5.9)	158.8	220.0

Condensed Consolidated Interim Cash Flow Statements

	Six months ended 30 June 2021 £M Unaudited	Six months ended 30 June 2020 £M Unaudited	Year ended 31 December 2020 £M Audited
Cash flows from operating activities			
Profit/(loss) before tax for the period:			
Continuing operations	**14.0**	(24.5)	(14.3)
Discontinued operations	**4.5**	0.6	(2.8)
	18.5	(23.9)	(17.1)
Adjustments for:			
Depreciation of property, plant and equipment, amortisation and impairment	**5.0**	24.7	35.8
Depreciation of right of use assets	**6.8**	8.0	16.2
Finance income	**(0.2)**	(0.6)	(0.8)
Finance expense	**0.9**	1.3	2.9
Profit on sale of property, plant and equipment	**(9.6)**	-	0.1
Share-based payments	**0.4**	0.1	(0.1)
Operating cash flows before changes in working capital and other payables	**21.8**	9.6	37.0
Change in inventories	**(11.5)**	14.5	15.3
Change in trade and other receivables	**(12.0)**	36.2	23.2
Change in trade and other payables	**9.5**	(76.7)	(4.8)
Cash generated from the operations *	**7.8**	(16.4)	70.7
Interest received	**0.3**	0.6	0.8
Interest paid	**(1.5)**	(1.3)	(2.7)
Tax paid	**(2.2)**	(6.3)	(6.3)
Additional contributions to defined benefit plan	**(0.3)**	-	-
Net cash flow from operating activities	**4.1**	(23.4)	62.5
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**14.1**	-	0.1
Acquisition of subsidiaries, net of cash acquired	**-**	(1.0)	(1.0)
Repayment of acquired borrowings on acquisition	**-**	(0.2)	(0.2)
Disposal of discontinued operation, net of cash disposed of**	**(3.4)**	-	-
Acquisition of property, plant and equipment	**(3.4)**	(10.1)	(15.0)
Net cash flow from investing activities	**7.3**	(11.3)	(16.1)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**0.1**	-	0.2
Proceeds from borrowings	**-**	50.9	50.9
Repayment of borrowings	**(0.1)**	(5.1)	(48.5)
Principal elements of lease payments	**(7.5)**	(8.5)	(15.7)
Dividends paid	**(1.7)**	(6.3)	(6.3)
Net cash flow from financing activities	**(9.2)**	31.0	(19.4)
Net increase in cash and cash equivalents	**2.2**	(3.7)	27.0
Cash and cash equivalents at 1 January	**60.8**	33.4	33.4
Effect of exchange rate fluctuations on cash held	**(0.4)**	0.5	0.4
Cash and cash equivalents at end of period	**62.6**	30.2	60.8

*Cash generated from the operations for the six months ended 30 June 2021, includes an amount of £nil, *(six months ended 30 June 2020: £8.9 million; 12 months ended 31 December 2020: £11.0 million)* cash received under governmental job retention schemes in the UK and France.

**For cash flows of discontinued operations see Note 6.

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 2021.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2020 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2020 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 2020, which were prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In the year to 31 December 2021 the annual financial statements will be prepared in accordance with IFRS as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK's exit from the European Union on 31 January 2020 and the cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. There is no impact on recognition, measurement or disclosure between the two frameworks in the period reported.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on 2 September 2021.

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 2020.

In addition, the Group has modified its taxation accounting policy so that the effect of the taxation rate change from 19% to 25% on deferred taxation is 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 decline in the first year, 15% down on 2019 levels, before a recovery; and
iii) A less likely, more severe scenario (and a reverse stress test) where the Company experiences a significant reduction in revenue in the first year, 21% down on 2019 levels.

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 2021

	Committed credit facilities £ million	Uncommitted credit facilities £ million	Total facilities £ million
Drawn funds	8.7	0.1	8.8
Undrawn funds	68.3	29.5	97.8
	77.0	29.6	106.6

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 2020.

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 listed above and set out in detail in the Annual Report and Accounts for the year ended 31 December 2020.

