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Financial Dynamics

Heywood Williams Group PLC Preliminary Results

Heywood Williams Group PLC, the building products group, announces its preliminary results for the year ended 31 December 2001.

Highlights

Results — Strong growth of profitability in second half:

- Second half turnaround in operating profit* to £13.3 million compared to £7.9 million for the comparable period last year
- Fall in full year PBT* to £18.1 million compared to £25.7 million last year, impacted mainly by US pipe operations
- Diluted EPS# of 16.1p (2000: 21.9p) covering unchanged dividend of 15.0p
- Free cash flow of £22.6 million with 110% conversion of operating profit*
- Borrowings held to £25.7 million with interest cover* of 8.5 times

* before exceptionals, goodwill amortisation and income from discontinued interests in associate undertakings

before exceptionals and goodwill amortisation

Key Actions Taken:

- Achieved UK profit growth in second half due to improvements across all three divisions
- Improved strategic clarity through the disposal of non-core UK activities and the acquisition of Cestrum
- UK restructuring exceptional charge of £6 million with annual benefits of £3.5 million by 2003
- Generated second half growth in US manufactured housing - product upgrades and competitor bankruptcy

The Future:

- Market prospects look sound in UK, but still fragile in the US
- Leverage UK market leader position to create shareholder value
- Accelerate growth through innovative products and new sales channels

Ian Stuart, Chief Executive, comments:

"On my joining the Group a year ago, it was clear that Heywood Williams was not behaving like a leader. Now, having started a profit turnaround, we have built a platform to turn Heywood Williams into a growth company."

HEYWOOD WILLIAMS GROUP PLC

Chairman's Report

I am pleased to report a year of progress for Heywood Williams. Whilst profits for the year were down on 2000, the second half results were well ahead of both the first half 2001 and the equivalent period in the prior year and, together with a strong cash flow, demonstrate that a turnaround has begun.

We have profoundly changed the group's culture. The strategic direction for the group has been determined and the executive team, under the leadership of our new chief executive, Ian Stuart, has been vigorous in the initiation and development of programmes to deliver a platform from which we can produce further growth.

Performance

Operating profit (before exceptionals and goodwill amortisation and excluding income from associates) was down 27% to £20.5 million (2000: £28.1 million). Profit before tax (before exceptionals and goodwill amortisation and excluding income from associates) was £18.1 million (2000: £25.7 million). Earnings per share before exceptionals and goodwill amortisation were 16.1p (2000: 21.9p) and basic earnings per share after exceptional items and goodwill amortisation were 0.2p (2000: 5.8p).

Our balance sheet remains strong with net debt of £25.7 million at year end (2000: £21.8 million), gearing of 33% (excluding amortised goodwill) and pre-exceptional and goodwill amortisation interest cover of 8.5 times.

Dividend

Based upon the beginning of a turnaround in the group's performance and its strong cash flow, the board is recommending an unchanged final dividend of 9.75p per share, payable on 16 May 2002 to shareholders on the Register of Members on 22 March 2002, making a total for the year of 15p per share (2000: 15p). Before exceptionals and goodwill amortisation, the dividend cover is 1.1 times.

Focus on innovation

In line with our strategy, which is explained in Ian Stuart's report, we are reinvesting in our businesses, strengthening their competitiveness and, by focusing on our customers' needs, improving our leading market positions. In support of this, we are streamlining our organisation and, where appropriate, strengthening line management.

The aim is to create value organically. Our integrated business philosophy is fostering new ideas and innovation and reducing the time required to convert them into operational performance. As part of this development increased accountability for delivery by individual managers and a faster pace of change are pre-requisites and are already yielding benefits.

Directors and employees

I would like to express my sincere thanks to the two long serving non-executive directors, Richard Fortin and John Pinder, who will retire from the board at the 2002 AGM. We are very grateful to both for their significant contributions since joining the board.

I welcome both Roger Boyes and Edward Roderick who have joined us as non-executive directors. They both bring a wealth of knowledge and relevant experience to Heywood Williams.

