headlam group plc

Europe's leading floorcovering distributor

Interim Financial Results 2006

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Financial Highlights

	2006 £'000	2005 £'000	Change
Sales	245,672	232,336	+5.7%
Profit from operations	19,743	18,501	+6.7%
Profit before tax	19,543	18,205	+7.4%
Basic earnings per share	15.6p	14.7p	+6.1%
Proposed dividend per share	4.85p	4.40p	+10.2%

Key Points

- Sales from UK operations increased by 3.6% on a like for like basis
- Profit before tax increased by 7.4%
- Cash generated from operations up 10.4% to £11.7 million
- Net capital investment during the period amounted to £5.8 million
- Interim dividend increased by 10.2% from 4.40p to 4.85p

Chairman's Statement

During the first six months of 2006, sales from UK operations have shown an increase of 3.6% on a like for like basis.

Group sales for the first six months increased by 5.7% from £232.3 million to £245.7 million, the improvement principally attributable to organic growth. Profit before tax increased by 7.4% from £18.2 million to £19.5 million.

Earnings and dividend
Basic earnings per share increased by 6.1% from 14.7p to 15.6p. The board have declared an interim dividend of 4.85p per share, an increase of 10.2% on last year's interim dividend of 4.40p per share. The dividend will be paid on 2 January 2007 to shareholders on the register at 1 December 2006.

Operations
The operational structure and strategy in the UK enables 46 businesses to operate from 22 distribution centres. Whilst enjoying their sales and marketing autonomy, these businesses comply with consistent operating procedures and strict financial reporting disciplines.

These businesses are defined into four sectors.

Regional multi-product: the 25 regional businesses, that market and distribute a comprehensive product range of residential and commercial floorcovering, increased sales by 4.3%.

National multi-product: Mercado, with its six business identities also selling an extensive range of residential and commercial floorcoverings, increased its sales by 7.3%.

Residential specialist: our 12 specialist businesses, selling principally medium to high quality carpet products, increased sales by 7.7%.

Commercial specialist: our three businesses specialising in the commercial sector were able to increase sales by 5.0%.

It is fundamental to these businesses to work closely with the world's leading floorcovering producers, to develop and subsequently present new product to our customers, principally independent floorcovering retailers and flooring contractors.

The UK businesses operate with 308 external sales people who have launched 2,214 new product ranges by positioning over 530,000 new point of sale items into our customers' premises. This has resulted in an increase in sales across all product categories of carpet, residential vinyl, carpet underlay, commercial products, wood and laminate.

It is particularly encouraging that this positive sales trend has been achieved by each of the four business sectors and across all the individual product categories. This further demonstrates the group's significant market presence throughout the floorcovering industry in the UK.

We continue with our policy of constructing new purpose built freehold distribution facilities to re-house existing businesses, providing the business with increased capacity and improved material handling capability. The new facility in Leeds, which will re-house Wilkies, our regional multi-product business, is near completion and will be operational in October of this year. This will enable Wilkies to further strengthen its market position in the north of England. We have now received planning permission for a facility in Bridgend to re-house MCD Wales. This will be operational during 2007 and enable the business to enhance its performance in South Wales.

Our Continental European businesses in France, Switzerland and particularly the Netherlands have enjoyed improving market conditions and therefore have been able to increase their sales by 6.1%. This has resulted in operating margins improving from 2.3% to 2.7% during the first six months.

Acquisitions

Whilst we have not announced any additions to the group during 2006, we continue to evaluate opportunities, both in the UK and Continental Europe. We are committed to enlarging the group's presence in these markets where a business can be acquired which enhances our market position and ultimately achieves the appropriate return on investment.

Cash flow

Cash generated from operations during the first six months amounted to £11.7 million compared with £10.6 million for the equivalent period last year. Net working capital investment remained virtually unchanged increasing modestly from £10.2 million to £10.3 million.

The investment in property, plant and equipment totalled £5.8 million of which £3.6 million related to the new facility in Leeds and £1.5 million on the purchase of the freehold interest in the property occupied by our business in the Netherlands. This property was formerly occupied on a leasehold basis.

