

30 March 2009

Preliminary Results for the Year Ended 31 December 2008

Headlam Group plc (“Headlam”), Europe’s leading floorcoverings distributor, announces its final results for the year ended 31 December 2008.

Financial highlights

	2008	2007	Change
	£000	£000	
Revenue	557,296	544,718	+2.3%
Operating profit	41,722	46,013	-9.3%
Profit before tax	40,120	45,172	-11.2%
Basic earnings per share	34.5p	37.1p	-7.0%
Dividend per share	19.7p	23.1p	-14.7%

Key points

- Group revenues increase by 2.3%
- UK like for like revenues decrease by 2.5%
- Continental European like for like revenues increase by 3.2%
- Profit before tax declines by 11.2%
- Continued investment in facilities
- Dividend reduced by 14.7% from 23.1p to 19.7p

Tony Brewer, Headlam’s Group Chief Executive, said:

“During the financial and operating plan process for 2009, we considered very carefully the market conditions before us. Whilst the trading environment continues to be challenging, the group’s performance in the first quarter of 2009 has been in line with our planned expectations.

The autonomous management teams in the UK and Continental Europe are clearly focused on their individual targets and measurements, which we consider are positioned at realistic levels. Assuming no further significant deterioration in market conditions, the group believes it is structured to achieve its operating objectives for the year.”

Enquiries:

Headlam Group plc

Tony Brewer, Group Chief Executive
Stephen Wilson, Group Finance Director

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Chairman's Statement

I am pleased to report that, whilst the UK market proved to be particularly challenging during 2008, each of our business sectors and product categories outperformed market indicators and increased their market share. Our businesses in Continental Europe benefited from more stable conditions and were able to continue their improvement.

Compared with last year, revenue from the group's activities increased by 2.3% to £557.3 million. Profit before tax declined by 11.2% to £40.1 million.

Earnings and dividend

Shareholders will be aware that during the last two years, the board has progressively increased dividends with the intention of achieving a payout ratio of 67% by the end of 2009. The board remains committed to this objective, but whilst difficult trading conditions persist, has decided to delay the full implementation of this policy. We intend to resume our commitment to enhancing shareholder returns through increasing dividends as soon as it is evident that the economies in the regions in which we trade have returned to normal conditions.

The board is therefore recommending a final dividend of 14.1p per share. Total dividend for the year will decrease by 14.7% from 23.1p to 19.7p per share.

Strategy

The performance of our 50 businesses in the UK and three businesses in Continental Europe confirms that our fundamental strategy, of operating these businesses autonomously whilst complying with strict operational and financial disciplines, is delivering sustainable results.

This strategy allows the highly motivated and incentivised individual management teams to focus on their specific business objectives within either the geographical areas or specific product sectors in which they operate.

The key objectives for the group and within each individual business are to maintain and continue to expand our position as the leading floorcoverings distributor in Europe.

The development of the group will be achieved through a combination of organic growth, as market conditions allow, and continued investment in new freehold distribution facilities, which will incorporate the latest material handling equipment. This will be supplemented by the strategic acquisition of floorcovering distributors to enlarge our position in the UK and Continental Europe.

Operations

Through the complementary efforts of the senior and individual business management, we continue to work closely with the leading worldwide flooring manufacturers to develop residential and commercial products in order to enhance our market position.

This relationship with our suppliers has resulted in our 50 businesses in the UK, located in 19 distribution centres and 12 service centres, launching 3,725 new products through our 361 external sales people who positioned 732,000 new point of sale items and sample books into independent flooring retailers and contractors.

Products are developed and launched in an ongoing timely manner, to ensure that our customers are at the forefront of all new products coming into their respective markets.

Our three businesses in Continental Europe continue to prosper and the ongoing development will be enhanced by the construction of a new freehold purpose built distribution centre for our Dutch operations.

Employees

The benefit of a group structure, combined with encouraging the autonomy of individual business operations, provides all employees with the opportunity for career progression in both specific businesses and the group as a whole. This was particularly evident during 2008 and early 2009 when a number of our employees continued their career development through internal promotion.

We wish to thank all of our management and employees for their contribution to the group's performance in 2008.

Outlook

During the last 16 years, our floorcovering distribution business has delivered continual growth in sales revenue, profitability and dividend payment. This growth has been interrupted in 2008 due to the wider economic conditions.