On behalf of the board, I would also like to thank all Heywood Williams' employees for their continuing commitment to and enthusiasm for the group and its activities. The challenging markets of recent years, compounded by the upheaval of necessary change, have made their dedication and determination to succeed more important than ever.

Prospects

Although we have made satisfactory progress in the first two months of 2002 the economic outlook, particularly in the US, remains mixed and this could have some impact on our short-term performance.

However, the board is confident that the group's clear strategy, its emphasis on competitiveness and the customer and the group's good inherent cash generation abilities will provide the basis for further progress.

Hamish Bryce
Chairman
12 March 2002

HEYWOOD WILLIAMS GROUP PLC
Chief Executive's Report

Last year I talked about the focus on improved performance that would be required to halt and reverse the deterioration in results experienced in 2000. I am pleased to report that our profits, after stabilising in H1 2001, achieved a clear upward trend in H2. This turnaround was accompanied by strong cash generation throughout the year, as we implemented tight management of both working capital and capital investment programmes.

Market conditions

The UK domestic PVC windows, doors and conservatory market showed growth in 2001 in all three sectors. In the US, our markets remained generally at depressed levels. Manufactured housing declined by 23% over the year, but by the last quarter was showing its first year-on-year growth since late 1999. Recreational vehicles also enjoyed a late year recovery that brought year-end output levels up close to the levels of the previous year. The outlook for the US economy in general, and our market in particular, remains uncertain.

In the UK the cost of the most significant raw material, PVC resin, fell during the first half of the year, and after modest increases in the second half, the outlook is reasonably benign for 2002. The pattern in the US was different, with prices still falling in late 2001, and continuing to adversely impact the profitability of our pipe business.

H2 results

Comparable operating profit reached £13.3 million for H2, compared to £7.2 million for H1 and £7.9 million for H2 2000. Our profit improvement was led by the UK, but despite difficult market conditions, the US maintained overall profitability in the second half. Within this picture, LaSalle Bristol, our manufactured housing distribution company, showed improvement from the second quarter onwards, offsetting the US pipe's performance which was at near breakeven levels throughout the year. In the UK, our second half profit was more than double that of the same period in the previous year. This recovery was both sales and cost driven and was led by our Systems division, with Coldseal also showing an improving trend in the second half and Hardware continuing its consistent earnings growth.

Full year results

The lower profitability for 2001 could be entirely attributed to reduced results in US pipe, with the UK and MH/RV both making full year progress. Turnover was also lower due principally to UK business disposals and lower US pipe prices and volumes. As previously announced, the operating exceptional charge of £6 million relates to our UK restructuring plan, covering both the Systems and Fabrication divisions.

Strong free cash flows resulted in borrowings increasing by only £3.9 million to £25.7 million despite the purchase of Cestrum for a total cost of £14.3 million. This excellent performance has been achieved by tight management of working capital levels and capital expenditure. These disciplines will serve us well as the group continues to develop in the coming years.

Strategic progress

During 2001 we have concentrated on our three themes — 'Delivering strategic clarity', 'Reducing costs' and 'Growing sales' - to focus and energise our management team to improve financial performance and grow shareholder value. I can report significant progress in each of these areas:

Delivering strategic clarity

With the disposal of our HMF, DQS and Percy Lane businesses during 2001, our UK business is now solely focused on the domestic window, door and conservatory market in which we enjoy a leadership position. Whilst our main UK focus is organic growth, we strengthened our position by completing the bolt-on acquisition of Cestrum in August 2001, giving us growth acceleration in the new build and DIY sales channels and product expansion into insulated glass units and conservatory roofs.

In the US, our previously announced decision to halt our divestment process due to its commercial infeasibility has enabled us to focus on faster change to achieve the incremental operational improvements required to take us forward in tough market conditions.

Reducing costs

In August we announced a fundamental restructuring plan to consolidate our UK Systems division on to fewer, more efficient sites and also to close down one of our fabrication plants. This programme will deliver annual savings by 2003 of £3.5 million against a one-time cost of £6 million. Additionally, in the US, we closed our higher cost pipe facility in Tennessee in April.