Typically, the group's cash flow is such that during the first six months of the year, there is an overall absorption of cash and a corresponding decline in cash and cash equivalents. The first six months of 2006 are no exception with cash and cash equivalents declining by £3.4 million to £32.8 million. Net funds at 30 June 2006 totalled £32.3 million compared with £28.9 million at 30 June 2005.

Outlook

We are particularly encouraged by the positive performance of the group during the first eight months of 2006. With the traditional busy autumn period before us, the group is confident of achieving its operating objectives for the year.

Graham Waldron, Chairman
5 September 2006

Consolidated Income Statement

unaudited

	Note	**Six months ended 30 June 2006 £'000**	Six months ended 30 June 2005 £'000	The year ended 31 December 2005 £'000
Revenue	3	**245,672**	232,336	486,635
Cost of sales		**(170,112)**	(161,475)	(336,570)
Gross profit		**75,560**	70,861	150,065
Distribution expenses		**(40,662)**	(38,087)	(77,507)
Administration expenses		**(15,155)**	(14,273)	(31,060)
Operating profit	3	**19,743**	18,501	41,498
Financial income	4	**2,270**	1,667	3,893
Financial expenses	4	**(2,470)**	(1,963)	(4,551)
Net financing costs		**(200)**	(296)	(658)
Profit before tax		**19,543**	18,205	40,840
Taxation		**(5,961)**	(5,564)	(12,352)
Profit for the period	3	**13,582**	12,641	28,488
Dividend per share	6	**18.00p**	16.25p	16.25p
Earnings per share				
Basic	5	**15.6p**	14.7p	33.1p
Diluted	5	**15.5p**	14.5p	32.8p

Consolidated Statement of Recognised Income and Expense

unaudited

	Note	**Six months ended 30 June 2006 £'000**	Six months ended 30 June 2005 £'000	The year ended 31 December 2005 £'000
Foreign exchange translation differences arising on translation of overseas operations		**(174)**	(815)	(321)
Recycling of cash flow hedging reserve balance		**—**	13	13
Actuarial gains and losses on defined benefit pension plans		**(1,500)**	395	(2,571)
Tax recognised on income and expenses recognised directly in equity		**234**	(67)	910
Net income recognised directly in equity		**(1,440)**	(474)	(1,969)
Profit for the period		**13,582**	12,641	28,488
Total recognised income and expense	6	**12,142**	12,167	26,519
Effect of change in accounting policy				
Effect of adoption of IAS 32 and 39, net of tax, on 1 January 2005 on: cash flow hedge reserve		**—**	13	13
		—	13	13

Consolidated Balance Sheet

unaudited

	Note	**At 30 June 2006 £'000**	At 30 June 2005 £'000	At 31 December 2005 £'000
Non-current assets				
Property, plant and equipment		**78,292**	77,631	74,640
Intangible assets		**13,210**	13,628	13,210
Deferred tax assets		**8,286**	8,245	8,199
		99,788	99,504	96,049
Current assets				
Inventories		**92,720**	92,505	91,160
Trade and other receivables		**86,246**	79,881	84,275
Cash and cash equivalents	8	**33,146**	30,969	36,193
		212,112	203,355	211,628
Non-current assets classified as held for sale		**3,436**	203	3,471
Total assets		**315,336**	303,062	311,148
Current liabilities				
Bank overdraft	8	**(333)**	—	—
Other interest-bearing loans and borrowings	8	**(430)**	(1,519)	(471)
Trade and other payables		**(145,692)**	(149,172)	(141,529)
Employee benefits		**(1,078)**	(1,080)	(1,080)
Income tax payable		**(11,723)**	(11,640)	(11,139)
		(159,256)	(163,411)	(154,219)
Non-current liabilities				
Other interest-bearing loans and borrowings	8	**(80)**	(537)	(267)
Employee benefits		**(20,766)**	(17,241)	(19,432)
Deferred tax liabilities		**(1,256)**	(1,214)	(1,403)
		(22,102)	(18,992)	(21,102)
Total liabilities		**(181,358)**	(182,403)	(175,321)
Net assets		**133,978**	120,659	135,827
Equity attributable to equity holders of the parent				
Share capital	6	**4,352**	4,310	4,326
Share premium	6	**53,336**	51,875	52,280
Translation reserves	6	**(751)**	(1,071)	(577)
Retained earnings	6	**77,041**	65,545	79,798
Total equity		**133,978**	120,659	135,827

