3 September 2020

Headlam Group plc

('Headlam' or the 'Company')

Interim Results

Headlam Group plc (LSE: HEAD), Europe's leading floorcoverings distributor, today announces its interim results for the six months ended 30 June 2020 (the 'Period') and an update on current trading.

Period Overview

Financials

- Total revenue 30.6% below the comparative period in 2019 at £242.1 million (H1 2019: £348.7 million) having been significantly impacted by the COVID-19 pandemic and associated governmental guidance and restrictions:
    - 34.4% and 9.6% below in the UK and Continental Europe respectively
- Gross margin resilient and maintained at 32.5% (H1 2019: 32.5%) due to continued pricing discipline
- Underlying distribution costs and administrative expenses reduced by 16.7% (£15.9 million), supported by swift actions to temporarily close operations and manage variable costs materially lower, and net of grants claimed under governmental job retention schemes
- Underlying operating loss of £0.5 million (H1 2019: £18.1 million profit), underlying loss before tax of £1.2 million (H1 2019: £17.0 million profit), and statutory loss before tax of £23.9 million (H1 2019: £16.0 million profit)
- Revised covenant tests agreed on existing banking facilities for 30 June 2020
- Net debt of £22.4 million as at 30 June 2020 (as at 30 June 2019: £32.4 million net funds), with available banking facilities of £110.7 million and headroom of £88.3 million:
    - Average net debt of £16.6 million (H1 2019: £1.6 million)

Operational

- Trading resilient and broadly in-line with that of the prior year until 24 March 2020, when the vast majority of the UK operations closed following government guidance
- Swift action to temporarily close operations and limit headcount, followed by a demand-led and phased approach to the reopening of operations
- Strong revenue recovery in June 2020 following the reopening of all principal distribution centres by late May 2020 and reopening of retail businesses in mid-June 2020
- COVID-19 Secure fully implemented throughout the network in June 2020 to ensure a safe working environment
- Largely normalised operations by Period-end, with a resumption of nation-wide next-day delivery operations and elevated levels of product purchasing from previously limited levels to satisfy demand
- Acceleration of some projects forming part of the ongoing Operational Improvement Programme, reflecting continued focus on revenue and margin enhancement
- Mitigating actions put in place to manage the downside should there be a resurgence of COVID-19

Post Period-End

- New state-of-the-art Ipswich distribution centre completed on budget, and successfully operational in July 2020

- Network simplification, meaningful cost efficiencies, and improvements to customer service anticipated through proposed consolidation of further businesses into the Ipswich centre during 2021
- Continued acceleration of Operational Improvement Plan projects, including planning for the further roll-out of the transport integration project expected to create significant cost savings once fully implemented
- Reduced net debt position of £7.3 million as at 31 July 2020, extended revised banking facilities covenant tests agreed in August 2020 for 31 December 2020, and no recourse to additional or other financial support
- Continuing focus on cash management, with cash collections exceeding expectations
- Pleasing post Period-end trading performance given the economic backdrop, with July 2020 revenue above that of July 2019, and August 2020 which is more weighted to commercial sector activity being only marginally below the prior year

Steve Wilson, Chief Executive, said:

"Our overall performance in the first half of the year was significantly impacted by the COVID-19 pandemic. However, through the implementation of swift actions, and the subsequent demand-led and phased approach to the reopening of closed operations, we were able to prioritise the safety of people and protect the resilience of our Balance Sheet. We have returned to profitability in the second-half with a pleasing performance to-date given the economic backdrop, and the mitigating actions we have in place should there be a substantial resurgence of COVID-19 combined with the ongoing Operational Improvement Programme will enhance our sustainability and future performance."

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Notes for Editors:

Operating for 28 years, Headlam is Europe's leading floorcoverings distributor.

Headlam provides the distribution channel between suppliers and trade customers of floorcoverings. Working in partnership with suppliers across the globe manufacturing a diverse range of floorcovering products and ancillary accessories, Headlam provides an unparalleled route to market for their products across the UK and certain Continental European territories.

The utilisation of an outsourced distribution channel enables manufacturers to focus on their core activities, incur reduced costs associated with distribution, and benefit from localised sales, marketing and distribution expertise that provides a more effective and greater route to market for their products.

To maximize customer and market penetration, and reflecting the regionalised nature of the marketplace, Headlam comprises 67 individual businesses in the UK and Continental Europe (France, the Netherlands and Switzerland) each operating under their own unique trade brand and utilising individual sales teams.

Headlam's extensive customer base, operating within both the residential and commercial sectors and comprising principally independent retailers and flooring contractors, receives the broadest product offering supported by next day delivery as well as additional marketing and other support.

Headlam's offering is enabled through its unrivalled operating expertise, long-established supplier and customer relationships, and comprehensive distribution network. Following years of considerable investment, Headlam's distribution network currently comprises four national distribution hubs, 19 regional distribution centres and a supporting network of smaller warehouse premises, trade counters, showrooms and specification centres.

In 2019, Headlam worked with 190 suppliers from 19 countries and fulfilled 5.3 million customer orders.

www.headlam.com

Chief Executive's Statement and Financial Review

Financial Performance for the Period

The Company's performance was significantly impacted in the Period by the COVID-19 pandemic and associated governmental guidance and restrictions. Total revenue for the Period was 30.6% below the comparative period in 2019 at £242.1 million (H1 2019: £348.7 million), being 34.4% and 9.6% below in the UK and Continental Europe respectively.

Whilst the Company's UK and French businesses were significantly affected, the overall Continental European performance reflects that the Company's smaller operations, in Switzerland and the Netherlands, continued to trade comparatively well following the emergence of COVID-19 due to less restrictive governmental measures. In the Period, the UK accounted for 79.8% of total revenue, compared with 84.5% for the comparative period in 2019.

Gross margin was resilient during the Period and maintained at 32.5% (H1 2019: 32.5%) due to continued pricing discipline, with the residential sector accounting for a slightly larger proportion of total revenue compared with the comparative period (H1 2020: residential 65.8%, commercial 34.2%) (H1 2019: residential 63.9%, commercial 36.1%).

Underlying distribution costs and administrative expenses totalled £79.2 million in the Period, a reduction of £15.9 million from the comparative period (H1 2019: £95.1 million). This reduction was supported by the Company's swift action to temporarily close operations and manage variable costs to materially lower levels, and is net of grants totalling £9.6 million claimed under governmental job retention schemes. The reduction could have been greater but for the Company paying and continuing to pay, its furloughed UK workforce an enhanced form of the Government's Job Retention Scheme to better support them through this difficult period. A total of 93% of the Company's UK workforce were initially furloughed following the March 2020 closures, and in June 2020 an average of 35% were subject to the Scheme.

Additional costs were incurred in the Period compared with the prior year in support of the enlargement and roll-out of the Operational Improvement Programme detailed below. The Company also provided for bad and doubtful debts at a higher rate as a result of the perceived higher economic risk in the current environment, with a resulting charge of 2.5% of total revenue in the Period (H1 2019: 0.2%). Cash collections, though, exceeded expectations throughout the Period, and have continued to do so to-date in the second half of the year.

The Company recorded a small underlying operating loss of £0.5 million in the Period (H1 2019: £18.1 million profit), an underlying loss before tax of £1.2 million (H1 2019: £17.0 million profit), and a statutory loss before tax of £23.9 million (H1 2019: £16.0 million profit). The non-underlying items giving rise to this statutory loss are detailed below.