These plant consolidations came on top of significant plans, which were put in place at the beginning of 2001, to reduce our cost base. These included a thorough overhead review, improvements in the cost effectiveness of our PVC formulations, lower scrap targets and reduced warehouse and distribution costs.

For 2002, we have already established significant initiatives in Lean Manufacturing and purchasing which will deliver benefits, both to profit and working capital.

Growing sales

In the US, strong sales growth at LaSalle Bristol from Q2 onwards offset the impact of a generally poor Q1 and the decline in revenue at Bristolpipe due to falls in volume and resin prices.

In the UK, strong second half year-on-year sales growth was achieved in Hardware and in Coldseal.

Initiatives are in place to drive stronger growth in 2002. In the US, LaSalle Bristol has gained significant market share from the entry into bankruptcy of a key manufactured housing distribution competitor in March 2001. Both LaSalle Bristol and Creation have significant product upgrade programmes, principally in flooring, plumbing, windows and doors.

In the UK, we launched our new composite door at the end of 2001. We also have announced major new customer gains in our Systems division. In our Fabrication division we have developed significant new sales channels including DIY sheds, new build and builders merchants. Growth in these will be accelerated by the Cestrum acquisition, which will also provide an entry into two of the fastest growing product categories in the industry namely insulated glass units and conservatory roofs. Our e-commerce subsidiary, pvconline, is now fully operational. In Hardware, we continue to grow the business strongly.

Management/organisational development

Our management responded to the demands of greater accountability and urgency required to achieve turnaround and to drive our organic growth agenda. Following our restructuring plan, investments are being directed at the larger scale sites and businesses that we have created. 2002 will see some substantial projects to increase productivity and develop new products. There is now an opportunity to focus our resources on process and product change that will improve service levels and value for our customers.

Having lowered our cost base in 2001, we have established a platform for growth which will be led by new product development and sales channel expansion. We look forward to continued growth in the business and in shareholder value in 2002.

Ian Stuart

12 March 2002

HEYWOOD WILLIAMS GROUP PLC
Finance Director's Report

Sales decreased to £621.2 million (2000: £652.0 million) and operating profit (before exceptionals and goodwill amortisation and excluding income from associates) was down 27% to £20.5 million (2000: £28.1 million). Profit before tax (before exceptionals and goodwill amortisation and excluding income from associates) was £18.1 million (2000: £25.7 million). With a lower tax rate of 29.8% (2000: 32%), earnings per share before exceptional items and goodwill amortisation were 16.1p (2000: 21.9p).

As previously announced, the operating exceptional charge of £6 million relates to our UK restructuring plan and is detailed below. A non-operating exceptional loss of £5 million from the disposal of the three remaining non-core UK businesses related almost entirely to the write-back of goodwill previously written off with an equivalent adjustment to reserves or balance sheet goodwill. Due to the effect of these factors, and the disposal of our European glass associate in 2000, profit after tax reduced to £0.3 million (2000: £5.3 million).

Operating exceptional

A charge of £6 million has been made in the 2001 profit and loss account in respect of restructuring, principally in the UK Systems and Fabrication divisions. Of this figure, £5.3 million remained unutilised at the end of 2001.

Within Systems there is a reduction from four major manufacturing sites to two; one in Macclesfield producing rigid PVC and one in Scunthorpe producing cellular foam PVC. Distribution sites will also reduce to two from five; the main site in Stoke distributing all products, with a bulk back-up site in Cheshire. In Fabrication, one of the new build factories has been closed, with production transferred to the existing Barnsley and Huddersfield operations. The former Cestrum management structure has been rationalised and integrated with our Fabrication division, which has been organised into direct retail (Coldseal) and trade (new build, builders merchants, DIY, and installers).

The Fabrication changes have already been made and the Systems programme will be complete by the end of 2002, leading to full year benefits of £3.5 million in 2003. Phasing of benefits will build up progressively during the second half of 2002.