Consolidated Cash Flow Statement

unaudited

	Note	Six months ended 30 June 2006 £'000	Six months ended 30 June 2005 £'000	The year ended 31 December 2005 £'000
Cash flows from operating activities				
Profit before tax for the period		**19,543**	18,205	40,840
Adjustments for:				
Depreciation, amortisation and impairment		**2,088**	2,265	5,133
Financial income		**(2,270)**	(1,667)	(3,893)
Financial expense		**2,470**	1,963	4,551
Profit on sale of property, plant and equipment		**(1)**	(8)	(228)
Equity settled share-based payment expenses		**208**	29	196
Operating profit before changes in working capital and provisions		**22,038**	20,787	46,599
(Increase)/decrease in trade and other receivables		**(1,802)**	4,969	1,699
Increase in inventories		**(1,519)**	(12,839)	(11,335)
Decrease in trade and other payables		**(7,016)**	(2,316)	(1,085)
Cash generated from the operations		**11,701**	10,601	35,878
Interest paid		**(904)**	(659)	(1,456)
Tax paid		**(5,966)**	(5,661)	(10,994)
Additional contributions to defined benefit pension plan		**(479)**	—	(722)
Net cash from operating activities		**4,352**	4,281	22,706
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**61**	108	598
Interest received		**964**	643	1,335
Acquisition of subsidiary, net of cash acquired		**—**	(435)	(426)
Acquisition of property, plant and equipment		**(5,826)**	(8,034)	(10,965)
Net cash from investing activities		**(4,801)**	(7,718)	(9,458)
Cash flows from financing activities				
Proceeds from the issue of share capital		**1,082**	149	570
Repayment of borrowings		**—**	—	(662)
Payment of finance lease liabilities		**(228)**	(208)	(438)
Dividends paid		**(3,789)**	(3,421)	(13,976)
Net cash from financing activities		**(2,935)**	(3,480)	(14,506)
Net decrease in cash and cash equivalents		**(3,384)**	(6,917)	(1,258)
Cash and cash equivalents at 1 January		**36,193**	37,468	37,468
Effect of exchange rate fluctuations of cash held		**4**	(17)	(17)
Cash and cash equivalents at end of period	7	**32,813**	30,534	36,193

Notes to the Interim Financial Results

unaudited

1 GENERAL INFORMATION

The interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the group's published consolidated financial statements for the year ended 31 December 2005, except for changes as required by the Listing Rules of the Financial Services Authority, as a result of the endorsement by the EU of new or changed International Financial Reporting Standards (IFRSs) that are applicable or available for early adoption in the preparation of the group's next consolidated financial statements for the year ending 31 December 2006.

2 ACCOUNTING POLICIES

The directors have decided not to adopt early the International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

Following initial adoption, the directors have decided not to apply the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. Consequently, all movements in the fair value of the hedge are recognised immediately in the income statement, within financial income or expense.

The directors have changed the accounting policies in respect of the following matters:

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts. Where the group enters into financial guarantee contracts to guarantee the indebtedness between group companies, these are considered to be insurance arrangements and each group company accounts for them as such. In this respect, the group treats the guarantee contract as a contingent liability until such time as it becomes probable that the applicable group company will be required to make a payment under the guarantee.

- Amendment to IAS 39 Financial Instruments: Cash Flow Hedge Accounting of Forecast Intragroup Transactions.
- Amendment to IAS 39 Financial Instruments: The Fair Value Options.
- IFRIC 4: Determining whether an Arrangement Contains a Lease.

The implementation of the changes noted above has not had a significant effect on either the profit or net assets of the group for the period commencing 1 January 2006.

The comparative figures for the financial year ended 31 December 2005 are not the group's statutory accounts for that financial year. Those accounts have been reported on by the group's auditors and delivered to the registrar of companies. The report of the auditors 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 237(2) or (3) of the Companies Act 1985.

