

Low & Bonar PLC 2007 Interim Results

Low & Bonar PLC, the specialist materials group, today reports its results for the half year ended 31 May 2007

	2007	2006	%
Turnover	£142.1m	£89.7m	+ 58
Operating profit before amortisation and non recurring items	£ 9.2m	£ 5.1m	+ 80
Operating profit	£ 7.5m	£ 3.5m	+ 114
Profit before tax, amortisation and non-recurring items	£ 7.4m	£ 4.5m	+ 64
Profit before tax	£ 5.7m	£ 2.9m	+ 97
Basic earnings per share	2.54p	1.73p *	+ 47
Earnings per share before amortisation and non-recurring items	3.41p	2.74p *	+ 24
Dividend per share	1.75p	1.58p *	+ 11

* Restated for the effect of the rights issue.

Highlights

- Turnover up 58% to £142.1m and profit before tax, amortisation and non-recurring items up 64% to £7.4m
- Floors divisional operating profit up 12.5% to £4.5m boosted by new product launches and continued high customer service
- Technical Textiles divisional operating profit up 160% to £6.5m with a maiden first half contribution from Colbond

Commenting on the results, Paul Forman, Group Chief Executive, said:

“This half year, one of 80% growth in operating profit before amortisation and non-recurring items, reinforces the growing financial stability of the Group and the major benefit of the Colbond acquisition. We are confident that our two core markets can sustain significant growth in sales and profit into the future, both organically and through acquisition. Our expectations of progress for the rest of this year are being underpinned by continued positive markets, further productivity improvement and a comparatively stable raw material environment. Accordingly, trading remains in line with expectations.”

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Low & Bonar PLC

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Chairman's Statement

The first six months of 2007 saw continued progress towards our goal of enhancing shareholder value through the execution of our strategy of organic and acquisitive growth in the contract flooring and technical textile markets.

Overall, the Group has moved forward strongly both in sales and profits, with the successful integration of Colbond, our major acquisition during last year.

We have been encouraged by the underlying progress in both Divisions and, as we expected, a rather more stable raw material supply environment than we have encountered in the last few years.

Financial Review

In total, revenue for the period has grown by 58% to £142.1m compared with £89.7m last year.

Profits before tax, amortisation and non-recurring items have moved forward to £7.4m, an increase of 64% on last year's £4.5m.

Earnings per share were up 47% to 2.54p compared with 1.73p (after adjusting for the Bonus Adjustment Factor) on a statutory basis. Earnings per share before amortisation and non recurring items were up to 3.41p, an increase of 24% (2006: 2.74p).

Floors has achieved a higher proportion of branded product sales which led to an improved operating margin and improved profits.

Technical Textiles benefited from the full first half contribution from, and successful integration of, Colbond and Geo-Tiptex. Continued success in our Fabrics businesses offset the expected decline in Specialist Yarns.

Net debt increased to £63.4m (November 2006: £46.1m) largely as a result of the anticipated increase in the levels of working capital which are at a seasonal peak at the end of our first half.

Dividend

In line with our progressive dividend policy the Board has declared an Interim Dividend of 1.75p per share payable on 4 October 2007 to ordinary shareholders on the register on 7 September 2007 (2006: 1.58p per share after adjusting for the bonus adjustment factor). This represents an increase of 10.8%

Duncan Clegg
Chairman
16 July 2007

Group Chief Executive's Review of Operations

Floors

Within Floors, operating profit before amortisation and non-recurring items grew by 12.5% and operating margins increased from 8.4% to 9.8% in what is typically our lower margin half year. This was achieved because of a positive mix in sales, which fell slightly from £47.8m to £45.8m.

The revenue movement contained two very different trends. The first is a highly encouraging increase in sales of our branded products of over 6%. This growth has been driven both by a significant number of new product launches as well as by continued very high customer service levels. All five of our branded product areas have seen new product activity; the most significant of which is the recent commencement of digitally printed Flotex. This innovative technology allows almost infinite design flexibility and two product ranges have been launched, of which one is in conjunction with one of Europe's leading design houses, Sottsass Associati. The other commercial highlight was the performance of our carpet tile business, Tessera, which grew strongly on the back of continued outstanding UK customer service, growth in distributor markets and also through being added to our direct salesforce's product offering in France. Geographically we have seen particularly strong progress in many of our Asian markets and will continue to drive this through our local salesforce and our distribution network.