In light of these conditions, the group has undertaken certain restructuring and reduced costs during 2008 and the first quarter of 2009. With unpredictable markets, we will continue to carefully monitor and reduce overheads where possible whilst retaining our high level of service to customers.

Notwithstanding this, we are committed to pursuing our fundamental strategy and maintaining the autonomous structure of the group, providing a platform to maximise our market position and achieve our core objective of sustainable future growth.

Graham Waldron, Chairman

Chief Executive's Review

During 2008, the combined performance of our 50 UK businesses resulted in a marginal decrease in sales revenue of 1.1%, which on a like for like basis was a decrease of 2.5%. With the benefit of a strong first quarter, first half like for like sales revenue in the UK increased by 2.8%. However, with market conditions deteriorating in the second half, like for like sales revenue declined by 7.2%.

We believe that the performance of the UK businesses is particularly robust in what were extremely challenging market conditions and undoubtedly, our collective businesses were able to increase their market share.

This was achieved through a group strategy based on autonomous businesses, with focused and motivated management teams and sales representatives, developing their individual markets in both residential and commercial floorcovering with independent flooring retailers and contractors.

Our businesses in Continental Europe continue to prosper, where revenue from our businesses located in France, Switzerland and the Netherlands increased on a like for like basis by 3.2% in local currency.

Facilities investment

During 2008, we completed the construction of a new purpose built freehold 42,000 square feet (sq ft) distribution facility for MCD Wales in Bridgend. This became operational in the spring of 2008, enabling MCD Wales to increase their residential and commercial business in South Wales and the south west of England.

The two additional service centres located in Dartford, 5,000 sq ft, and Walthamstow, 9,000 sq ft, became operational at the beginning of 2008, enabling Faithfulls to enlarge significantly its commercial presence in London.

During May 2008, we opened our 6,000 sq ft freehold service centre in Southampton, which provides Richards with an enlarged commercial presence in the south of England.

We have completed the 6,000 sq ft extension to the freehold distribution facility of Baileys Plymouth, which will allow Baileys to develop commercial activities with flooring contractors in the south west of England, to complement what has principally been a residential business to date.

In the Netherlands, the construction of a new purpose built freehold 65,000 sq ft distribution centre is now complete. This will allow Lethem Vergeer and the recently acquired Silvester to enhance their product offering and increase service levels to customers.

We are in the process of applying for planning permission and in final negotiations to purchase land to relocate the Faithfulls and Garrods businesses in Hadleigh, near Ipswich. This new 120,000 sq ft freehold distribution centre, anticipated to be complete by the end of 2010, will considerably increase the two businesses profile in the south east of England in both residential and commercial flooring.

Restructuring

On 23 September 2008, a fire completely destroyed our distribution centre in Northampton, from which the Garrard Waters business operated. With the benefit of disaster management procedures and utilising information technology, the Garrard Waters business was operational the following day from our Coleshill distribution centre.

We have established a local presence for Garrard Waters' management and sales representatives in a 10,000 sq ft service centre in Northampton to maintain and enhance their customer relationships. The principal logistics service continues to operate from Coleshill.

In the late autumn, we decided to relocate the logistics of Baileys Bristol and Solmere Bishop Auckland to our existing larger distribution centres in Thatcham and Gildersome Leeds respectively. By maintaining their independent management and sales activity with both suppliers and customers, this restructuring provides Baileys and Solmere with extended product ranges and a comprehensive logistics service to benefit their customers.

With the particularly challenging markets we are operating in, the group has also been prudent with the recruitment of replacement employees. In conjunction with the restructuring at Garrard Waters, Baileys and Solmere, we reduced the number of employees during 2008 by 9%, from 1,892 to 1,720.

UK operations

Our 50 businesses in the UK continue to operate within five defined business sectors. This allows the autonomous businesses to optimise their market presence, working to clearly defined strategies and objectives.

Regional multi-product: The 20 businesses sell both residential and commercial floorcovering, operating regionally, in total giving a comprehensive geographical coverage throughout the UK. Whilst sales revenue declined by 5.6%, market indications would substantiate this outperformed the UK floorcovering market and consequently these businesses increased their market share.

National multi-product: The Mercado network of businesses, operating nationally throughout England, Wales and Northern Ireland, also outperformed the market in residential and commercial floorcovering notwithstanding its modest decline in sales revenue of 2.4%.