Taxation

The effective tax rate was 29.8% (2000: 32%) of operating profit before goodwill amortisation and exceptional items. In 2002 it is anticipated that the implementation of FRS19 (Deferred Tax) will increase the annual tax charge by approximately £1.2 million, due principally to a new deferred tax charge on the amortisation of US acquired goodwill as well as full provision for all accounting-taxation timing differences. In order to reflect the cumulative effect of the standard, it will be necessary to make a prior year adjustment to the 2002 accounts to create an additional £12 million deferred tax provision. Such a change will have no cash or economic effect. It is expected that there will be an improvement to the cash tax rate in 2002 offsetting the accounting effect of FRS19. This will yield economic benefits and will leave the overall tax rate broadly the same, at around 31%.

Cash flow

We have placed increased emphasis on cash generation during what we believed to be the low point of the earnings cycle. In 2002 we will continue tight cash management to support a higher level of capital expenditure associated with reorganisation and growth, the utilisation of the reorganisation provision, and seasonal outflows more in line with business activity than was the case in 2001, when one-time benefits were achieved.

Throughout the year, we have stimulated the businesses to originate more growth projects and, for example, are planning future capital expenditure for a new window suite for Systems, new glass lines for Fabrication and Creation, and additional manufacturing capacity in Hardware division. Equally important, cost reduction projects have been focused around the UK Systems and Fabrication divisions and the Georgia pipe plant.

The table below re-analyses the cash flow statement, in order to provide a more informative presentation.

£m	2001	2000
Operating profit*	20.5	28.1
Working capital	4.5	(4.6)
Exceptional restructuring	(0.7)	-
Capital expenditure less depreciation	2.5	(4.9)
Taxation	(4.2)	(9.0)
Free cash flow	22.6	9.6
Acquisitions/investments/disposals/other	(12.4)	4.5
Dividends/interest	(14.1)	(15.5)
Net shares bought	-	(15.7)
Decrease in net funds	(3.9)	(17.1)
Opening borrowings	(21.8)	(4.7)
Closing borrowings	(25.7)	(21.8)

*before exceptionals and excluding associates

Treasury policies & financial risks

The group's policies have not changed with respect to these risks and remain as stated in the report and accounts for 2000. The group's principal foreign exchange exposure is the translation of US dollar denominated results and net assets into sterling. Rates continued to be relatively stable against sterling, with an average rate for 2001 of \$1.44 compared to an average rate of \$1.53 in 2000.

Accounting policies & standards

There are no changes in accounting policy from the prior year. The disclosure requirements only of FRS17, Retirement Benefits, and FRS18, Accounting Policies, have been adopted by the group during the year. With regard to defined benefit pension schemes, based on approximate FRS17 valuations, the principal fund is in a neutral funding position and the smaller US schemes had a deficit of £1 million at the balance sheet date.

Laurence Campbell

12 March 2002

HEYWOOD WILLIAMS GROUP PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
year ended 31 December 2001

	2001	2000
	£m	£m
Turnover	621.2	652.0
Costs and overheads excluding goodwill amortisation and exceptional items	(600.7)	(623.9)
Operating profit before goodwill amortisation and exceptional items	20.5	28.1
Goodwill amortisation	(3.1)	(2.9)
Operating exceptional items	(6.0)	-
Operating profit	11.4	25.2
Discontinued — income from interests in associated undertakings	-	2.4
Operating profit after income from associated undertakings	11.4	27.6
Exceptional losses less profits on disposal of operations	(5.0)	(10.9)
Interest	(2.4)	(2.4)
Profit on ordinary activities before taxation	4.0	14.3
Taxation	(3.7)	(9.0)
Profit after taxation	0.3	5.3
Equity minority interests	-	(0.3)
Profit attributable to members of the parent company	0.3	5.0
Equity and non-equity dividends	(11.8)	(12.4)
Retained deficit for the financial year	(11.5)	(7.4)
Earnings per ordinary share		
Basic	0.2p	5.8p
Diluted	0.2p	5.7p
Diluted, excluding goodwill amortisation and exceptional items	16.1p	21.9p

Notes to the financial statements

1. The 2001 figures have been abridged from the audited accounts for the year, which will be posted to shareholders on 5 April 2002. Audited accounts for 2000 have been delivered to the Registrar of Companies.
2. Accounting policies applied to the preliminary financial information are consistent with those used for the 2000 accounts.
3. Payment of the recommended final dividend of 9.75p per ordinary share, if approved at the annual general meeting of the company on 9 May 2002, will be made on 16 May 2002 to shareholders registered on 22 March 2002.