COVID-19 Response and Mitigating Actions

The below provides a timeline of the events and responses taken during the Period:

- Trading had been resilient and broadly in-line with that of the prior year until 24 March 2020, when the vast majority of the Company's UK operations were closed following the UK Government guidance issued.

- The Company took swift action to temporarily close operations and limit headcount, and manage variable costs to materially lower levels.

- Following the closures, the Company took a demand-led and phased approach to the reopening of its UK operations, adhering to all Government guidelines and prioritising the safety of its people, customers and necessary visitors to site.

- Overheads were reduced and managed to materially lower levels. Strict centralised controls were put in place to ensure operating costs were aligned with the developing revenue profile; product purchasing was limited to specific projects or orders; and non-essential operational and capital spend was deferred.

- During April and May 2020, non-essential UK retail businesses remained closed and only limited delivery services for essential products and a collection service for pre-ordered products were in operation, leading to significantly weakened revenue profiles in those two months.

- The UK revenue profile recovered strongly during June 2020 following the reopening of all the Company's principal distribution centres by late May 2020 and the reopening of retail businesses in mid-June 2020.

- COVID-19 Secure was fully implemented throughout the UK network in June 2020 to ensure a safe working environment. By the Period-end the Company was operating at largely normalised operations with a resumption of nation-wide next-day delivery operations and elevated levels of product buying to satisfy customer demand.

- Some of the projects forming part of the ongoing Operational Improvement Programme aimed at revenue and margin enhancement were accelerated during the Period reflecting the Company's continued focus on the longer-term.

The table below breaks down the revenue performance during the Period showing the initial impact of COVID-19 and subsequent revenue recovery.

		Q1 2020	April 2020	May 2020	June 2020	**H1 2020 Total**
H1 2020 revenue shortfall as a % of that reported in H1 2019	UK	5.7%	95.7%	72.2%	14.0%	**34.4%**
	Continental Europe	3.2%	33.4%	21.6%	+7.4%	**9.6%**

To help manage the downside should there be a substantial resurgence of COVID-19, the Company has in place various mitigating actions, including:

- COVID-19 Secure implemented across the network to enable continuing operations;

- Improved contingency plans to support more immediate action, prompt restarting of operations in the event of any closures, and greater response to customer demand;

- Ability to immediately recommence the customer collection service for pre-ordered products that was initiated in April 2020 alongside the limited delivery services at that time;

- New infrastructure built to support increased working-from-home;

- Enhanced e-commerce capabilities and increased digitalisation of processes;

- A continuing more centralised approach to managing and limiting overheads and operating costs; and

- Ongoing Operational Improvement Programme to support improved performance and the anticipated changes to customer ordering and interaction preferences as a result of COVID-19.

Operational Improvement Programme

During the Period, and against the backdrop of COVID-19, the Company has continued with the planning and accelerated implementation of some of the projects forming part of its Operational Improvement Programme. The Programme has been designed to make the business more customer focused and operationally efficient, and reflects the Company's continued focus on the longer-term. A number of the projects under the Programme will also support anticipated ongoing changes to customer ordering and interaction preferences as a result of the impact of COVID-19.

The current primary projects are (1) the ongoing transport integration initiative focused around more effective delivery fleet utilisation; (2) an enhanced trade counter proposition; (3) increased e-commerce capabilities; and (4) network optimisation. As part of the latter, a consolidation of businesses into the newly opened regional distribution centre in Ipswich is now proposed to be undertaken in the first half of 2021 with an associated reduction in sites and overheads, as detailed below.

As previously announced, the project relating to transport integration has been accelerated and expanded to a much larger area during the Period. The project centres around delivery routes no longer being duplicated by different businesses and enables the Company to enhance its customer service proposition, improve operating and financial performance, and reduce its environmental impact through less vehicles needed to service areas. The Company is continuing with the planning for the further roll-out of this project, and once fully rolled-out the project is expected to create significant cost savings through an anticipated reduction in vehicle numbers and associated costs.

Enhancing e-commerce capabilities has been a focus during the Period. A key activity has been the recently relaunched B2B websites with improved functionality, making it easier for customers to place and track orders, and additionally showcase product and advise on availability with their customers. Increased digitalization of processes across the business were introduced during the Period, including paperless invoicing.

Following the Ipswich centre becoming operational in July 2020, it is now proposed that this state-of-the-art 190,000 square feet facility will be used to consolidate additional businesses and parts of the Company's network during the first half of 2021. This will enable a further simplification of the network, create meaningful overhead and operating cost efficiencies, and improve service to customers throughout the South East of England.

In recent years, the Company has been examining opportunities and undertaking actions to optimise and simplify its network in order to improve efficiency and customer service. Largely as a result of the acquisition strategy pursued to help create its market leading position, the Company operates what is now considered to be a disproportionately large number of sites. Many of these sites are towards the smaller end of the spectrum, and in some geographic regions there is duplication of operations. This has created an overhead and operating cost profile in excess of that which would be incurred with a more simplified network, and a customer service proposition that could be improved by adopting a more streamlined operating structure. In addition, because of the longevity of its operations and as the Company has grown, a number of sites have become sub-optimal in terms of location, capacity and configuration.

One such site was the Company's regional distribution centre in Hadleigh, Suffolk. This site was unmodernised, and in recent years had presented considerable constraints to the businesses located there. The need to rehome the Faithfulls and Garrods businesses from this site into a new centre gave the Company the opportunity to examine the consolidation of other locations and businesses into one larger site. The Ipswich facility was designed and built to support this consolidation opportunity, and following the successful rehoming of the Faithfulls and Garrods businesses in July 2020, it is now proposed that four further businesses in the wider area will be consolidated into the centre during the first half of 2021: Culpeck and Clifford Carpets, currently located at the regional distribution centre in Rochester; and GAAS and Beds Flooring, currently operating from the regional distribution centre located in Bedford.

The phased consolidation will allow the closure and sale of two freehold sites (Hadleigh and Bedford). Additionally, Chelmsford's transport operations will be consolidated into Ipswich and an existing site in Enfield, which will allow for the potential termination of the Chelmsford lease in the second half of 2021. The Dartford site is surplus to requirements as its transport operations have already been folded into Enfield earlier this year. The Dartford lease terminates in November 2020. To support the reconfigured network, the Rochester site will become a radial transport hub and cross-docking facility. Trade counters and sales representatives will be retained in Bedford, Chelmsford and Rochester, with the counters formatted in the improved configuration under the Company's enhanced trade counter project to improve customer service by providing a greater range of product and a more efficient collection and service process, including through increased self-pick SKUs.

Following the consolidation and build-up of operations, the Ipswich site is expected to be profit enhancing in 2022 while also providing capacity for future growth. The Ipswich site will improve service to customers throughout the South East, through increased warehousing and order processing capacity, with greater depth and breadth of product, and integrated delivery operations, whereby customers are not disrupted by potentially receiving multiple deliveries per day from the Company's different businesses.

Consultation has now commenced with the groups affected by the proposed restructuring activities detailed above. The total number of proposed redundancies under the Ipswich consolidation, recent transport integration expansion and the restructuring at Domus previously announced and detailed below is 176, with a proposed overall 92 net reduction in headcount following recruitment and the filling of vacancies predominately at Ipswich and Enfield to support the reconfigured network.