2 SEGMENT REPORTING

At 30 June 2021, the Group had 63 operating segments in the UK and three operating segments in Continental Europe, following the disposal of the Belcolor Swiss operating segment in May 2021. 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 2021 £M	30 June 2020 £M	31 December 2020 £M	**30 June 2021 £M**	30 June 2020 £M	31 December 2020 £M	**30 June 2021 £M**	30 June 2020 £M	31 December 2020 £M
Revenue									
External revenues	**287.9**	193.1	504.7	**42.0**	34.1	73.4	**329.9**	227.2	578.1
Reportable segment underlying operating profit	**17.1**	(0.6)	15.5	**1.8**	0.2	1.6	**18.9**	(0.4)	17.1
Reportable segment assets	**292.8**	211.3	296.5	**38.9**	60.1	47.8	**331.7**	271.4	344.3
Reportable segment liabilities	**(197.9)**	(123.9)	(200.9)	**(27.6)**	(30.4)	(31.3)	**(225.5)**	(154.3)	(232.2)

During the periods shown above there have been no inter-segment revenues for the reportable segments *(2020: £nil).*

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

	30 June 2021 £M	30 June 2020 £M	31 December 2020 £M
Profit for the period			
Total profit for reportable segments	**18.9**	(0.4)	17.1
Non-underlying items	**(2.7)**	(22.7)	(29.6)
Unallocated (expense)/income	**(1.5)**	(0.7)	0.3
Operating profit/(loss)	**14.7**	(23.8)	(12.2)
Finance income	**0.2**	0.6	0.8
Finance expense	**(0.9)**	(1.3)	(2.9)
Profit/(loss) before taxation	**14.0**	(24.5)	(14.3)
Taxation	**(4.2)**	(0.6)	(3.1)
Profit/(loss) for the period	**9.8**	(25.1)	(17.4)

	30 June 2021 £M	30 June 2020 £M	31 December 2020 £M
Assets			
Total assets for reportable segments	**331.7**	271.4	344.3
Unallocated assets:			
Properties, plant and equipment	**98.1**	105.9	105.4
Right of use assets	**0.7**	0.7	0.7
Deferred tax assets	**-**	1.4	-
Non-current assets classified as held for sale	**1.5**	-	0.4
Income tax receivable	**-**	0.3	-
Cash and cash equivalents	**34.7**	50.2	16.6
Total assets	**466.7**	429.9	467.4
Liabilities			
Total liabilities for reportable segments	**(225.5)**	(154.3)	(232.2)
Unallocated liabilities:			
Lease liabilities	**(0.7)**	(0.7)	(0.8)
Employee benefits	**(5.0)**	(6.0)	(5.5)
Other interest-bearing loans and borrowings	**-**	(45.0)	-
Income tax payable	**(1.1)**	-	(0.2)
Deferred tax liabilities	**(8.3)**	(8.3)	(8.7)
Total liabilities	**(240.6)**	(214.3)	(247.4)

	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 30 June 2021					
Capital expenditure	**2.9**	**0.1**	**3.0**	**0.4**	**3.4**
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:					
Impairment of goodwill	**1.2**	**-**	**1.2**	**-**	**1.2**
Disposal of subsidiary (including Swiss property disposal)	**-**	**(4.4)**	**(4.4)**	**-**	**(4.4)**
Other excluding finance expenses and impairments (note 3)	**2.3**	**0.1**	**2.4**	**(0.9)**	**1.5**
Other material items 30 June 2020					
Capital expenditure	1.0	0.3	1.3	6.5	7.8
Depreciation	1.1	0.6	1.7	0.9	2.6
Depreciation of right of use assets	7.0	1.0	8.0	-	8.0
Non-underlying items:					
Impairment of goodwill	21.3	-	21.3	-	21.3
Other excluding finance expenses and impairments (note 3)	1.3	0.1	1.4	-	1.4
Other material items 31 December 2020					
Capital expenditure	9.1	0.7	9.8	5.6	15.4
Depreciation	2.8	0.7	3.5	2.7	6.2
Depreciation of right of use assets	14.0	2.1	16.1	0.1	16.2
Non-underlying items:					
Impairment of goodwill	23.4	1.3	24.7	-	24.7
Other excluding finance expenses and impairments (note 3)	4.8	0.1	4.9	-	4.9

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 2021 £M	30 June 2020 £M	31 December 2020 £M	**30 June 2021 £M**	30 June 2020 £M	31 December 2020 £M	**30 June 2021 £M**	30 June 2020 £M	31 December 2020 £M
Revenue									
Residential	**200.0**	130.4	354.3	**26.1**	21.3	44.9	**226.1**	151.7	399.2
Commercial	**87.9**	62.7	150.4	**15.9**	12.8	28.5	**103.8**	75.5	178.9
	287.9	193.1	504.7	**42.0**	34.1	73.4	**329.9**	227.2	578.1

3 NON-UNDERLYING ITEMS

Non-underlying items relate to the following:

	Six months ended 30 June 2021 £M	Six months ended 30 June 2020 £M	Year ended 31 December 2020 £M
Continuing operations:			
Impairment of goodwill	**1.2**	21.3	24.7
Amortisation of acquired intangibles	**0.9**	0.8	1.6
Property disposal	**(0.9)**	-	-
Acquisitions related fees	**-**	0.6	0.7
Movements in deferred and contingent consideration	**-**	-	(0.1)
Finance costs on deferred and contingent consideration	**-**	-	0.1
Business restructuring	**1.5**	-	2.4
GMP Equalisation	**-**	-	0.3
	2.7	22.7	29.7
Taxation on non-underlying items	**(0.2)**	0.1	(0.7)
	2.5	22.8	29.0
Discontinued operation:			
Impairment of goodwill	-	-	3.3
Disposal of subsidiary (including Swiss property disposal)	**(4.4)**	-	-
	(4.4)	-	3.3
	(1.9)	22.8	32.3

During the six months ended 30 June 2021, following a review of indicators of impairment, the goodwill attributable to the Northern Irish CECO business was tested for impairment, resulting in the full write down of the remaining £1.2 million of goodwill.

4 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2021 £M	Six months ended 30 June 2020 £M	Year ended 31 December 2020 £M
Interest income:			
Bank interest	**0.1**	0.1	0.6
Other	**0.1**	0.5	0.2
Finance income	**0.2**	0.6	0.8
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(0.2)**	(0.5)	(0.7)
Interest on lease liability	**(0.7)**	(0.8)	(1.6)
Net interest on defined benefit plan obligation	**-**	-	(0.1)
Finance costs on deferred and contingent consideration	**-**	-	(0.1)
Other	**-**	-	(0.4)
Finance expenses	**(0.9)**	(1.3)	(2.9)

5 TAXATION

The Group's consolidated effective tax rate ('ETR') for the interim period is 26.3%. This is higher than the standard rate of corporation tax in the UK primarily due to the effect of restating the opening UK deferred tax liability to reflect the change in the UK tax rate from 19% to 25%, which was substantively enacted in the period. Without the impact of the deferred tax rate change the ETR is 20.4%

The UK headline corporation tax rate for the six months ended 30 June 2021 was 19% (six months ended 30 June 2020: 19% (12 months ended 2020: 19%)). The deferred tax balance in respect of UK entities has been calculated at 25% (2020: 19%).

6 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. Headlam's Continental European operations accounted for 17.2% of total revenue in 2020, with Switzerland being the smallest reflecting the small landmass and population of the country. For the year ended 31 December 2020, Belcolor reported revenue of £31.1 million and profit before tax of £1.1 million (£0.4 million after pension costs incurred under IAS19), with fairly uninterrupted operations during 2020 in contrast to the Company's UK and French operations which were subject to stringent COVID-19 related lockdown measures.

While Belcolor is highly established and industry-leading in its country, from the Company's perspective there were limited avenues for meaningful organic or acquisitive growth. Additionally, the Swiss market varies significantly from the Company's other geographic territories in terms of supplier base and product mix, and therefore there was limited ability to leverage group synergies. The disposal allows the Company to more effectively focus its activities and investments on its operations which offer greater opportunity.

On 29 April 2021, as a condition of the sale agreement, Belcolor undertook a sale and leaseback of its property for £10.1 million and paid a dividend of £11.1 million to its parent company, Headlam Group plc. Gross assets disposed of were £24.0 million. Cash consideration of £0.9 million was received, resulting in a total of £12.0 million cash being received by Headlam as a result of the disposal of Belcolor.

The subsidiary was sold on 28 April 2021 with effect from 17 May 2021 and was reported in these financial statements for the half-year ending 30 June 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

	Six months ended 30 June 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)	**-**	**8.6**	**8.6**
Profit before tax	**0.1**	**8.6**	**8.7**
Attributable tax expense	**-**	**-**	**-**
Profit after tax of discontinued operation	**0.1**	**8.6**	**8.7**
Loss on sale of subsidiary after tax	**-**	**(4.2)**	**(4.2)**
Profit from discontinued operation	**0.1**	**4.4**	**4.5**

Exchange differences on translation of discontinued operation	**4.8**
Other comprehensive income from discontinued operation	**4.8**

	Six months ended 30 June 2021 £M
Consideration received:	
Cash	**0.9**
Costs of disposal	**(0.1)**
Net disposal consideration	**0.8**
Carrying amount of net assets sold	**(9.8)**
Loss on sale before tax and reclassification of foreign currency translation reserve	**(9.0)**
Reclassification of foreign currency translation reserve	**4.8**
Tax expense on gain	**-**
Loss on sale after tax	**(4.2)**