HEYWOOD WILLIAMS GROUP PLC
TURNOVER AND OPERATING PROFIT BY GEOGRAPHICAL LOCATION
year ended 31 December 2001

	2001	2000
	£m	£m
Turnover by geographical location		
UK (including Europe)	268.8	290.4
US	352.4	361.6
	621.2	652.0
Operating profit by geographical location		
UK (including Europe)	10.8	9.7
US	9.7	18.4
Operating profit before goodwill amortisation and exceptional items	20.5	28.1
UK goodwill amortisation	(2.8)	(2.6)
US goodwill amortisation	(0.3)	(0.3)
UK exceptional items	(6.0)	-
Operating profit	11.4	25.2

All the group's activities are focused on building products, such that a segmental analysis by product is not required.

HEYWOOD WILLIAMS GROUP PLC
CONSOLIDATED BALANCE SHEET
at 31 December 2001

	2001 £m	2000 £m
Fixed assets		
Intangible assets	59.8	52.7
Tangible assets	70.9	71.2
Other investments	3.4	1.9
	134.1	125.8
Current assets		
Stocks	63.0	63.2
Debtors due within one year	68.3	72.9
Cash at bank and in hand	12.9	13.8
	144.2	149.9
Creditors - due within one year		
Borrowings	38.5	35.4
Other creditors	89.9	89.1
	128.4	124.5
Net current assets	15.8	25.4
Total assets less current liabilities	149.9	151.2
Creditors: due after one year — borrowings	0.1	0.2
Provisions for liabilities and charges	12.5	6.1
	12.6	6.3
	137.3	144.9
Capital and reserves		
Called up share capital	20.1	20.1
Share premium account	7.1	7.1
Other reserves	8.0	8.0
Profit and loss account	102.1	109.7
Shareholders' funds	137.3	144.9
Equity interests	135.0	142.6
Non-equity interests	2.3	2.3

HEYWOOD WILLIAMS GROUP PLC
CONSOLIDATED CASH FLOW
year ended 31 December 2001

	2001	2000
	£m	£m
Net cash inflow from operating activities	36.9	34.5
Dividends from associated undertakings	-	3.1
Returns on investments and servicing of finance		
Interest paid	(2.5)	(3.6)
Interest received	0.2	1.1
Preference share dividends paid	(0.1)	(0.4)
	(2.4)	(2.9)
Taxation	(4.2)	(9.0)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(11.4)	(16.5)
Sale of tangible fixed assets	1.2	0.6
Other investment	(1.1)	-
	(11.3)	(15.9)
Acquisitions and disposals		
Acquisitions of subsidiary undertakings and businesses	(10.5)	(7.3)
Disposals of subsidiary undertakings and businesses	5.1	10.2
	(5.4)	2.9
Equity dividends paid	(11.7)	(12.6)
Cash inflow before use of liquid resources and financing	1.9	0.1
Management of liquid resources	-	22.3
Financing		
Issue of ordinary share capital	-	0.3
Repurchase of ordinary share capital	-	(16.0)
Forward exchange hedging contracts	(1.9)	-
Additional loans	12.6	27.7
Repayment of loan	(13.3)	(41.0)
	(2.6)	(29.0)
Net decrease in cash	(0.7)	(6.6)
Reconciliation of net cash flow to movement in net debt		
Net decrease in cash	(0.7)	(6.6)
Decrease in borrowings	0.7	13.3
Decrease in liquid resources	-	(22.3)
Increase in net debt resulting from cash flows	-	(15.6)
Other non-cash changes	(3.7)	-
Exchange fluctuations	(0.2)	(1.5)
Increase in net debt	(3.9)	(17.1)
Opening net debt	(21.8)	(4.7)
Closing net debt	(25.7)	(21.8)