Cash and Cash Management

There was an absorption of cash during the Period through an increase in working capital, although the unwinding of the trade creditor position was partly offset by the limited purchasing during the Period and utilisation of, and reduction in, the existing inventory position as detailed below. Cash and cash equivalents as at 30 June 2020 were £30.7 million (as at 30 June 2019: £60.7 million).

In-line with the focus on cash management and working capital, the Company limited product purchasing to specific projects or orders from mid / late March 2020, and prioritised utilising its existing inventory to satisfy demand. This led to a reduction in the Company's inventory position from £132.5 million as at 31 December 2019 to £119.7 million as at 30 June 2020, with the associated benefits of a reduction in duplications and slow-moving stock across the network, and improved capacity for fast-moving products.

All non-essential operational and capital spend was deferred following the emergence of COVID-19, and capital expenditure of £10.1 million in the Period was largely related to the new Ipswich centre (£8.9 million). The centre became operational in July 2020, having been delayed from its planned Easter 2020 opening due to the impact of COVID-19, and was completed on budget at a total cost of approximately £26.0 million, including land acquisition and internal fit-out costs. As at 30 June 2020, the Company had outstanding commitments relating to property, plant and equipment of only £1.6 million.

Banking Facilities and Liquidity

The Company announced in May 2020 that it had agreed revised covenant tests with its banks, Barclays Bank PLC and HSBC Bank Plc, for 30 June 2020 on the existing facilities which run to 30 April 2023. In August 2020, the Company agreed further revised covenant tests for 31 December 2020, being firstly, positive annual underlying EBITDA; and secondly, maximum net debt of £45.0 million as at 31 December 2020.

As at 30 June 2020, net debt was £22.4 million (as at 30 June 2019: £32.4 million net funds), with banking facilities available to the Company of £110.7 million and headroom of £88.3 million. The net debt position on these facilities had reduced to £7.3 million by the end of July 2020. Average net debt in the Period, excluding IFRS 16 'Leases', was £16.6 million (H1 2019: £1.6 million).

Dividends

As previously announced, given the uncertain trading environment and the potential adverse impact on future performance, and the need to prioritise cash management, the Board is not declaring an interim dividend in respect of the Period. The Board remains committed to providing dividend income to its shareholders, and resuming its progressive dividend policy, once there is a stabilised environment and a period of more normalised trading.

All non-essential operational and capital spend will continue to be limited, and operating costs more centrally controlled, in order to preserve Balance Sheet strength and expedite the resumption of dividends.

No large capital expenditure was planned or underway prior to the impact of COVID-19 with the exception of the Ipswich centre. The remaining costs to be incurred in the second half of 2020 are minimal, and the Company does not currently anticipate replicating an Ipswich build project.

Non-underlying Items and Domus Impairment of Goodwill

In-line with its Pre-close Trading Update announcement on 27 July 2020, the Company has reported a statutory loss before tax of £23.9 million for the Period (H1 2019: £16.0 million profit). This statutory loss reflects a significant level of non-underlying items during the Period with the vast quantum having arisen as a direct consequence of the impact of COVID-19.

Non-underlying items totalled £22.7 million in the Period (H1 2019: £1.0 million), with the most significant item being a £21.3 million non-cash impairment of goodwill following the assessment of the carrying value of intangible assets, and adverse impact of COVID-19 on the anticipated performance of certain business units. The balance of £1.4 million relates to amortisation of acquired intangibles and acquisitions related fees, which is aligned with the £1.0 million for these items in the first half of 2019.

£20.9 million of the goodwill impairment is in relation to Domus, and represents a full write-down of the remaining residual goodwill following its acquisition in 2017. Domus's reliance on larger scale projects with long-lead times in the London area causes its financial performance to be highly sensitive to prolonged recessionary market backdrops which result in delays and cancellations to projects, and means the recovery cycle can take longer. As a consequence of the impact of COVID-19, the Board have taken a prudent approach and written-down all of the remaining residual goodwill. As previously announced, a restructuring has commenced at Domus which is anticipated to result in a cost base more aligned to its revenue profile.

Current Trading

Trading post the Period-end has been pleasing given the economic backdrop. July 2020 revenue was above that of July 2019 having been driven by a strong residential sector performance, and August 2020, which is traditionally more weighted to commercial sector activity primarily related to refurbishment in the educational sector, being only marginally below the prior year. Additionally, as referenced above, cash collections are continuing to exceed expectations.

Given the Company's limited visibility on order book, it is difficult to predict the revenue profile and financial performance for the second half of the year. Historically, the Company's trading activity is second-half weighted with the most important trading period being the fourth quarter when redecoration in residential accommodation occurs in the run-up to the Christmas period. Notwithstanding that overall demand is typically influenced by the general economic environment, should there be a substantial resurgence of COVID-19 that further disrupts the economy this would have a negative impact on revenue and thereby profit. However, as detailed within this announcement, the Company has already undertaken mitigating actions and has others in place to help limit the downside should this happen, including the lowering of the cost base through the Operational Improvement Programme.

A Note of Thanks and Stakeholder Engagement

The Company is highly appreciative of the support and understanding its stakeholders have shown throughout the impact of COVID-19 which has enabled it to take the most considered approach to reopening its operations and focus first and foremost on the safety and wellbeing of its people.

The Board would like to recognise the resilience its people have shown in what has been a truly difficult period for everyone. As detailed in the 2019 Annual Report and Accounts, the Company has in place employee wellbeing support mechanisms. Following the impact of COVID-19, the Company has increased its communications to provide as much clarity and supportive information as possible to its people, and to emphasise the importance of wellbeing and that help and support is available when needed.

Supporting its suppliers has always been of paramount importance to the Company, so when it was necessary to limit buying during the Period, the Company was incredibly appreciative of the accommodation its suppliers showed, and is delighted to have now returned to more normalised purchasing.

The Company wishes to express its utmost thanks to customers for their understanding during the Period, which was affected by lengthened delivery times and some limited product availability due to the mitigating actions taken. In-line with its strategy, the Company had formed a Customer Engagement / Experience team just prior to the emergence of COVID-19 to help improve customer service, and this team was invaluable in responding to customer queries and providing updates as operations reopened. The Company remains committed to supporting its customers and their businesses by continuing to develop and provide a leading service proposition.

Going Concern

The Company's banking facilities, covenant tests, and £88.3 million of available headroom under these facilities as at 30 June 2020 are detailed above.

As part of the Directors' considerations of the appropriateness of adopting the going concern basis in preparing this interim report and financial statements, a range of trading scenarios have been reviewed. The assumptions modelled in the scenarios are based on the estimated potential impact of COVID-19 and associated trading restrictions, along with the Company's mitigations and responses over a period of 18 months from 30 June 2020.

The scenarios are based on differing revenue impacts from COVID-19, and different paces of anticipated recovery for the financial years 2020 and 2021. All incorporate actual financials for the first half of 2020 and grants from the UK Government's Job Retention Scheme until 31 July 2020, with no additional government or other financial support other than the VAT deferral grant which is modelled to be repaid in early 2021.

A severe plausible downside scenario, modelled on a persistent downturn across all the Company's geographies, in particular the UK, which significantly impacts revenue throughout the 18-month period to 31 December 2021, including a resurgence of COVID-19 cases in the UK leading to regionalised restrictions on trading in the fourth quarter of 2020, has been used for the assessment of going concern.