Regional commercial: The 15 operations in this sector, four of which are benefiting from an investment in new facilities, were able to increase sales revenue by 7.4%. It is our intention in coming years to increase the number of service centres, in order to enlarge the geographical presence of these operations for the regional distribution of commercial floorcovering.

Residential specialist: Through a continuing process of product development and marketing, particularly the medium to high price carpet products, these 13 businesses were able to outperform significantly the UK carpet market and increased sales revenue by 13.9%.

Commercial specialist: Our four commercial specialist businesses enjoyed a more positive commercial market and were able to increase sales revenue by 1.2%.

yourfloors.co.uk

In July 2008, we launched the consumer internet gateway, yourfloors.co.uk. The yourfloors facility creates an opportunity for independent flooring retailers to take advantage of the increasing trend for consumers to purchase online. Each individual retail customer participating enjoys the benefit of their own website created by yourfloors.

Performance criteria measured by daily activity on the website, sample requests and ultimately orders, are showing an increasing daily trend. Since its launch, we have recorded 252,512 visits to the website and satisfied 12,865 requests for samples. With further enhancements currently being undertaken, we expect yourfloors to provide a benefit in coming years to our customer base and ultimately, to the group as a whole.

Suppliers

The business relationship and partnership with our principal suppliers is particularly important to the ongoing growth of the group's activities. This consistent approach, both from a group strategic involvement and the product development of our individual management teams, enables the continual launch of new products through our external sales teams into independent flooring retailers and contractors.

Products

The product development activity with our suppliers has resulted in an increased market presence throughout the principal floorcovering products in the UK.

Carpet continues to be our largest product category, accounting for 45% of UK sales revenue. During 2008, we launched 2,224 new ranges, placing 491,000 new point of sale items into our customers and, whilst sales declined 4.7% in the year, market indicators would again suggest this significantly outperforms the market as a whole.

Residential vinyl sales revenue increased by 2.2% supported by the placement of 170,000 new point of sale items to launch 956 new ranges with independent flooring retailers and contractors.

Wood and laminate benefited from a number of innovative product launches in laminate flooring and an increasing presence in engineered and solid wood, which enabled the sales revenue decrease to be managed to 1.2%.

Rugs have continued to enlarge their profile in the group, principally through the activities of National Carpets, Crucial Trading and Plantation Rug Company. This has resulted in the sales revenue of rugs increasing by 46% and the product now accounts for 2.5% of UK sales revenue.

Commercial Flooring produced an increase in sales revenue of 5.2% benefiting from stronger demand for commercial flooring and the developing presence of our regional commercial businesses. Commercial flooring now accounts for 31% of UK sales revenue.

funonthefloor.com

During 2008, the group contributed to a generic advertising campaign, funonthefloor.com, to increase the profile and consumer awareness of carpets in the UK. Given the existence of particularly challenging market conditions when this initiative was launched, the results are

very difficult to measure. The participants in the campaign have agreed to a reduced level of contribution to continue the initiative during 2009.

Customers

The number of active accounts increased from 39,033 in 2007 to 41,539 in 2008. This clearly demonstrates the market strength and financial stability of independent flooring retailers and contractors. During the year, our customers placed 4,576,574 orders, compared with 4,624,489 in 2007 and although credit taken by customers increased from 42 days in 2007 to 44 days in 2008, this was primarily due to an increase in the proportion of business with flooring contractors.

Acquisitions

The group has continued to evaluate acquisitions in both the UK and Continental Europe and whilst only one acquisition was completed during the year, it is our intention to enlarge our market position where a potential acquisition is a strategic benefit to the group.

Europe

Our businesses in France, Switzerland and the Netherlands continued the positive performance of previous years, increasing sales revenues by 3.2% in local currency.

In France, LMS enjoyed a solid market in both residential and commercial floorcovering. With the sales activities of its 20 service centres, supported by two principal distribution centres, LMS increased sales revenue by 3.0%.

Belcolor in Switzerland continued to enlarge its presence in commercial flooring and parquet, complementing its presence in residential floorcovering, and increased sales revenue by 3.7%.

In the Netherlands, Lethem Vergeer continued to enlarge its business, principally in residential floorcovering, increasing sales revenue by 2.0%.

In October 2008, we acquired the residential distribution business of Silvester in the Netherlands. This business was immediately relocated following completion, to our original distribution centre. During March 2009, Lethem Vergeer and Silvester commenced operations from the new purpose built distribution centre.

