

**ANALYSTS' PRESENTATION – 27TH AUGUST 2010
INTERIM RESULTS 2010**

- **SLIDE 0 – AGA RANGEMASTER GROUP, INTERIM RESULTS 2010
[WHILST PEOPLE GATHER]**

JOHN COLEMAN

Welcome everyone to our 2010 interim results presentation.

Our mission has been to steer a steady course through the recession – remaining profitable, generating cash and having the products to deliver new market opportunities. Today's presentation shows we remain on course. We have specific challenges as we work to create value for shareholders – and do so with outstanding brands, as you can see from this montage.

Over to William.

WILLIAM MCGRATH

- **SLIDE 1 – AGA RANGEMASTER GROUP PLC**

Thank you, John.

Good morning. We are pleased that 2010 is proving a better year. Profits have improved and although caution is required there is in place the basis for more material progress.

As the business description shows we focused, post the foodservice disposal, on our position as a leading international premium consumer brands group.

These have been tough markets. Our EBITDA was £17.4 million in the first half of 2007, £13.4 million in the first of 2008, £2.0 million in the first half of 2009 and now £4.2 million in the first half of this year, excluding the pensions curtailment gain.

➤ **SLIDE 2 – SUMMARY OF CURRENT POSITION**

In the sluggish markets we have enforced strong disciplines to cut costs and have remained cash generative and profitable. In the last 2 years we have cut costs by over £10 million per annum and that streamlining itself is creating new opportunities. We have remained committed to product development, such as the 100 cm Rangemaster line on display here today, and have our best ever product pipeline. We are also aligning ourselves with new growth opportunities, as can be seen with our trial Home Energy Management Centre in Kidderminster.

We have widened our addressable markets internationally and have the product to reinforce our position – as seen in North America. And we continue to work to use our database to best effect.

Today we'll cover finances, our approach to that database, operational performance with particular reference to Fired Earth and our view of the immediate outlook.

First, Shaun and the finances

SHAUN SMITH

➤ **SLIDE 3 – FIRST HALF 2010 : FINANCIAL OVERVIEW**

Thank you, William. Good morning.

Our priorities for the first half of the year were about being profitable, continuing to control costs and good cash management. These objectives

were achieved in the first half but remain key, given the uncertain consumer markets. We have been disciplined throughout the recession and have established a solid foundation for the business.

We are pleased, therefore, to announce we are now reinstating the dividend, confident that the business is in good shape.

➤ **SLIDE 4 – 2010 INTERIM RESULTS – INCOME STATEMENT**

Revenues in the period were up 4.8% at £123.4 million. The operating profit of £0.8 million compares to an operating loss of £1.7 million in the first half of last year.

The net pension credit of £16.4 million includes a curtailment gain of £16.3 million, which as highlighted back in March, results from the freezing of final pensionable salaries for scheme members.

Non-recurring costs were £0.7 million in the first half, primarily reflecting the provision made for the costs of integrating our Canadian manufacturing operation into our new Greenville, Michigan facility.

The net finance cost was £0.1 million and compares to £0.2 million in the first half of last year.

So, the overall profit before tax was £16.4 million. Underlying profit before tax, excluding the pension curtailment gain and non-recurring costs, was £0.8 million in the period and compares to a loss of £1.1 million in the first half of 2009.

➤ **SLIDE 5 – 2010 INTERIM RESULTS – SHAREHOLDER : KEY FIGURES**

These results translate into earnings per share of 17.6 pence compared to a 2.3 pence per share loss in the corresponding period in 2009. Underlying

earnings per share this year were 1.7 pence in the period. As you will have already seen, the Board has decided to reintroduce a dividend of 0.7 pence per share. The level of future dividends to be paid will reflect the performance and the available cash resources of the Group.

Shareholders' equity stands at £132.6 million, little changed when compared to the £133.8 million at the end of 2009.

➤ **SLIDE 6 – BALANCE SHEET**

Now turning to the balance sheet which we have continued to manage conservatively and with cash generation in mind.