The key assumptions used in this scenario include:

- 45% revenue reduction from pre-COVID-19 internal revenue expectations in the UK for both October 2020 and November 2020 and 25% in December 2020 to simulate a second spike regional trading restriction;
- 11% revenue reduction from pre-COVID-19 internal revenue expectations for full year 2021 across the UK to reflect generally lower trading levels;
- Charge to the income statement as a provision for bad and doubtful debt of 1.0% and 0.2% of revenue in 2020 and 2021 respectively; and
- Mitigating actions, which are within the management's control, including a reduction in the cost base to better align it with market demand and revenue performance. These actions would be in addition to those detailed within this announcement.

In this severe plausible downside scenario, the Company could continue to manage the business and cash flows for a period of at least 12 months from the date of this announcement, within its existing banking facilities, within its revised agreed banking covenants for 31 December 2020, and within its normal banking covenants for 30 June 2021.

The basis of this scenario is that the UK Government is focused on actions to avert another national lock-down, instead currently implementing localised lock-downs. Additionally, the Company has implemented COVID-19 Secure across its network to enable continued safe working, and has improved contingency plans in place to support more immediate action and greater response to customer demand should there be a substantial resurgence of COVID-19 and associated lock-down measures.

The Directors' have also considered a less likely, more severe scenario where the Company experiences a reduction in UK turnover of more than 11% in 2021, in addition to a resurgence of the virus in Autumn 2020, incorporating cost mitigations that are within management's control. This scenario indicates that although the Company is able to continue to operate within its existing facilities, a covenant variation would be needed, consistent with the revised covenants provided by the Company's lenders in respect of 30 June and 31 December 2020. The Directors' have every expectation that in these circumstances such a variation would be provided.

Based on the cash flows arising from the severe plausible downside scenario, 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 Risk and Uncertainties

Risk Governance

The Period has been an exceptional one for risk management. In addition to the risk management framework detailed in the Annual Report and Accounts 2019, bi-weekly 'COVID-19 Response' meetings were introduced following the national UK lock-down to consider all areas of action being undertaken in response to COVID-19.

The Board has additionally been meeting at least fortnightly since the end of March 2020 to evaluate the performance of and risks to the business arising from COVID-19 and the wider operating environment during the Period.

Risk Assessment

COVID-19 has significantly impacted the Company's operations, marketplace and people during the period, and has resulted in one additional Principal Risk and updates to the Board's assessment of certain of the existing Principal Risks detailed within the 2019 Annual Report and Accounts.

The new Principal Risk, and those Principal Risks where the assessment has been updated owing to being materially impacted by COVID-19, are as follows:

New Principal Risk

Area of Risk	**Potential Impact**	**Mitigating Actions**	**Risk Change from 2019**

Change / Decision Making	The impact of COVID-19 required the Company to make a number of material decisions in a limited timeframe. Additionally, certain projects forming part of the Operational Improvement Programme have been accelerated to support the Company in operating more effectively in the current environment and enhance future sustainability.	Bi-weekly 'COVID-19 Response' meetings were introduced following the national UK lock-down to consider all areas of actions being undertaken in response to COVID-19. Board meetings were instigated at least fortnightly for the Board to conduct a robust assessment of actions undertaken. Increased project management and Board oversight of the accelerated projects under the Operational Improvement Plan have been put in place.	New

Updated existing Principal Risks

Area of Risk	**Additional potential impact due to COVID-19**	**Additional mitigating actions**	**Risk Change from 2019**

Market Demand	Market demand is typically influenced by economic conditions and consumer and business confidence. As COVID-19 is forecast to cause a pronounced and sustained global recession, this is likely to have a material impact on market demand for an unknown duration. It is also anticipated that there will be likely ongoing changes to customer ordering and interaction preferences as a result of COVID-19 which the Company will need to respond to.	The Company closely monitors market activity on a daily basis at both an individual business and Company level. This visibility allows the Company to take prompt action in response, including in the areas of sales activity, inventory position, and cash management. One of the Company's strategic objectives is to broaden its presence in the industry through growing in underweight product categories, customer groups and market segments which will allow it to capture an increased proportion of overall market demand. The Company has accelerated certain projects under its Operational Improvement Programme which has been designed to make the business more customer focused and operationally efficient to both increase revenue and enhance margin. Additionally, some of these projects support the likely ongoing changes to customer ordering and interaction preferences as a result of COVID-19.	Increase
IT Resilience and Cyber Security	COVID-19 highlighted some resourcing capacity restraints, and lack of flexibility of the existing IT infrastructure in areas such as telephone systems and remote working capabilities. Additionally, there was an increase in reported cyber-attacks during the initial lock-down period.	Some critical aspects of the Company's ongoing IT investment plan have been accelerated, including a replacement phone system which supports video conferencing. New infrastructure was built to support additional working-from-home, and working-from-home kits supplied to colleagues. A Managed Detection and Response ('MDR') solution was launched in early 2020 and has provided active protection against cyber-attacks.	Increase

Health and Safety	COVID-19 has introduced a considerable new risk to keeping people healthy and safe in the workplace.	COVID-19 Secure has been implemented throughout the Company's network, with strict social distancing rules, use of PPE, and hand hygiene measures being applied. The risks and control measures associated with COVID-19 / COVID-19 Secure have been incorporated into the Company's Health and Safety Policies and Procedures. All employees have completed a COVID-19 Secure induction. Colleagues are working from home where they are able to do so.	Increase

A new emerging risk was added to the Risk Register in the Period as a direct result of the impact of COVID-19 - Supply Chain - although this is currently judged as low risk after mitigation. The Company has long-standing partnerships with a diverse supplier base across the globe, and low supplier concentration. Additionally, the Company typically holds a significant inventory position at any one time which would allow it to fulfill customer demand for a relatively long duration if there were supply chain issues and delays due to new lock-down measures. These characteristics will also assist in mitigating any potential disruption and help preserve customer service in relation to Brexit, with the Company having an assembled dedicated steering committee.

It is too premature to be able to ascertain the longer-term impact of COVID-19 or a similar pandemic on the Company, including in the key risk area of Market Demand which significantly impacts overall sustainability. However, the Board has been pleased with the outcomes of the mitigating actions taken since the impact of COVID-19, the recovered revenue profile, and currently consider that the Company's Business Model and Strategy as detailed in the 2019 Annual Report and Accounts remain valid.