Outlook

During the financial and operating plan process for 2009, we considered very carefully the market conditions before us. Whilst the trading environment continues to be challenging, the group's performance in the first quarter of 2009 has been in line with our planned expectations.

The autonomous management teams in the UK and Continental Europe are clearly focused on their individual targets and measurements, which we consider are positioned at realistic levels. Assuming no further significant deterioration in market conditions, the group believes it is structured to achieve its operating objectives for the year.

Tony Brewer, Group Chief Executive

Financial Review

Trading

Revenue

Group revenues increased during the year by 2.3% from £544.7 million to £557.3 million.

In the UK, like for like sales decreased by 2.5%. However, businesses acquired during 2007 contributed an incremental £4.3 million during the year reducing the decline in revenue to 1.1% from £463.7 million to £458.6 million.

On the Continent, our three businesses collectively achieved a like for like improvement of 3.2% with overall revenues, including currency effects, increasing by 21.9% from £81.0 million to £98.70 million.

Gross margin

A substantial proportion of product purchased by the group originates from suppliers located in Continental Europe. The purchases by our UK businesses are predominately Sterling based. However, due to Sterling's continued decline against the Euro over the course of 2008, coupled with high raw material price inflation on oil related products during the first half of 2008, imported product was subjected to a number of price increases. These increases were passed into the market in full enabling gross margins to be retained.

Although inflationary pressures on oil-based raw materials have eased, Sterling remains at historically weak levels compared with the Euro. Notwithstanding the existence of forecasts, that predict that Sterling will recover some of its losses against the Euro during 2009, the pricing environment has potential to remain volatile and it is difficult to be certain about improvements in gross margin whilst these conditions persist.

Expenses

Distribution and administration expenses, collectively representing 23.9% of revenue, increased by 8.3% compared with the previous year.

Distribution expenses amounting to £98.5 million increased by 12.3% compared with last year mainly due to fuel price rises, the full year impact of sales and marketing investment either implemented or initiated during 2007 in combination with the cost of launching yourfloors.co.uk and funding the first year of funonthefloor.com.

Administration expenses decreased by 1.8% from £35.0 million to £34.4 million due to the lower level of intangible amortisation in 2008, £0.3 million compared with 2007 when it amounted to £1.5 million.

As mentioned in the Chief Executive's Review, during the second half of last year we introduced a restructuring plan in connection with the businesses located in Bishop Auckland, Bristol and Northampton. The cost of restructuring amounted to £0.8 million and we expect the full year benefit to amount to £2.2 million.

We have already received substantial payments on account in connection with the fire at our Northampton facility and discussions with our insurers are nearing conclusion. We are not presently aware of any reasons why this claim will not be settled equitably.

Financing costs

The movement in finance costs from £0.8 million to £1.6 million was due to the increase in bank funding used to finance the share buyback programme during 2007 and 2008 and a requirement for additional working capital investment during the second half of 2008.

Taxation

As previously anticipated, the effective rate of taxation decreased to 28.5% during the year down from last year's rate of 30.0%. We expect the rate to fall to 28.0% for 2009.

Last year we highlighted the potential for the group's deferred tax liability to increase by £7.8 million because of the abolition of capital allowances in respect of Industrial Buildings. On further examination, we have reconsidered the accounting implications and determined that this adjustment was not necessary. Therefore, consistent with our interpretation of IAS 12: Deferred Tax, no adjustment has been reflected in these accounts.

Dividends

As already highlighted in the Chairman's Statement, the board has proposed a reduction to the final dividend for 2008, which will result in total dividends for the year decreasing by 14.7% to 19.7p per share. This represents a cautious response by the board to challenging markets and desire to retain a measure of flexibility in uncertain times.

Cash flows and net funds

Cash generated from operations

Cash flows from operating activities declined by 10.6% during the year from £52.7 million to £47.1 million.

Investment in net working capital increased during the year by £9.7 million from £10.0 million to £19.7 million leading to cash generated from operations reducing by £15.3 million from £42.7 million to £27.4 million.

Compared with last year, we reduced our investment in trade and other receivables and inventory by £7.7 million and £3.3 million respectively. The movement in trade and other payables required us to utilise additional bank funding amounting to £20.7 million compared with 2007 because the decline in revenues during the second half of 2008 led to a significant curtailment in buying activity.