The second trend affecting Bonar Floors' revenues was a marked decline in sales to the Ministry of Defence ("MoD"). This was driven by two factors. The first is the structural long-term decline in spend that was anticipated at the time of commencing the contract in 2004. The second is the short term refocusing of MoD spend given the military commitments overseas. Nevertheless, it is pleasing to report that the contract has been extended for a further two years, a reflection of the excellent service provided hitherto. The contract, whilst important, only represents around 10% of the Division's sales and has a lower than average gross margin.

Other key aspects of the business continue to show positive momentum. Raw material costs are much less of a burden than they have proved to be for the Technical Textiles Division and manufacturing productivity, most notably in our UK Flotex manufacturing facility, has improved markedly as a result of a focused change programme. Overhead costs remain tightly under control and we are seeing the benefits of capital investment in some of the older production equipment across the Division. As a result of these various initiatives – and the increased capital investments made to support our growth programmes - operating profit before amortisation and non-recurring items has grown from £4.0m to £4.5m and we are well positioned to ensure this trend continues throughout 2007.

Technical Textiles

The Technical Textiles Division comprises our former Yarns & Fabrics Division and Colbond. Divisional revenue grew by 130% to £96.3m (2006: £41.9m) including maiden first half sales from Colbond, our acquisition in July 2006. Sales excluding Colbond also progressed positively, however, up by some 9%. Divisional operating profit before amortisation and non-recurring items increased by 160% to £6.5m (2006: £2.5m). Whilst the average raw material cost was again higher than last year's comparable period, the average cost in the first half year has been broadly as anticipated, and the rate of increase was less than for last year.

Colbond, which has been part of the Group for almost 12 months, had a strong first half and continues to perform ahead of our expectations at the time of acquisition. I am pleased with the way that the new Divisional team, comprising Colbond and the former Yarns & Fabrics management, have been working together and this bodes well for the future development of the Division. The majority of Colbond's markets were positive and therefore good revenue growth was achieved in them, although our small business in the automotive sector in North America faced weaker underlying demand. The comparative stability of its key raw materials allied to the benefits of cost-reduction capital spend, ensured margins moved forward. There is confidence that progress will be maintained for the full year.

Bonar Fabrics (comprising our woven and non-woven textiles businesses and our construction fibre operation) saw highly satisfactory growth in sales and profit, sustained by efficiency-related capital investments, new product initiatives and continued improvements in manufacturing productivity. Our construction fibre facility, for example – which was relocated some 18 months ago to become part of our Belgian facility – has seen output increase by over 30% on a like-for-like basis. Good underlying demand in many of our core markets, combined with progress in many business supporting activities, leads us to expect continued progress in the second half – albeit we do envisage a seasonal increase in raw materials in the third quarter. Our Chinese woven business, partly owned by a large Chinese petrochemical group, Sinopec, has had another good half of sales and profit growth and we continue to invest to ensure it can keep up with demand growth.

The third business grouping within the Division, Technical Yarns, remains the entity with the most challenges to regain the margins of which it is capable. A number of management changes have been made and the underlying market growth remains strong. The new team have made conspicuous progress in many areas of operations such as productivity, raw material usage, and health and safety. We are confident that the internal progress will, together with continued growth in demand, and the actions on cost taken earlier in the year, ensure that the second half is in line with management expectations.

Outlook

This half year, one of 80% growth in operating profit before amortisation and non-recurring items, reinforces the growing financial stability of the Group and the major benefit of the Colbond acquisition. We are confident that our two core markets can sustain significant growth in sales and profit into the future, both organically and through acquisition. Our expectations of progress for the rest of this year are being underpinned by continued positive markets, further productivity improvement and a comparatively stable raw material environment. Accordingly, trading remains in line with expectations.

Paul Forman
Group Chief Executive
16 July 2007