Condensed Consolidated Interim Income Statement

	Note	Underlying 2020 £M	Non-underlying 2020 £M	Six months ended 30 June 2020 £M	Underlying 2019 £M	Non-underlying 2019 £M	Six months ended 30 June 2019 £M	Underlying 2019 £M	Non-underlying 2019 £M	Year ended 31 December 2019 £M
			Unaudited			Unaudited			Audited	
Revenue	2	**242.1**	**–**	**242.1**	348.6	–	348.7	719.2	–	719.2
Cost of sales		**(163.4)**	**–**	**(163.4)**	(235.4)	–	(235.5)	(489.8)	–	(489.8)
Gross profit		**78.7**	**–**	**78.7**	113.2	–	113.2	229.4	–	229.4
Distribution costs		**(56.3)**	**–**	**(56.3)**	(68.4)	–	(68.4)	(135.7)	–	(135.7)
Administrative expenses	3	**(22.9)**	**(22.7)**	**(45.6)**	(26.7)	(1.0)	(27,7)	(51.5)	(3.9)	(55.4)
Operating (loss)/profit	2	**(0.5)**	**(22.7)**	**(23.2)**	18.1	(1.0)	17.1	42.2	(3.9)	38.3
Finance income	4	**0.6**	**–**	**0.6**	0.4	–	0.4	0.8	–	0.8
Finance expenses	4	**(1.3)**	**–**	**(1.3)**	(1.5)	–	(1.5)	(3.5)	(0.4)	(3.9)
Net finance costs		**(0.7)**	**–**	**(0.7)**	(1.1)	–	(1.1)	(2.7)	(0.4)	(3.1)
(Loss)/profit before tax		**(1.2)**	**(22.7)**	**(23.9)**	17.0	(1.0)	16.0	39.5	(4.3)	35.2
Taxation	5	**(0.6)**	**(0.1)**	**(0.7)**	(3.0)	0.1	(2.9)	(6.9)	0.3	(6.6)
(Loss)/profit for the period attributable to the equity shareholders	2	**(1.8)**	**(22.8)**	**(24.6)**	14.0	(0.9)	13.1	32.6	(4.0)	28.6
Earnings per share										
Basic	6	**(2.2p)**		**(29.3p)**	16.7p		15.7p	38.8p		34.0p
Diluted	6	**(2.2p)**		**(29.3p)**	16.6p		15.6p	38.6p		33.8p
Ordinary dividend per share										
Interim dividend proposed for the financial period	7			**–**			7.55p			7.55p
Final dividend proposed for the financial period	7			**–**			–			17.45p

All group operations during the financial periods were continuing operations.

Condensed Consolidated Interim Statement of Comprehensive Income

	Six months ended 30 June 2020 £M Unaudited	Six months ended 30 June 2019 £M Unaudited	Year ended 31 December 2019 £M Audited
Profit for the period attributable to the equity shareholders	**(24.6)**	13.1	28.6
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Re-measurement of defined benefit plans	**(1.8)**	(1.0)	0.9
Related tax	**0.4**	0.2	(0.2)
	(1.4)	(0.8)	0.7
Items that are or may be reclassified to profit or loss			
Foreign exchange translation differences arising on translation of overseas operations	**2.4**	0.4	(0.5)
	2.4	0.4	(0.5)
Other comprehensive income/(expense) for the period	**1.0**	(0.4)	0.2
Total comprehensive income attributable to the equity shareholders for the period	**(23.6)**	12.7	28.8

Condensed Consolidated Interim Statement of Financial Position

	Note	At 30 June 2020 £M Unaudited	At 30 June 2019 £M Unaudited	At 31 December 2019 £M Audited
Assets				
Non-current assets				
Property, plant and equipment		**120.5**	107.4	114.5
Right-of-use assets		**41.0**	46.1	43.9
Intangible assets	8	**27.5**	50.2	48.5
Deferred tax assets		**1.4**	0.6	0.7
		190.4	204.3	207.6
Current assets				
Inventories		**119.7**	142.5	132.5
Trade and other receivables		**89.1**	125.9	123.7
Cash and cash equivalents		**30.7**	60.7	33.4
		239.5	329.1	289.6
Total assets		**429.9**	533.4	497.2
Liabilities				
Current liabilities				
Bank overdrafts		**(0.5)**	(1.4)	-
Other interest-bearing loans and borrowings		**(0.2)**	(0.2)	(0.2)
Lease liabilities		**(13.0)**	(14.0)	(13.9)
Trade and other payables		**(102.5)**	(192.1)	(181.9)
Dividends payable		-	(14.6)	-
Income tax payable		-	(4.5)	(5.0)
		(116.2)	(226.8)	(201.0)
Non-current liabilities				
Other interest-bearing loans and borrowings		**(52.4)**	(26.7)	(6.2)
Lease liabilities		**(29.1)**	(32.7)	(30.7)
Trade and other payables		-	(2.6)	-
Provisions		**(2.3)**	(2.2)	(2.3)
Deferred tax liabilities		**(8.3)**	(8.0)	(7.6)
Employee benefits		**(6.0)**	(6.9)	(4.3)
		(98.1)	(79.1)	(51.1)
Total liabilities		**(214.3)**	(305.9)	(252.1)
Net assets		**215.6**	227.5	245.1
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		**3.7**	0.9	1.3
Retained earnings		**154.1**	168.8	186.0
Total equity		**215.6**	227.5	245.1

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 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
Unaudited

	Share capital £M	Share premium £M	Capital redemption reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2019	4.3	53.5	0.0	7.4	(7.3)	177.2	235.1
Change in accounting policy	-	-	-	-	-	(0.2)	(0.2)
Restated total equity at 1 January 2019	4.3	53.5	0.0	7.4	(7.3)	177.0	234.9
Profit for the period attributable to the equity shareholders	-	-	-	-	-	13.1	13.1
Other comprehensive income	-	-	-	0.5	-	(0.8)	(0.3)
Total comprehensive income for the period	-	-	-	0.5	-	12.3	12.8
Transactions with equity shareholders, recorded directly in equity							
Share-based payments	-	-	-	-	-	0.8	0.8
Share options exercised by employees	-	-	-	-	0.3	(0.3)	-
Deferred tax on share options	-	-	-	-	-	(0.1)	(0.1)
Dividends to equity holders	-	-	-	-	-	(20.9)	(20.9)
Total contributions by and distributions to equity shareholders	-	-	-	-	0.3	(20.5)	(20.2)
Balance at 30 June 2019	4.3	53.5	0.0	7.9	(7.0)	168.8	227.5

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 2019	4.3	53.5	0.0	-	7.4	(7.3)	177.2	235.1
Change in accounting policy	-	-	-	-	-	-	(0.2)	(0.2)
Restated total equity at 1 January 2019	4.3	53.5	0.0	-	7.4	(7.3)	177.0	234.9
Profit for the period attributable to the equity shareholders	-	-	-	-	-	-	28.6	28.6
Other comprehensive income	-	-	-	-	(0.6)	-	0.8	0.2
Total comprehensive income for the period	-	-	-	-	(0.6)	-	29.4	28.8
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	-	-	-	-	-	-	0.8	0.8
Share options exercised by employees	-	-	-	-	-	1.3	(0.5)	0.8
Ordinary shares issued	-	-	-	0.5	-	-	-	0.5
Deferred tax on share options	-	-	-	-	-	-	0.2	0.2
Dividends to equity holders	-	-	-	-	-	-	(20.9)	(20.9)
Total contributions by and distributions to equity shareholders	-	-	-	0.5	-	1.3	(20.4)	(18.6)
Balance at 31 December 2019	4.3	53.5	0.0	0.5	6.8	(6.0)	186.0	245.1