Subject to no material adverse change in 2009 sales revenue, we expect our working capital investment to be substantially lower.

Cash flows from investing and financing activities

Net cash outflows from investing activities totalled £7.1 million compared with £11.3 million during 2007. Investment in property, plant and equipment amounted to £10.7 million compared with £11.0 million for 2007. In common with 2007 and as already highlighted in the Chief Executive's Review, expenditure related to a number of relatively small projects.

Expenditure in 2009 will cover the purchase of the freehold interest in the Kidderminster property, which was formerly occupied on a leasehold basis, completion of the facility for our Dutch business and purchase of the land for the distribution facility for Faithfulls. These

projects in conjunction with regular recurring investment will result in expenditure being broadly the same as 2008.

Within our freehold property portfolio, we hold five vacant properties. These properties are currently being marketed for disposal, but we recognise that the prospect of sale in the immediate future is remote given current economic circumstances. Furthermore, our preference is to hold the properties and realise a fair value rather than sell at a discounted price.

Net cash flow from investing activities moved from a cash out flow of £39.7 million during 2007 to a cash inflow of £13.1 million in 2008. The 2007 expenditure was principally due to the share buy-back programme whilst the cash inflow in 2008 results from the draw down of loan facilities.

Changes in net funds

Group net funds decreased from £16.7 million to £0.7 million during the year as detailed in the table below.

	At 1 January 2008 £000	Cash flows £000	Translation differences £000	At 31 December 2008 £000
Cash at bank and in hand	16,805	16,600	1,788	35,193
Bank overdraft	(103)	112	(9)	-
	16,702	16,712	1,779	35,193
Debt due within one year	-	(3,726)	(780)	(4,506)
Debt due after one year	-	(30,000)	-	(30,000)
	16,702	(17,014)	999	687

Employee benefits

During the year, the employee benefits net deficit, as measured under IAS 19 increased by £3.3 million from £11.3 million to £14.6 million. The adverse movement on the UK defined benefit pension plan was the principal cause with the deficit increasing from £10.9 million to £12.9 million because of plan obligations rising mainly due to the adoption of the more up-to-date mortality assumptions that were used for the triennial actuarial valuation at 31 March 2008.

The group operates both UK and Swiss defined benefit plans. The UK plan, which is the group's largest plan, is subject to a triennial actuarial valuation that determines the plan's funding requirement. The UK plan actuary has now issued the results of the triennial actuarial valuation following a period of consultation between the trustee and company. The results conclude that the net deficit has increased from £13.1 million at 31 March 2005 to £22.4 million at 31 March 2008. The two main factors contributing to this deterioration, which arises because of an increase in the plan's obligations, are changes in the mortality assumptions and an increase in the inflation assumption. The mortality assumptions have been derived to take account of the characteristics of the plan members and include a greater allowance for future increases in longevity compared with the assumptions previously

adopted. The annual contributions for providing future service benefits have increased by £0.2 million and annual contributions required to fund the past service deficit have increased by £1.2 million. This results in total annual contributions increasing by £1.4 million from £2.6 million to £4.0 million.

Facilities and going concern

The group's total bank facilities amount to £89.5 million. Our UK facilities total £75.0 million of which £30.0 million, a five-year term loan that was drawn in full during the year, lapses in July 2012. The remaining £45.0 million are on demand facilities of which £20.0 million is due for renewal by 31 May 2009 and £25.0 million due by 31 July 2009. Both our UK banks have in principal, communicated their intention to renew these facilities for a further twelve months.

Our banking partners on the Continent have also signalled their intent to provide continued support.

Having reviewed the group's resources and a range of likely trading out-turns, the directors believe they have reasonable grounds for stating that the group has adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the group's financial statements.

Consolidated income statement

for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Revenue	1	557,296	544,718
Cost of sales		(382,670)	(375,990)
Gross profit		174,626	168,728
Distribution expenses		(98,517)	(87,711)
Administrative expenses		(34,387)	(35,004)
Operating profit	1	41,722	46,013
Finance income		7,016	6,321
Finance expenses		(8,618)	(7,162)
Net finance costs		(1,602)	(841)
Profit before tax		40,120	45,172
Taxation		(11,433)	(13,534)
Profit for the year attributable to the equity shareholders		28,687	31,638
Dividend paid per share	3	23.10p	20.15p
Earnings per share			
Basic	2	34.5p	37.1p
Diluted	2	34.5p	36.8p

All group operations during the financial years were continuing operations.