Working capital totals £19.4 million which compares to £34.1 million in June last year and is only slightly higher than the £14.5 million at the end of December last year. Inventories at £44.9 million were actually lower than both the £54.8 million in June last year and the £46.0 million last December. Receivables of £36.4 million were £4.7 million higher than the £31.7 million at the end of December as a result of stronger trading in the second quarter of the year. Trade payables reduced by £1.3 million in the period.

The net pension position, a deficit of £39.6 million, has changed little since December.

Net cash at the end of the period totalled £22.4 million, which is over £20 million higher than the £2.3 million of net cash at the end of June 2009.

➤ **SLIDE 7 – OPERATING CASHFLOW**

The total cashflow from operating activities was a small outflow of £1.8 million and compares to a £2.0 million inflow in the first half of last year. The amortisation and depreciation charge in the period totalled £4.0 million, marginally lower than the first half charge in 2009.

The working capital outflow was £5.4 million as turnover increased, which had the impact of increasing receivables by £5.3 million. The relatively small first half outflow, it should be remembered, followed a £20.2 million working capital inflow in the second half of last year.

➤ **SLIDE 8 – CONSOLIDATED CASHFLOW**

Net capital expenditure and product development spend was well controlled in the period at £1.8 million which compares to £5.5 million in the first half of 2009 which, you may recall, included a £2.8 million payment on our new AGA Marvel facility in the US.

➤ **SLIDE 9 – REORGANISATION, PROGRESS & TARGETS**

Reported R&R spend in the first half was £0.7m – primarily the cost of our North American consolidation. This makes the total reorganisation investment made since 2008, £8.8 million.

The actions taken since 2008 were originally targeted at delivering total savings of £9.2 million per annum. During the full year 2010 these projects will generate a minimum of £10 million in savings. A further £1.0 million, making the total savings £11.0 million, will be delivered in 2011 following the completion of the North American manufacturing consolidation.

Cost reduction programmes have been focused firstly on site consolidation – notably the Richmond and Greenville site closures in the US and the St Laurent and Brignais site closures in France. These have resulted in lower fixed cost bases and enhanced operational gearing capabilities.

Secondly, management structures and processes have been streamlined – in the UK, AGA and Rangemaster have been integrated – whilst in North America this process is also well underway at AGA Marvel.

With total savings of £11 million per annum and Group capacity utilisation at around 70%, the operational gearing is available should volumes increase significantly. Although headcount has been reduced by 20% since the start of 2008, the use of short time working has ensured we have the necessary skills available, to react quickly to increases in demand.

➤ **SLIDE 10 – CASH MANAGEMENT : RESULTS OF 18 MONTHS' WORK**

In 2008, the Group recognised that it had to generate cash as market conditions deteriorated.

Since setting this as a key objective the Group has generated £16.6 million of cash, improving net cash from £5.8 million at the end of 2008 to £22.4 million in June.

Over the same period, working capital has fallen by almost 50% from £36.6 million to £19.4 million at a time when annualised Group sales have fallen by 10% and as a result working capital as a percentage of sales has fallen from 13.1% to 7.7%.

Cash management continues to be a focus of attention.

➤ **SLIDE 11 – PENSIONS UPDATE : KEY NUMBERS 2010**

Turning now to pensions. Firstly, the IAS 19 accounting position.

The balance sheet as at 30th June 2010 shows a deficit of £39.6 million on liabilities of £751.2 million which compares to a £40.5 million deficit on liabilities of £756.5 million at the end of December 2009.

The discount rate used to value the liabilities has reduced from 5.65% at the year end to 5.3% as at June whilst the inflation rate expectation has reduced from 3.45% to 3.1% over the same period.

The net pension credit reduced to £0.1 million in the period compared to £0.8 million in the first half of 2009. On top of this there was also the curtailment gain of £16.3 million as we froze the salaries of active members for pension purposes.

Turning now to the triennial valuation.

➤ **SLIDE 12 – PENSIONS - TRIENNIAL VALUATION**

The triennial valuation as at 31st December 2008 has now been agreed and signed off by the actuaries, Towers Watson, and submitted to the Regulator.

The outcome is very much as indicated in March. The deficit as at 31st December 2008 was £161.3 million reflecting the turbulent financial circumstances of the time. Adjusting the position to 31st December 2009 reduced the deficit to £84 million.