Condensed Consolidated Interim Cash Flow Statements

	Six months ended 30 June 2020 £M Unaudited	Six months ended 30 June 2019 £M Unaudited	Year ended 31 December 2019 £M Audited
Cash flows from operating activities			
(Loss)/profit before tax for the period	**(23.9)**	16.0	35.2
Adjustments for:			
Depreciation of property, plant and equipment, amortisation and impairment	**24.7**	3.4	8.9
Depreciation of right of use assets	**8.0**	7.6	15.3
Finance income	**(0.6)**	(0.4)	(0.8)
Finance expense	**1.3**	1.5	3.9
Profit on sale of property, plant and equipment	**-**	-	(0.1)
Share-based payments	**0.1**	0.8	0.8
Operating cash flows before changes in working capital and other payables	**9.6**	28.9	63.2
Change in inventories	**14.5**	(9.7)	(0.6)
Change in trade and other receivables	**36.2**	(6.9)	(4.7)
Change in trade and other payables	**(76.7)**	11.8	(1.9)
Cash generated from the operations *	**(16.4)**	24.1	56.0
Interest paid	**(1.3)**	(1.5)	(3.4)
Tax paid	**(6.3)**	(5.3)	(8.3)
Net cash flow from operating activities	**(24.0)**	17.3	44.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**-**	0.1	0.1
Interest received	**0.6**	0.4	0.9
Acquisition of subsidiaries, net of cash acquired	**(1.0)**	-	(4.5)
Repayment of acquired borrowings on acquisition	**(0.2)**	-	-
Acquisition of property, plant and equipment	**(10.1)**	(7.8)	(15.8)
Net cash flow from investing activities	**(10.7)**	(7.3)	(19.3)
Cash flows from financing activities			
Proceeds from the issue of treasury shares	**-**	-	0.8
Drawdown of borrowings	**50.9**	45.0	45.0
Repayment of borrowings	**(5.1)**	(25.1)	(45.2)
Principal elements of lease payments	**(8.5)**	(8.0)	(14.9)
Dividends paid	**(6.3)**	(6.3)	(20.9)
Net cash flow from financing activities	**31.0**	5.6	(35.2)
Net increase in cash and cash equivalents	**(3.7)**	15.6	(10.2)
Cash and cash equivalents at 1 January	**33.4**	43.8	43.8
Effect of exchange rate fluctuations on cash held	**0.5**	(0.1)	(0.2)
Cash and cash equivalents at end of period	**30.2**	59.3	33.4

*Cash generated from the operations for the six months ended 30 June 2020, includes an amount of £8.9 million cash received under governmental job retention schemes in the UK and France. These are discussed in more detail under Government Grants below.

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 2020.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2019 are available upon request from the company’s registered office or the website.

The comparative figures for the financial year ended 31 December 2019 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 of the Financial Conduct Authority and International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2019.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on 3 September 2020.

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 2019. In addition to these, the Group has also applied a newly adopted accounting policy following the receipt of government grants during the six month period ended 30 June 2020 in the form of furlough income.

Government Grants
The Group recognises government grants in accordance with IAS 20. These grants are received by the Group in the UK in the form of furlough payments made by the Government under the Coronavirus Job Retention Scheme (‘JRS’). The grants received by the Group are recognised in the income statement on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. The grants are applied against the cost incurred and are therefore shown net within the income statement. Furlough income included under this JRS and included within the income statement at 30 June 2020 amounted to £9.1 million. An additional amount of £0.5 million was received by the Group’s French subsidiary under a similar scheme by the French government.

When a grant constitutes a compensation for expenses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs, it is recognised in the income statement in the period in which it becomes receivable, therefore an income accrual of £0.7 million was provided at 30 June 2020 and applied against the cost incurred for employees furloughed up to 30 June 2020.

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 a range of trading scenarios as detailed in the Chief Executive's Statement and Financial Review. 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 2020

	Committed credit facilities £ million	Uncommitted credit facilities £ million	Total facilities £ million
Drawn funds	52.6	0.5	53.1
Undrawn funds	24.4	33.2	57.6
	77.0	33.7	110.7

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 2019.

Risks and uncertainties

The risk factors which could cause the Group's results to differ materially from expected results, and the result of the Board's review of those risks, are set out in the Annual Report and Accounts for the year ended 31 December 2019. In addition, during the Period and following the impact of COVID, one additional Principal Risk and updates to the Board's assessment of certain of the existing Principal Risks detailed within the Annual Report and Accounts 2019 has been made. These are discussed fully within Principal Risks and Uncertainties in the Chief Executive's Statement and Financial Review above.

2 SEGMENT REPORTING

At 30 June 2020, the Group had 63 operating segments in the UK and four 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 senior executive management team and forms the basis for the presentation of operating segment information given below.

	UK			**Continental Europe**			**Total**		
	30 June 2020 £M	30 June 2019 £M	31 December 2019 £M	**30 June 2020 £M**	30 June 2019 £M	31 December 2019 £M	**30 June 2020 £M**	30 June 2019 £M	31 December 2019 £M
Revenue									
External revenues	**193.1**	294.5	610.2	**49.0**	54.2	109.0	**242.1**	348.7	719.2
Reportable segment operating profit	**(0.6)**	19.3	41.3	**0.8**	1.0	3.5	0.2	20.3	44.8
Reportable segment assets	**211.3**	355.1	329.0	**60.1**	62.3	47.2	**271.4**	417.4	376.2
Reportable segment liabilities	**(123.9)**	(217.0)	(205.5)	**(30.4)**	(34.3)	(29.1)	**(154.3)**	(251.3)	(234.6)

During the periods shown above there have been no inter-segment revenues for the reportable segments *(2019: £nil).*

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

	30 June 2020 £M	30 June 2019 £M	31 December 2019 £M
Profit for the period			
Total profit for reportable segments	**0.2**	20.3	44.8
Non-underlying items	**(22.7)**	(1.0)	(3.9)
Unallocated expense	**(0.7)**	(2.2)	(2.6)
Operating (loss)/profit	**(23.2)**	17.1	38.3
Finance income	**0.6**	0.4	0.8
Finance expense	**(1.3)**	(1.5)	(3.9)
(Loss)/profit before taxation	**(23.9)**	16.0	35.2
Taxation	**(0.7)**	(2.9)	(6.6)
(Loss)/profit for the period	**(24.6)**	13.1	28.6

	30 June 2020 £M	30 June 2019 £M	31 December 2019 £M
Assets			
Total assets for reportable segments	**271.4**	417.4	376.2
Unallocated assets:			
Properties, plant and equipment	**105.9**	89.3	102.1
Right of use assets	**0.6**	0.7	0.7
Deferred tax assets	**1.4**	0.6	0.7
Income tax receivable	**0.3**	-	-
Cash and cash equivalents	**50.2**	25.4	17.5
Total assets	**429.8**	533.4	497.2
Liabilities			
Total liabilities for reportable segments	**(154.3)**	(251.3)	(234.6)
Unallocated liabilities:			
Lease liabilities	**(0.7)**	(0.6)	(0.6)
Employee benefits	**(6.0)**	(6.9)	(4.3)
Other interest-bearing loans and borrowings	**(45.0)**	(20.0)	-
Income tax payable	-	(4.5)	(5.0)
Proposed dividend	-	(14.6)	-
Deferred tax liabilities	**(8.3)**	(8.0)	(7.6)
Total liabilities	**(214.3)**	(305.9)	(252.1)

	UK £M	**Continental Europe £M**	**Reportable segment total £M**	**Unallocated £M**	**Consolidated total £M**
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	**22.5**	**0.1**	**22.6**	-	**22.6**
Other material items 30 June 2019					
Capital expenditure	0.7	0.3	1.0	6.7	7.8
Depreciation	1.0	0.6	1.5	1.2	2.7
Depreciation of right of use assets	6.6	1.0	7.6	0.1	7.6
Non-underlying items	1.0	-	1.0	-	1.0
Other material items 31 December 2019					
Capital expenditure	2.0	0.8	2.8	15.5	18.3
Depreciation	2.2	0.7	2.9	2.5	5.4
Depreciation of right of use assets	13.2	2.0	15.2	0.1	15.3
Non-underlying items	1.7	0.1	1.8	2.1	3.9