Consolidated statement of recognised income and expense

for the year ended 31 December 2008

	2008	2007
	£000	£000
Foreign exchange translation differences arising on translation of overseas operations	6,631	1,090
Actuarial gains and losses on defined benefit plans	(4,245)	5,000
Effective portion of change in fair values of cash flow hedges	(848)	-
Tax recognised on income and expenses recognised directly in equity	1,304	(1,660)
Net income recognised directly in equity	2,842	4,430
Profit attributable to the equity shareholders	28,687	31,638
Total recognised income and expense attributable to the equity shareholders	31,529	36,068

Consolidated balance sheet

at 31 December 2008

	Note	2008 £000	2007 £000
Non-current assets			
Property, plant and equipment		99,741	92,097
Intangible assets		13,210	13,210
Deferred tax assets		5,372	5,942
		118,323	111,249
Current assets			
Inventories		107,597	101,491
Trade and other receivables		105,942	100,830
Cash and cash equivalents		35,193	16,805
		248,732	219,126
Total assets	1	367,055	330,375
Current liabilities			
Bank overdraft		-	(103)
Other interest-bearing loans and borrowings		(4,506)	-
Trade and other payables		(143,369)	(154,320)
Employee benefits		(2,428)	(1,491)
Income tax payable		(9,546)	(10,747)
		(159,849)	(166,661)
Non-current liabilities			
Other interest-bearing loans and borrowings		(30,000)	-
Employee benefits		(12,216)	(9,837)
Deferred tax liabilities		(3,856)	(3,836)
		(46,072)	(13,673)
Total liabilities	1	(205,921)	(180,334)
Net assets		161,134	150,041
Equity attributable to equity holders of the parent			
Share capital	4	4,268	4,268
Share premium	4	53,512	53,512
Other reserves	4	(6,712)	(11,042)
Retained earnings	4	110,066	103,303
Total equity		161,134	150,041

Consolidated cash flow statement

for the year ended 31 December 2008

	2008 £000	2007 £000
Cash flows from operating activities		
Profit before tax for the year	40,120	45,172
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment	5,305	6,227
Finance income	(7,016)	(6,321)
Finance expense	8,618	7,162
Profit on sale of property, plant and equipment	(337)	(18)
Share-based payments	426	501
Operating profit before changes in working capital and provisions	47,116	52,723
Change in inventories	(1,480)	(4,781)
Change in trade and other receivables	876	(6,849)
Change in trade and other payables	(19,096)	1,587
Cash generated from the operations	27,416	42,680
Interest paid	(4,552)	(3,325)
Tax paid	(11,012)	(11,729)
Additional contributions to defined benefit plan	(1,147)	(1,098)
Net cash from operating activities	10,705	26,528
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	1,309	159
Interest received	2,997	2,757
Acquisition of subsidiaries, net of cash acquired	(726)	(3,190)
Acquisition of property, plant and equipment	(10,664)	(10,980)
Net cash from investing activities	(7,084)	(11,254)
Cash flows from financing activities		
Proceeds from the issue of share capital	-	86
Proceeds from the issue of treasury shares	751	10
Proceeds from borrowings	33,726	-
Payment to acquire own shares	(2,204)	(21,687)
Repayment of borrowings	-	(246)
Payment of finance lease liabilities	-	(363)
Dividends paid	(19,182)	(17,455)
Net cash from financing activities	13,091	(39,655)
Net increase/(decrease) in cash and cash equivalents	16,712	(24,381)
Cash and cash equivalents at 1 January	16,702	40,851
Effect of exchange rate fluctuations of cash held	1,779	232
Cash and cash equivalents at 31 December	35,193	16,702

Notes

1. 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	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Revenue						
External sales	458,572	463,671	98,724	81,047	557,296	544,718
Result						
Segment result	39,164	46,092	3,324	2,916	42,488	49,008
Unallocated corporate expenses					(766)	(2,995)
Operating profit					41,722	46,013
Finance income					7,016	6,321
Finance expense					(8,618)	(7,162)
Taxation					(11,433)	(13,534)
Profit for the year					28,687	31,638
Other information						
Segment assets	302,805	287,552	58,878	36,881	361,683	324,433
Unallocated assets					5,372	5,942
Consolidated total assets					367,055	330,375
Segment liabilities	(146,327)	(135,868)	(31,548)	(18,555)	(177,875)	(154,423)
Unallocated liabilities					(28,046)	(25,911)
Consolidated total liabilities					(205,921)	(180,334)
Capital expenditure	5,949	10,617	4,715	663	10,664	11,280
Depreciation	4,218	4,044	786	666	5,004	4,710
Amortisation	44	1,517	257	-	301	1,517

Each segment is a continuing operation.