Notes to the Interim Financial Results continued

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3 SEGMENT REPORTING

The group's activities are wholly aligned to the sales, marketing, supply and distribution of floorcovering products. These activities are carried out from business centres located in both the UK and Continental Europe. The group's internal management structure and financial reporting systems treat the UK and Continental Europe as two separate segments because of the difference in reward arising from these two markets and this forms the basis for the geographical presentation of the primary segment information given below.

	UK			Continental Europe			Total		
	30 June 2006 £'000	30 June 2005 £'000	31 Dec 2005 £'000	**30 June 2006 £'000**	30 June 2005 £'000	31 Dec 2005 £'000	**30 June 2006 £'000**	30 June 2005 £'000	31 Dec 2005 £'000
Revenue									
External sales	**208,668**	197,460	415,038	**37,004**	34,876	71,597	**245,672**	232,336	486,635
Result									
Segment result	**19,201**	18,243	41,905	**1,017**	803	1,815	**20,218**	19,046	43,720
Unallocated corporate expenses							**(475)**	(545)	(2,222)
Operating profit							**19,743**	18,501	41,498
Financial income							**2,270**	1,667	3,893
Financial expense							**(2,470)**	(1,963)	(4,551)
Taxation							**(5,961)**	(5,564)	(12,352)
Profit for the period							**13,582**	12,641	28,488
Other information									
Segment assets	**270,186**	264,511	271,074	**33,428**	30,103	28,404	**303,614**	294,614	299,478
Unallocated assets							**11,722**	8,448	11,670
Consolidated total assets							**315,336**	303,062	311,148
Segment liabilities	**(116,899)**	(123,400)	(127,258)	**(17,811)**	(17,274)	(15,009)	**(134,710)**	(140,674)	(142,267)
Unallocated liabilities							**(46,648)**	(41,729)	(33,054)
Consolidated total liabilities							**(181,358)**	(182,403)	(175,321)
Capital expenditure	**4,184**	7,835	10,462	**1,642**	199	503	**5,826**	8,034	10,965
Depreciation	**1,759**	1,547	3,451	**329**	300	631	**2,088**	1,847	4,082
Amortisation	**—**	418	836	**—**	—	—	**—**	418	836
Asset impairment	**—**	—	215	**—**	—	—	**—**	—	215

Each segment is a continuing operation.

Unallocated assets comprise deferred tax assets and assets held for sale. Unallocated liabilities comprise income tax, deferred tax liabilities and employee benefits.

Notes to the Interim Financial Results continued

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3 SEGMENT REPORTING – continued

Management has access to information that provides details on sales and gross margin by principal product group and across the four principal business sectors which comprise Regional multi-product, National multi-product, Residential specialist and Commercial specialist. However, this information is not provided as a secondary segment since the group's operations are not managed by reference to these sub classifications and the presentation would require an arbitrary allocation of overheads, assets and liabilities undermining the presentations validity and usefulness.

4 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2006 £'000	Six months ended 30 June 2005 £'000	The year ended 31 December 2005 £'000
Interest income			
Bank interest	**984**	426	1,329
Other	**47**	12	87
Return on defined pension plan assets	**1,239**	1,229	2,477
Financial income	**2,270**	1,667	3,893
Interest expense			
Bank loans, overdrafts and other financial expenses	**(953)**	(410)	(1,503)
Interest on defined benefit pension plan obligation	**(1,494)**	(1,510)	(2,987)
Finance leases and similar hire purchase contracts	**(23)**	(43)	(61)
Financial expenses	**(2,470)**	(1,963)	(4,551)

Notes to the Interim Financial Results continued

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5 EARNINGS PER SHARE

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

	Six months ended 30 June 2006 £'000	Six months ended 30 June 2005 £'000	The year ended 31 December 2005 £'000
Earnings			
Earnings for the purposes of basic earnings per share being profit attributable to equity holders of the parent	**13,582**	12,641	28,488
Earnings for the purposes of diluted earnings per share	**13,582**	12,641	28,488
Number of shares			
Issued ordinary shares at 1 January	**86,512,854**	86,111,437	86,111,437
Effect of shares issued during the period	**407,028**	67,543	86,272
Weighted average number of ordinary shares for the purposes of basic earnings per share	**86,919,882**	86,178,980	86,197,709
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**86,919,882**	86,178,980	86,197,709
Share options	**1,878,034**	1,411,138	2,407,331
Number of shares that would have been issued at fair value	**(1,381,753)**	(624,241)	(1,813,602)
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**87,416,163**	86,965,877	86,791,438