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 2020 £M	30 June 2019 £M	31 December 2019 £M	**30 June 2020 £M**	30 June 2019 £M	31 December 2019 £M	**30 June 2020 £M**	30 June 2019 £M	31 December 2019 £M
Revenue									
Residential	**130.4**	192.1	397.0	**28.9**	30.8	61.0	**159.3**	222.9	458.0
Commercial	**62.7**	102.4	213.2	**20.1**	23.4	48.0	**82.8**	125.8	261.2
	193.1	294.5	610.2	**49.0**	54.2	109.0	**242.1**	348.7	719.2

3 NON-UNDERLYING ITEMS

Non-underlying items of £22.7 million relate to the following:

	Six months ended 30 June 2020 £M	Six months ended 30 June 2019 £M	Year ended 31 December 2019 £M
Impairment of goodwill	**21.3**	-	2.1
Amortisation of acquired intangibles	**0.8**	0.7	1.4
Acquisitions related fees	**0.6**	0.3	0.7
Movements in deferred and contingent consideration	**-**	-	(0.3)
Finance costs on deferred and contingent consideration	**-**	-	0.4
	22.7	1.0	4.3

The related tax on these costs is £0.1 million.

4 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2020 £M	Six months ended 30 June 2019 £M	Year ended 31 December 2019 £M
Interest income:			
Bank interest	**0.1**	0.3	0.8
Other	**0.5**	0.1	-
Finance income	**0.6**	0.4	0.8
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(0.5)**	(0.7)	(1.4)
Interest on lease liability	**(0.8)**	(0.8)	(1.7)
Net interest on defined benefit plan obligation	-	-	(0.1)
Finance costs on deferred and contingent consideration	-	-	(0.4)
Other	-	-	(0.3)
Finance expenses	**(1.3)**	(1.5)	(3.9)

5 TAXATION

The Group's consolidated effective tax rate ('ETR') for the interim period is negative (40.3%) as there is a tax charge despite an accounting loss. The primary reason for this is due to the effect of restating the opening UK deferred tax liability to reflect the change in the UK tax rate from 17% to 19%, which was substantively enacted in the period. Without the impact of the deferred tax rate change the ETR is c.(1.9%). This is primarily due to permanent adjusting items resulting in a tax charge on the accounting loss and these permanent items having a greater percentage impact compared to earlier years. (The Group's consolidated effective tax rate *for the six months ended 30 June 2019: 17.5%; for the year ended 31 December 2019: 17.4%*).

The UK headline corporation tax rate for the six months ended 30 June 2020 was 19% (for the six months ended 30 June 2019: was 19% (2019: 19%)). The deferred tax balance in respect of UK entities has been calculated at 19% (2019: 17%).

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 2020 £M	Six months ended 30 June 2019 £M	Year ended 31 December 2019 £M
Earnings			
Earnings for underlying basic and underlying diluted earnings per share	**(1.8)**	14.0	32.6
Earnings for basic and diluted earnings per share	**(24.6)**	13.1	28.6

	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**84,197,830**	83,877,536	83,971,792
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**84,197,830**	83,877,536	83,971,792
Dilutive effect of share options	**663,254**	389,138	536,952
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,861,084**	84,266,674	84,508,744
Earnings per share			
Basic	**(29.3)p**	15.7p	34.0p
Diluted*	**(29.3)p**	15.6p	33.8p
Underlying basic	**(2.2)p**	16.7p	38.8p
Underlying diluted	**(2.2)p**	16.6p	38.6p

*For the six months ended 30 June 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.

7 DIVIDENDS

	Six months ended 30 June 2020 £M	Six months ended 30 June 2019 £M	Year ended 31 December 2019 £M
Interim dividend for 2019 of 7.55p paid 2 January 2020	**6.3**	-	-
Interim dividend for 2018 of 7.55p paid 2 January 2019	**-**	6.3	6.3
Final dividend for 2018 of 17.45p paid 1 July 2019	**-**	14.6	14.6
	6.3	20.9	20.9

The final proposed dividend for 2019 of 17.45p per share was cancelled by the Board of Directors prior to being authorised by shareholders at the Annual General Meeting on 22 May 2020 due to the uncertainty surrounding COVID-19 and its effect on the trading results of the business. The final proposed dividend for 2018 of 17.45p per share was authorised by shareholders at the Annual General Meeting on 24 May 2019 and paid on 1 July 2019.

The Board of Directors have not declared an interim dividend for 2020 and this is discussed further in the Chief Executive's Statement and Financial Review above.

8 Intangible assets

	Goodwill £M	Order book £M	Customer relationships £M	Brand names £M	Supply agreements £M	Total £M
Cost						
Balance at 1 January 2019	41.4	6.5	6.8	6.9	–	61.6
Addition	0.3	–	0.2	0.5	0.1	1.1
Balance at 31 December 2019	41.7	6.5	7.0	7.4	0.1	62.7
Balance at 1 January 2020	**41.7**	**6.5**	**7.0**	**7.4**	**0.1**	**62.7**
Addition *(note 9)*	**0.4**	**–**	**0.4**	**0.3**	**–**	**1.1**
Balance at 30 June 2020	**42.1**	**6.5**	**7.4**	**7.7**	**0.1**	**63.8**
Impairment and Amortisation						
Balance at 1 January 2019	3.2	6.3	0.7	0.5	–	10.7
Impairment/amortisation charge for the year	2.1	0.1	0.7	0.6	–	3.5
Balance at 31 December 2019	5.3	6.4	1.4	1.1	–	14.2
Balance at 1 January 2020	**5.3**	**6.4**	**1.4**	**1.1**	**–**	**14.2**
Impairment/amortisation charge for the year	**21.3**	**0.1**	**0.4**	**0.3**	**–**	**22.1**
Balance at 30 June 2020	**26.6**	**6.5**	**1.8**	**1.4**	**–**	**36.3**
Net book value						
At 31 December 2019 and 1 January 2020	36.4	**–**	5.6	6.4	0.1	48.5
At 30 June 2020	**15.5**	**–**	**5.6**	**6.3**	**0.1**	**27.5**

Cumulative impairment losses recognised in relation to goodwill is £26.6 million (2019: £5.3 million).

Impairment tests for cash-generating units containing goodwill ('CGU')

Goodwill is attributed to the businesses identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent operating segments.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported segment	**30 June 2020 £M**	30 June 2019 £M	31 December 2019 £M
Joseph, Hamilton & Seaton	**UK**	**4.4**	4.4	4.4
Crucial Trading	**UK**	**1.4**	1.4	1.4
Belcolor AG	**Continental Europe**	**3.3**	3.3	3.3
Domus Group of Companies Limited	**UK**	**–**	20.9	20.9
Mitchell Carpets Limited	**UK**	**0.3**	0.3	0.3
McMillan Flooring	**UK**	**0.1**	0.1	0.1
CECO (Flooring) Limited	**UK**	**2.2**	2.2	2.2
Dersimo BV	**Continental Europe**	**1.3**	1.3	1.3
Ashmount Flooring Supplies Limited	**UK**	**0.4**	0.4	0.4
Rackhams Limited	**UK**	**0.4**	0.4	0.4
Telenzo	**UK**	**0.3**	0.3	0.3
Other	**UK**	**1.4**	1.4	1.4
		15.5	36.4	36.4

Impairment

Each year, or whenever events or a change in the economic environment or performance indicates a risk of impairment, the Group reviews the value of goodwill balances allocated to its cash-generating units.