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

Management has access to information that provides details on sales and gross margin by principal product group and across the five principal business sectors, which comprise Regional multi-product, National multi-product, Regional commercial, 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.

Notes (continued)

2. Earnings per share

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

	2008	2007
	£000	£000
Earnings		
Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent	28,687	31,638
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	2008	2007
Number of shares		
Issued ordinary shares at 1 January	85,363,743	87,079,521
Effect of share movement during the period	(2,223,206)	(1,709,414)
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Weighted average number of ordinary shares for the purposes of basic earnings per share	83,140,537	85,370,107
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Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	83,140,537	85,370,107
Share options	433,308	2,114,930
Number of shares that would have been issued at fair value	(401,137)	(1,471,286)
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Weighted average number of ordinary shares for the purposes of diluted earnings per share	83,172,708	86,013,751

During the year, the company purchased 169,694 shares, which are held in treasury and excluded from the calculation of earnings per share.

3. Dividends

	2008	2007
	£000	£000
Interim dividend for 2007 of 5.35p paid 2 January 2008	4,454	-
Final dividend for 2007 of 17.75p paid 1 July 2008	14,728	-
Interim dividend for 2006 of 4.85p paid 3 January 2007	-	4,218
Final dividend for 2006 of 15.30p paid 3 July 2007	-	13,237
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	19,182	17,455

The final proposed dividend of 14.10p per share (2007: 17.75p per share) will not be provided for until authorised by shareholders at the forthcoming AGM.

Interim dividends of 5.60p per share (2007: 5.35p per share) are provided for when the dividend is paid.

The total value of dividends proposed but not recognised at 31 December 2008 is £16,354,000 (2007: £19,182,000).

Notes (continued)

4. Capital and reserves

	Share capital £000	Share premium £000	Capital redemption reserve £000	Cash flow hedging reserve £000	Translation reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2007	4,354	53,428	-	-	(616)	-	95,846	153,012
Total recognised income and expense	-	-	-	-	1,090	-	34,978	36,068
Share based payments	-	-	-	-	-	-	501	501
Share options exercised by employees	2	84	-	-	-	10	-	96
Cancellation of own shares	(88)	-	88	-	-	-	(10,073)	(10,073)
Consideration for purchase of own shares	-	-	-	-	-	(11,614)	-	(11,614)
Deferred tax on Schedule 23 share options (pre Nov 2002)	-	-	-	-	-	-	(494)	(494)
Dividends	-	-	-	-	-	-	(17,455)	(17,455)
Balance at 31 December 2007	4,268	53,512	88	-	474	(11,604)	103,303	150,041
Balance at 1 January 2008	4,268	53,512	88	-	474	(11,604)	103,303	150,041
Total recognised income and expense	-	-	-	(848)	6,631	-	25,746	31,529
Share based payments	-	-	-	-	-	-	426	426
Share options exercised by employees	-	-	-	-	-	751	-	751
Consideration for purchase of own shares	-	-	-	-	-	(2,204)	-	(2,204)
Deferred tax on Schedule 23 share options (pre Nov 2002)	-	-	-	-	-	-	(227)	(227)
Dividends	-	-	-	-	-	-	(19,182)	(19,182)
Balance at 31 December 2008	4,268	53,512	88	(848)	7,105	(13,057)	110,066	161,134

5. Additional information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2008 or 2007. Statutory accounts for 2007 have been delivered to the registrar of companies, and those for 2008 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

We anticipate that the company's statutory accounts will be posted to shareholders on 19 May 2009 and will be displayed on the company's website at www.headlam.com from 30 April 2009. Copies of the statutory accounts will also be available from the company's registered office at Headlam Group plc, PO Box 1, Gorse Lane, Coleshill, Birmingham, B46 1LW

This preliminary announcement of results for the year ended 31 December 2008 was approved by the board on 30 March 2009.