The deficit recovery plan, agreed with the Scheme trustees, takes account of the material subsequent movements since the 2008 valuation and proposes an additional £2 million per annum to be contributed in 2010 and 2011. From 2012 the Group will, unless the 2011 valuation due to be completed in early 2012 gives rise to a new recovery plan, make contributions of £10 million per annum towards reducing the deficit with a £48 million bullet payment in 2020.

As you are aware there is already in place an agreement with the trustees which is designed to help the Scheme reach self-sufficiency by 2020. Recovery plans from 2012 will fit within that framework. These existing arrangements include £50 million in bank guarantees designed to provide additional assurance on a contingent basis to the trustees that the 2020 funding target can be achieved.

The Group continues to work on Scheme cashflow analysis and ways of removing or mitigating the contingent risks the Scheme creates and will work

alongside the trustees to take action should markets make it sensible and economic to do so.

➤ **SLIDE 13 – FINANCIAL OUTLOOK FOR 2010**

The financial guidance for the year provided in March remains largely unchanged and was set assuming relatively modest levels of growth.

Capital expenditure is expected to be around £5 million and will therefore be less than 0.75 x depreciation.

The net pension credit will be around £16.4 million, including the £16.3 million curtailment gain. The net credit will, therefore, be around £0.8 million higher than the guidance provided in March. The ordinary cash contribution into the scheme will be circa £1.0 million this year – the last year in which our 2007 pre payment reduces funding costs. These will therefore rise to around £2.5 million in 2011.

The corporation tax charge will be negligible for the year although there will still be an annual charge from deferred tax on the pension curtailment gain – which will be at 27%.

Reorganisation costs in the year are currently expected to total over £1.0 million which includes the £0.7 million charged in the first half.

We continue to control working capital tightly and, as a result, it should be little changed year-on-year despite revenue growth expectations.

We will continue to focus on cash generation.

William.

WILLIAM McGRATH

➤ **SLIDE 14 – MONTHLY UK MORTGAGE APPROVALS**

Thank you, Shaun.

I will start with an overview of our core market and how we are seeking to use the strength of our database to assist customer acquisitions.

Firstly a look at the UK housing market. Mortgage approvals are a reasonable indicator of the state of our markets. As you can see, they have recovered from the low levels of 2008 but are now flat year-on-year and remain under half the level of two years' ago. House prices have similarly recovered from lows but are now broadly flat. Industry statistics for the kitchen appliance market show that built-in appliances are flat with range cookers volumes up 4% year-on-year and the chart suggests a sluggish second half.

➤ **SLIDE 15 – DATABASE BY LIFESTAGE**

Looking now more specifically at our customer base.

Our database stands at 1.2 million households of which, 700,000 are already customers. We have carried out a detailed Sonar analysis of the database, and the graphic shows the breakdown by life stage. We are, as you would expect, well represented in Families and Mature Families where you will find well established property owners - groups with the need or desire to spend on their homes.

➤ **SLIDE 16 –DATABASE BY AFFLUENCE**

This graphic shows that we have more than twice the national representation in the Affluent quartile. The deepest penetrations – interestingly all in the Affluent quartile - are into 7 of the 76 Sonar codes that include “Hardworking

Entrepreneurs” and “Ambridge revisited”, and where we have almost 25% of all these UK households in our database.

➤ **SLIDE 17 – DATA BASE BY PRODUCT SEGMENTATION**

This graphic shows the breakdown by brand groups for the whole database. Because of the high level of consumer interest in AGA generally and the fact that we are much more directly in control of the customer journey, we have a higher proportion of prospects to customers. The reverse is true of Rangemaster – sold through dealers – where we have a higher proportion of customers than prospects

➤ **SLIDE 18 – DATABASE MARKETING AND LEAD GENERATION**

Customers obtain information and brochures via a number of channels including telephone, online brochure requests, web downloads, and visits to showrooms – be they to our own retail outlets or dealer showrooms. A prospect record is created for every information request received centrally or when someone walks into one of our own shops. So far this year, we have added 44,200 prospect households to the database from which we have generated 61,000 new leads – turning the initial enquiry into multiple leads for other Group brands. In addition, 44,700 PDF brochures have been downloaded since we launched a new system in April.