Cash flows from discontinued operation

Net cash outflow from ordinary activities	**(5.0)**
Net cash inflow from investing activities	**11.3**
Net cash outflow from financing activities	**(11.1)**
Net decrease in cash generated by the subsidiary	**(4.8)**

Effect of disposal on the financial position of the Group

	£M
Property, plant and equipment	**(1.4)**
Right-of-use-assets	**(5.5)**
Deferred tax asset	**(0.9)**
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	**4.4**
Lease liabilities	**5.5**
Net assets and liabilities	**(9.8)**
Consideration received in cash	**0.9**
Cash and cash equivalents disposed of	**(4.3)**
Net cash outflow	**(3.4)**

The cash of £0.9 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.

7 EARNINGS PER SHARE

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

	Six months ended 30 June 2021 £M	Six months ended 30 June 2020 £M	Year ended 31 December 2020 £M
Continuing operations earnings			
Earnings for basic and diluted earnings per share	**9.8**	(25.1)	(17.4)
Earnings for underlying basic and underlying diluted earnings per share	**12.3**	(2.3)	11.6
Discontinued operations earnings			
Earnings for basic and diluted earnings per share	**4.5**	0.5	(2.9)
Earnings for underlying basic and underlying diluted earnings per share	**0.1**	0.5	0.4

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,409,416**	84,197,830	84,228,880
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**84,409,416**	84,197,830	84,228,880
Dilutive effect of share options	**1,242,836**	663,254	543,732
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**85,652,252**	84,861,084	84,772,612
Continuing operations earnings per share			
Basic	**11.6p**	(29.8)p	(20.7)p
Diluted*	**11.4p**	(29.8)p	(20.7)p
Underlying basic	**14.7p**	(2.7)p	13.7p
Underlying diluted	**14.4p**	(2.7)p	13.7p
Discontinued operations earnings per share			
Basic	**5.3p**	0.5p	(3.4)p
Diluted*	**5.2p**	0.5p	(3.4)p
Underlying basic	**0.1p**	0.5p	0.5p
Underlying diluted	**0.1p**	0.5p	0.5p

*For the six months ended 30 June 2020 and the year ended 31 December 2020, diluted earnings per share are reported the same as basic earnings per share, as a result of the earnings being negative so the impact of them is anti-dilutive.

8 DIVIDENDS

	Six months ended 30 June 2021 £M	Six months ended 30 June 2020 £M	Year ended 31 December 2020 £M
Dividend of a nominal amount of 2.00p paid 28 May 2021	**1.7**	-	-
Interim dividend for 2019 of 7.55p paid 2 January 2020	**-**	6.3	6.3
	1.7	6.3	6.3

The Board of Directors have declared for 2021, an interim ordinary dividend of 5.8 pence per share. This dividend is payable on 29 November 2021 to shareholders on the register as at 29 October 2021, and is discussed further in the Chief Executive's Statement and Financial Review above.

9 FINANCIAL INSTRUMENTS

The fair value of the Group's financial assets and liabilities as detailed below at 30 June 2021 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 2021.

	Fair value through profit or loss (FVPL) £M	**Amortised cost £M**	**Total carrying value £M**
Cash and cash equivalents	**-**	**62.7**	**62.7**
Bank overdraft	**-**	**(0.1)**	**(0.1)**
Borrowings due within one year	**-**	**(1.9)**	**(1.9)**
Borrowings due after one year	**-**	**(6.8)**	**(6.8)**
Trade payables	**-**	**(136.0)**	**(136.0)**
Non-trade payables	**-**	**(32.3)**	**(32.3)**
Leasing liability	**-**	**(38.4)**	**(38.4)**
Trade receivables	**-**	**78.4**	**78.4**
Other receivables	**-**	**13.0**	**13.0**
Provisions	**-**	**(2.1)**	**(2.1)**
Derivative liability	**(0.1)**	**-**	**(0.1)**
	(0.1)	**(63.5)**	**(63.6)**

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 2020: 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.

11 CAPITAL COMMITMENTS

As at 30 June 2021, the Group had contractual commitments relating to the purchase of property, plant and equipment of £3.1 million (*30 June 2020: £1.6 million; 31 December 2020: £3.7 million*).

12 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.

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 the sale of a freehold property post the Period-end for cash proceeds of £5.8 million, detailed in the Chief Executive's Statement and Financial Review.

-Ends-