An impairment test is a comparison of the carrying value of the assets of a business or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. Where the recoverable amount is less than the carrying value, an impairment results. During the period ended 30 June 2020, all goodwill was tested for impairment, this resulted in an impairment charge on goodwill attributable to the Domus Group of Companies Limited CGU ("Domus") of £20.9 million (31 December 2019: impairment charge on goodwill attributable to Domus of £2.1 million) and Supertex of £0.4 million.

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU on a basis consistent with 2019, and applying the following key assumptions.

Key assumptions

Cash flows were projected based on actual operating results, the approved 2020 business plan and management's assessment of planned performance in the period to 2025. For the purpose of impairment testing the cash flows were assumed to grow into perpetuity at a rate of 2.0% beyond 2025.

The main assumptions within the operating cash flows used for 2020 include the achievement of future sales volumes and prices for all key product lines, control of purchase prices, achievement of budgeted operating costs and no significant adverse foreign exchange rate movements. These assumptions have been reviewed in light of the current economic environment.

The Directors have estimated the discount rate by reference to an industry average weighted average cost of capital. This has been adjusted to include an appropriate risk factor to reflect the risk profile of the CGUs. A post-tax weighted average cost of capital of 9.4% (31 December 2019: 8.5%) has been used for impairment testing adjusted to 10.4% (31 December 2019: 9.5%) for Continental Europe to reflect the differing risk profile of that segment. The post-tax discount rate has been applied to the post-tax cash flows, the equivalent pre-tax discount rates for the UK and Continental Europe are 11.6% (31 December 2019: 10.5%) and 12.6% (31 December 2019: 11.5%).

The CGUs in the UK, excluding Domus have similar characteristics and risk profiles, and therefore a single discount rate has been applied to each UK CGU. Similarly, the Directors view the CGUs in Continental Europe as having consistent risk profiles and therefore a single risk factor has been applied. The CGUs in Continental Europe operate under a different regulatory environment and this is therefore reflected in the risk factor used to determine the discount rates in the UK and Continental Europe. Domus has different characteristics to the rest of the CGUs in the UK and therefore a post-tax discount rate of 10.3% (31 December 2019: 9.4%) has been deemed more appropriate, the equivalent pre-tax rate being 12.5% (31 December 2019: 11.4%).

Sensitivity analysis
The Group has applied sensitivities to assess whether any reasonable possible changes in these key assumptions could cause an impairment that would be material to these Consolidated Financial Statements. With the exception of the goodwill attributed to the Domus Group of Companies Limited CGU and the Supertex Limited CGU which was impaired by £20.9 million and £0.4 million respectively, during the period, sensitivity analysis has been carried out and did not identify any risk of material impairment.

Domus
The Directors performed sensitivity analysis on the estimated recoverable amounts focusing on a reasonably possible change in the key assumptions of:

i) sales growth in the cash flow forecasts and
ii) the post tax discount rate used to convert the cash flow forecasts to present values.

The Directors do not consider that changes in these assumptions will have a material effect on other key assumptions made. The values assigned to the sales growth assumptions in 2022 through to 2025 are 8%, 7%, 6% and 5% respectively. If the sales growth were to be reduced by 1% across each of the forecasting periods, the value in use would be reduced by £2.0 million. The value assigned to the discount rate is 10.3%. If the discount rate were to be increased by 1%, the value in use would be reduced by £2.0 million.

9 ACQUISITIONS
On 1 March 2020, a subsidiary company of Headlam Group plc entered into an agreement to acquire Supertex Furnishing Limited ('Supertex'). Supertex operates from a warehouse and offices in Leyland, Lancashire, supplying domestic flooring (carpet, vinyl and accessories) to the retail flooring trade.

Supertex distributes cut-length orders from stock throughout the North West on a next day delivery service.

The acquisition enlarges Headlam's residential sector activities in the North West, a competitive region of the UK. Supertex will continue to be operated under its own brand and operate from the Group's existing premises in Stockport creating operating efficiencies, with a trade counter remaining in Leyland to service the local area.

The acquired business contributed revenues of £0.4 million and an operating loss of £0.3 million to the Group for the six months ended 30 June 2020.

Details of the acquisitions are provisional and are shown in aggregate below:

	Acquiree's book value £M	Fair value adjustments £M	Acquisition amounts £M
Acquiree's provisional net assets at the acquisition date:			
Intangible assets	**-**	**0.7**	**0.7**
Tangible fixed assets	**0.2**	**-**	**0.2**
Inventories	**0.4**	**-**	**0.4**
Trade and other receivables	**0.4**	**-**	**0.4**
Trade and other payables	**(0.6)**	**-**	**(0.6)**
Deferred tax	**(0.1)**	**(0.1)**	**(0.2)**
Debt	**(0.2)**	**-**	**(0.2)**
Net identifiable assets and liabilities	**0.1**	**0.6**	**0.7**
Goodwill on acquisition		**0.4**	**0.4**
Consideration			**1.1**
Satisfied by:			
Cash			**1.0**
Deferred consideration			**0.1**
			1.1
Analysis of cash flows:			
On completion			**1.0**

Professional fees of £0.1 million were incurred in relation to acquisition activity and have been expensed to the income statement within administration expenses.

The book value of receivables given in the table above represents the gross contracted amounts receivable. At the acquisition date, the entire book value of receivables was expected to be collected.

Goodwill of £0.4 million arose on the Supertex acquisition, there were also intangible assets on acquisition of £0.7 million which were attributed to brand names, order book and customer relationships. During the six month period £0.1 million of intangibles have been amortised to the income statement on these acquisitions.

The residual goodwill reflected the significant benefit the acquisition would have on the Group by bringing further geographic coverage and providing an additional avenue for growth. Due to the emergence of the COVID-19 pandemic since the acquisition date, these benefits have been significantly impaired and following a review and sensitivity analysis the goodwill was impaired by the full amount of £0.4 million.

10 FINANCIAL INSTRUMENTS

The fair value of the Group's financial assets and liabilities as detailed below at 30 June 2020 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 2020.

	Fair value through profit Or loss (FVPL) £M	Amortised cost £M	Total carrying value £M
Cash and cash equivalents	-	30.7	30.7
Bank overdraft	-	(0.5)	(0.5)
Borrowings due within one year	-	(0.2)	(0.2)
Borrowings due after one year	-	(52.4)	(52.4)
Trade payables	-	(55.9)	(55.9)
Non-trade payables	-	(24.8)	(24.8)
Leasing liability	-	(42.1)	(42.1)
Trade receivables	-	61.2	61.2
Other receivables	-	9.4	9.4
Provisions	-	(2.3)	(2.3)
Derivative assets	0.1	-	0.1
	0.1	**(76.9)**	**(76.8)**

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 2019: 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 2020, the Group had contractual commitments relating to the purchase of property, plant and equipment of £1.6 million (*30 June 2019: £22. 6 million, 31 December 2019: £10.2 million*). These are primarily the remaining costs for the Ipswich regional distribution centre building project.

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. The impact of COVID-19 following the period-end, and mitigating actions in place, are fully detailed in the Chief Executive's Statement and Financial Review.

-Ends-