# AIREA plc

## Interim Results for the Six Months Ended 31 December 2013

# Review of Operations

**Introduction**

The six months to December 2013 have been a challenging period for Airea plc as we continue to reshape the business towards our goal of sustainable profitable growth against a backdrop of ongoing hostile market conditions. We stated in the annual report that we could not see any reliable signs of an upturn in market conditions and this continued to be the case throughout the period. Whilst we discerned some marginal improvement in demand for our residential carpet range in the final quarter of the calendar year, this was patchy and volatile. Demand in the contract flooring market remained weak as the non-residential construction sector continued to be subdued. Our revenue reflected this general market picture and was further impacted by timing issues on larger contracts and stocking deals.

Against this back-ground of weak demand, the business has demonstrated financial resilience. Margin improvement, resulting from the work done on product engineering and price management, and a lower cost base kept the business in profit and we have maintained the financial headroom to allow us to operate debt free.

We continue to make good progress in strengthening the product portfolio and a number of important product launches were successfully completed in the first half from which we can expect to see sales in future periods. New wool mix collections extolling the virtues of wool over synthetic materials, emphasising the superior lasting appearance, resilience, cleaning properties and allergy benefits have been welcomed by retailers. Our carpet tile collection has been strengthened in the medium price sector and we have re-launched our best selling product with enhanced design options at a very competitive price point.

**Group results**

Revenue for the period was £11.6m (2012: £13.5m). The operating profit was £222,000 (2012: £359,000). After charging pension related finance costs of £200,000 (2012: £89,000) and incorporating the appropriate tax charge the net profit for the period was £16,000 (2012: £176,000). Basic earnings per share were 0.03p (2012: 0.38p).

The change in operating profit resulted from a combination of reduced sales volumes improved margins and a lower cost base. The increase in pension related finance costs arises from the new approach to calculating and presenting the net interest expense on the net defined liability introduced by a revision to the appropriate accounting standard. The notional interest is now calculated as a single net figure, based on the discount rate that is used to measure the defined benefit obligation. As a consequence the long term expected return on the plan assets actually held is no longer used. In common with many other entities, this results in a lower reported net profit. It does not reflect any real deterioration in the underlying pension funding level.

Operating cash flows before movements in working capital were £599,000 (2012: £929,000). Working capital increased by £373,000 (2012: reduction £1,355,000) due to timing of payments to suppliers. Contributions to the defined benefit pension scheme were £200,000 (2011: £217,000) in line with the agreement reached with the scheme trustees following the last triennial valuation as at 1st July 2011. Capital expenditure of £113,000 (2012: £134,000) was focussed on essential replacements and productivity improvements.

**Current trading and future prospects**

Despite the generally more optimistic tone concerning the wider economy we have not seen this work through into the particular sectors in which we operate. The residential carpet market has yet to see any sustained improvement from an increase in activity in the housing market, and demand remains volatile. On the contract flooring side, the dearth of development activity over the last six years in commercial construction and now the cut backs in public sector investment has led to challenging market conditions with intensified competition for the available business. However, the products we have launched in the first half of our financial year, combined with the work we have been doing in reshaping the salesforce, puts us in a stronger competitive position and we continue to demonstrate our financial resilience. Given the current trading position, and the ongoing need to carefully husband our financial resources, the board has decided not to make a dividend payment at the interim stage.

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## Consolidated Income Statement

6 months ended 31st December 2013

| | Unaudited | Unaudited | Audited |
|---|---|---|---|
| | 6 months ended | 6 months ended | year ended |
| | 31st December | 31st December | 30th June |
| | 2013 | 2012 | 2013 |
| | £000 | £000 | £000 |
| **Revenue** | 11,555 | 13,521 | 25,049 |
| Operating costs | (11,333) | (13,162) | (24,340) |
| **Operating profit after exceptional items** | 222 | 359 | 709 |
| Finance income | 2 | - | 2 |
| Finance costs | (200) | (89) | (178) |
| **Profit before taxation** | 24 | 270 | 533 |
| Taxation | (8) | (94) | (90) |
| **Profit for the period** | 16 | 176 | 443 |
| **Earnings per share** (basic and diluted) | 0.03p | 0.38p | 0.96p |

All amounts relate to continuing operations

## Consolidated Statement of Comprehensive Income

6 months ended 31st December 2013

| | Unaudited | Unaudited | Audited |
|---|---|---|---|
| | 6 months ended | 6 months ended | year ended |
| | 31st December | 31st December | 30th June |
| | 2013 | 2012 | 2013 |
| | £000 | £000 | £000 |
| Profit attributable to shareholders of the group | 16 | 176 | 443 |
| Actuarial losses recognised in the pension scheme | - | - | 2,350 |
| Related deferred taxation | - | - | (797) |
| Total comprehensive income/(loss) for the period | 16 | 176 | 1,996 |