Notes to the Interim Financial Results continued

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6 CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

	Share capital £'000	Share premium £'000	Translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2005	4,306	51,731	(256)	—	66,579	122,360
Adjustment in respect of adoption of IAS 32 and IAS 39 on 1 January, net of tax	—	—	—	(13)	—	(13)
Total recognised income and expense	—	—	(815)	13	12,969	12,167
Equity-settled share based payment transactions, net of tax	—	—	—	—	29	29
Share options exercised by employees	4	144	—	—	—	148
Deferred tax on Schedule 23 share options (pre November 2002)	—	—	—	—	(56)	(56)
Dividends	—	—	—	—	(13,976)	(13,976)
Balance at 30 June 2005	4,310	51,875	(1,071)	—	65,545	120,659
Total recognised income and expense	—	—	494	—	13,858	14,352
Equity-settled share based payment transactions, net of tax	—	—	—	—	167	167
Share options exercised by employees	16	405	—	—	—	421
Deferred tax on Schedule 23 share options (pre November 2002)	—	—	—	—	228	228
Balance at 31 December 2005	**4,326**	**52,280**	**(577)**	**—**	**79,798**	**135,827**
Total recognised income and expense	**—**	**—**	**(174)**	**—**	**12,316**	**12,142**
Equity-settled share based payment transactions, net of tax	**—**	**—**	**—**	**—**	**208**	**208**
Share options exercised by employees	**26**	**1,056**	**—**	**—**	**—**	**1,082**
Deferred tax on Schedule 23 share options (pre November 2002)	**—**	**—**	**—**	**—**	**331**	**331**
Dividends	**—**	**—**	**—**	**—**	**(15,612)**	**(15,612)**
Balance at 30 June 2006	**4,352**	**53,336**	**(751)**	**—**	**77,041**	**133,978**

Notes to the Interim Financial Results continued

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6 CAPITAL AND RESERVES – continued

Dividends	**Six months ended 30 June 2006 £'000**	Six months ended 30 June 2005 £'000	The year ended 31 December 2005 £'000
Interim dividend for 2005 of 4.40p paid 3 January 2006	**3,789**	—	—
Final dividend for 2005 of 13.60p proposed	**11,823**	—	—
Interim dividend for 2004 of 4.00p paid 3 January 2005	**—**	3,421	3,421
Final dividend for 2004 of 12.25p proposed /paid 4 July 2005	**—**	10,555	10,555
	15,612	13,976	13,976

The final proposed dividend for 2005 of 13.60p per share was authorised by shareholders at the Annual General Meeting on 1 June 2006. The final proposed dividend for 2004 of 12.25p per share was authorised by shareholders at the Annual General Meeting on 27 May 2005.

7 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	At 30 June 2006 £'000	At 30 June 2005 £'000	At 31 December 2005 £'000
Cash and cash equivalents per balance sheet	**33,146**	30,969	36,193
Bank overdrafts	**(333)**	(435)	—
Cash and cash equivalents per cash flow statements	**32,813**	30,534	36,193

Notes to the Interim Financial Results continued

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8 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2006 £'000	**Cash flows £'000**	**Translation differences £'000**	**At 30 June 2006 £'000**
Cash at bank and in hand	36,193	**(3,052)**	**5**	**33,146**
Bank overdraft	—	**(332)**	**(1)**	**(333)**
	36,193	**(3,384)**	**4**	**32,813**
Finance leases and similar hire purchase contracts	(738)	**228**	**—**	**(510)**
	35,455	**(3,156)**	**4**	**32,303**

9 RELATED PARTIES

Identity of related parties

Related party relationships exist between companies within the group, directors of the parent company and the group's executive officers.

Transactions with key management personnel

As at 30 June 2006, directors of the parent company and their immediate relatives controlled 1.6 per cent of the voting shares of the parent company.

The group's key management personnel are the directors of the parent company and their remuneration for the year ending 31 December 2005 is disclosed within the remuneration report in the annual report and accounts for 2005.

Notes

Notes

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