➤ **SLIDE 19 – MARKETING CAMPAIGNS**

We have strong marketing campaigns for the autumn. There will be a six page insert in home interest magazines from the ‘AGA Guide’ which builds on the stronger themes developed over the last ten years. Rangemaster will urge you to master the art of juggling – emphasising the flexibility and absolute relevance of our product to contemporary lifestyles – and all with the subtext that we have the best cookers and appliances for today’s household needs.

Will all this have an impact? We have commissioned online research by 'The Next Big Thing' on household attitudes to the kitchen and cooking. 30% of a representative sample of the UK population said that with money no object a range cooker would be their first choice for their kitchen - with an AGA being the first choice of 18% of all participants. AGA is confirmed as a great aspirational brand. The study showed the range cooker suits consumers who cook with fresh product and see the kitchen as the heart of their home.

➤ **SLIDE 20 - CAST IRON COOKERS : PERFORMANCE**

Looking now at specific product areas. Our cast iron cooker operations – under the AGA, Rayburn and Stanley brands. Orders were 5,850 compared with 6,500 in 2009. Overall volumes were down in spite of improving Aga volumes because of a fall off in wood burning Rayburn and Stanley appliance sales when the recession bolstered 2008 / 2009 sales of wood models. AGA leads are up 10% this year, and we have seen some encouraging store performances, most notably in the South. AGA did patchily overseas and exports were flat.

The modern AGA models have moved on a long way and we are already testing the next generation which will have greater programmability for 2011. Meanwhile, we are successfully working to upgrade existing products in the field. Nearly 20% of sales in our own stores are new for old and over 500 customers have upgraded their burner systems in the last year.

With volumes well below peak we have been working on efficiencies to protect margins available from closer integration of AGA and Rangemaster manufacturing processes – now all under Group manufacturing director, Gary Green.

An area where we are having a good year is cookware where both the AGA and Divertimenti brands are doing well. Cookware is now a £10 million per annum business and is up over 10% this year and over 10% of this is now online.

➤ **SLIDE 21 – CAST IRON COOKERS : OUTLOOK FOR 2010**

Looking forward then, we have a good level of leads in the system – AGA home surveys in our shops are up over 20%, but there are regional variations. Shops like Cobham, Haslemere and Cirencester are positive about the outlook – the South West is, however, quiet. The profile of the brand remains high, maintained by our very active presence at country shows this summer as well as the sell out show in the AGA Shop, 'At Home with Mrs Money Penny', the Financial Times' Weekend columnist, at the Edinburgh fringe.

We have also sharpened the focus of sales for this autumn by having one team to support all retail outlets be they owned or dealer AGA Shops. The Rayburn sales structure has also been rejuvenated.

➤ **SLIDE 22 – HOME ENERGY MANAGEMENT CENTRE :
KIDDERMINSTER**

We do now look to Rayburn to add more to the volume recovery. Energy management in the home has been a theme on which we have been working for several years and it is coming to fruition – it is an area where we should expect to become a strong player in a new and growing sector.

Our newly refitted Kidderminster store is designed to show how solar panels, wood burning stoves and AGA / Rayburn fit together. We offer a number of packages, selling for around £15,000. Solar collectors made by Kingspan in Northern Ireland are linked to an AGA Rayburn branded thermal hot water store and fitted by the Mark Group. Our store is supported by technical training resources from our Telford development centre so that we can explain the opportunities to plumbers and architects as well as consumers. So those keen to take part in a green revolution have a mainstream way to do so with us.

➤ **SLIDE 23 – KITCHEN APPLIANCE MARKETS : PERFORMANCE**

Looking now at the kitchen appliance markets.