## Consolidated Balance Sheet

| as at 31st December 2013 | Unaudited | Unaudited | Audited |
|---|---|---|---|
| | 31st December | 31st December | 30th June |
| | 2013 | 2012 | 2013 |

| | | | |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Non-current assets** | | | |
| Property, plant and equipment | 6,165 | 6,872 | 6,428 |
| Deferred tax asset | 1,476 | 2,495 | 1,476 |
| | 7,641 | 9,367 | 7,904 |
| **Current assets** | | | |
| Inventories | 8,723 | 7,501 | 8,874 |
| Trade and other receivables | 3,205 | 3,467 | 4,331 |
| Cash and cash equivalents | 2,406 | 3,090 | 2,747 |
| | 14,334 | 14,058 | 15,952 |
| **Total assets** | 21,975 | 23,425 | 23,856 |
| **Current liabilities** | | | |
| Trade and other payables | (3,797) | (4,368) | (5,440) |
| **Non-current liabilities** | | | |
| Pension deficit | (5,668) | (8,129) | (5,668) |
| Deferred tax | (41) | (41) | (41) |
| | (5,709) | (8,170) | (5,709) |
| **Total liabilities** | (9,506) | (12,538) | (11,149) |
| | 12,469 | 10,887 | 12,707 |
| **Equity** | | | |
| Called up share capital | 11,561 | 11,561 | 11,561 |
| Share premium account | 504 | 504 | 504 |
| Capital redemption reserve | 2,395 | 2,395 | 2,395 |
| Share option reserve | - | 16 | - |
| Retained earnings | (1,991) | (3,589) | (1,753) |
| | 12,469 | 10,887 | 12,707 |

## Consolidated Cash Flow Statement

| 6 months ended 31st December 2013 | Unaudited | Unaudited | Audited |
|---|---|---|---|
| | 6 months ended | 6 months ended | year ended |
| | 31st December | 31st December | 30th June |
| | 2013 | 2012 | 2013 |
| | £000 | £000 | £000 |
| **Operating activities** | | | |
| Profit attributable to shareholders of the group | 16 | 176 | 443 |
| Tax charged | 8 | 94 | 90 |
| Finance costs | 198 | 89 | 176 |
| Depreciation | 377 | 570 | 1,137 |
| Operating cash flows before movements in working capital | 599 | 929 | 1,846 |
| (Increase)/decrease in working capital | (373) | 1,355 | 416 |
| Contributions to defined benefit pension scheme | (200) | (217) | (415) |
| Cash generated from operations | 26 | 2,067 | 1,847 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | (113) | (134) | (257) |

| | | | |
|---|---|---|---|
| **Financing activities** | | | |
| Equity dividends paid | (254) | (185) | (185) |
| **Net (decrease)/increase in cash and cash equivalents** | (341) | 1,748 | 1,405 |
| **Cash and cash equivalents at start of period** | 2,747 | 1,342 | 1,342 |
| **Cash and cash equivalents at end of period** | 2,406 | 3,090 | 2,747 |

## Consolidated Statement of Changes in Equity

6 months ended 31st December 2013

| | Share capital | Share premium account | Capital redemption reserve | Share option reserve | Retained Earnings | Total equity |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 1st July 2012 | 11,561 | 504 | 2,395 | 16 | (3,580) | 10,896 |
| Profit attributable to shareholders of the group | - | - | - | - | 176 | 176 |
| Dividend paid | - | - | - | - | (185) | (185) |
| At 1st January 2013 | 11,561 | 504 | 2,395 | 16 | (3,589) | 10,887 |
| Profit attributable to shareholders of the group | - | - | - | - | 267 | 267 |
| Other comprehensive income for the period | - | - | - | - | 1,553 | 1,553 |
| Reserve transfer relating to share based payment | - | - | - | (16) | 16 | - |
| At 1st July 2013 | 11,561 | 504 | 2,395 | - | (1,753) | 12,707 |
| Profit attributable to shareholders of the group | - | - | - | - | 16 | 16 |
| Dividend paid | - | - | - | - | (254) | (254) |
| At 31st December 2013 | 11,561 | 504 | 2,395 | - | (1,991) | 12,469 |

## Note

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information for the six month periods ended 31st December 2013 and 31st December 2012 has not been audited and does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006.

The financial information relating to the year ended 30th June 2013 does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006. This information is based on the group's statutory accounts for that period. The statutory accounts were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and received an unqualified audit report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006. These financial statements have been filed with the Registrar of Companies.

These interim financial statements have been prepared using the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union ("IFRS"). The accounting policies used are the same as those used in preparing the financial statements for the year ended 30th June 2013. These policies are set out in the annual report and accounts for the year ended 30th June 2013. The interim and annual reports are available on the company's website at www.aireaplc.co.uk.