Our manufacturing facility for Rangemaster in Leamington Spa feeding our cooker brands has become a major driver of the business. This success which continued in the first half of 2010 – when sales values were up over 10% - is striking given the slow start caused by the strong VAT / stamp duty induced finish to 2009. The UK was flat but product mix and continental sales growth of over 15% pushed revenues up. Our particular strength is our presence in all of the major routes to market - electrical wholesalers, kitchen multiples and kitchen and appliance independents. Our near 200 dealer Rangemaster design centres are one of the fastest growing parts of that business. 25% of sales volumes were exported – with Ireland falling back to around 3% of sales volumes. The weak Irish market has actually held back export sales in the last 3 years. The five years we have spent developing our presence on the continent are making a major impact now. France has become our largest export market at over 10% of sales volumes. We see substantial further progress as possible on the near continent including Holland and Belgium and even in Germany where range cooking has yet to achieve material penetration. We now manage all our Irish sales through our Waterford Stanley team – being our own distributor. This will save circa £300k a year from next year.

Our target for Rangemaster remains to reach 100,000 cooker units per annum from Leamington Spa for which we have the capacity.

➤ **SLIDE 24 – KITCHEN APPLIANCE MARKETS : OUTLOOK FOR 2010**

Our strong analytical work on customer needs and R&D strengths, suggest a good product pipeline. An example here is induction which accounts for over 8% of sales volumes. The new Mercury is now established in the marketplace providing, along with Falcon, a strong presence in the kitchen specialist market. We expect the new 100cm product to take us into the

cooker replacement market by next year and to become an important part of the sales mix.

Our sink operation in Nottingham which supplies over 15% of its output as metal components to Leamington Spa has performed well – with Howdens now a major sink customer account. It is of note that we are now the sole UK producer of stainless steel sinks.

Sinks are one part of the package of product we offer, together with Marvel supplied wine fridges and Haier supplied fridges and dishwashers. It all makes us an attractive, easy-to-deal with supplier, fulfilment partner and single source for many dealers.

In the UK for every £1000 spent on purchasing a Rangemaster cooker, £300 is spent on other Rangemaster branded goods.

All these factors suggest we can maintain sales momentum this autumn.

➤ **SLIDE 25 – AGA MARVEL : SEEING UPSIDE MATERIALISE**

In North America we are pleased with the progress made with integrating our hot and cold AGA Marvel operation in Greenville Michigan. We have an outstanding new factory and distribution centre which will incorporate by the end of the year Heartland cooker production. Having Greenville as a distribution hub linking to the UK for our cookers will also bring significant cost benefits. Production volumes have increased and we can respond more rapidly now enabling our distributors and dealers to hold lower inventory levels. These lines are trading profitably. Orders have been steadily picking up over the last 6 months. We now expect our products with Energy Star approvals and forced air systems to provide continuing market impetus. We have sold over 600 AGA PRO+ range cookers in North America in line with expectations as we head into the key autumn selling season.

➤ **SLIDE 26 – FIRED EARTH : BRAND STRENGTH NEEDS TO BE REFLECTED IN ORDERS**

With Fired Earth we have had considerable success in generating leads for the brand through initiatives like Tile Basics and the paint launch with the National Trust, but this has not restored profitability. Fired Earth was originally acquired to add retail skills to AGA and to facilitate longer standing relationships with AGA Rangemaster customers. Losses this year will be around £2 million and to hasten our profit improvement programme we have now brought in an experienced retailer with a finance background as interim managing director to help implement plans to:

- Make the most commercially of the leads being generated
- Adjust our tile offering to local needs – widening it where necessary.
- Assess the way to make returns from bathrooms – our lowest return segment – given the retail space allocated to it.
- Reduce overhead costs further.
- Work with Charles Smallbone to drive sales through our kitchen operations which are progressing well with our 3 fitted kitchen ranges.

The Board will review progress at the end of the year aiming to ensure Fired Earth is not detrimental to returns in 2011.

➤ **SLIDE 27 – GRANGE : READY TO RESPOND AS MARKET CONDITIONS EASE**

Grange is further down the track in profit recovery having broken even in Europe in the first half. The key trade show 'Maison et Objet' is next week when Grange dealers worldwide will be in Paris and we hope to take substantial orders. We will also introduce dealers to our new kitchen offering which will be showcased at a refitted Rue du Bac, Paris kitchen store.

For Grange, North America remains more difficult – primarily because of high lease costs in relation to the level of sales that has proved achievable during

the recession – revenue now being around \$8 million compared with a peak of over \$20 million.

➤ **SLIDE 28 – KEY INITIATIVES**

So that sets the major initiatives and projects in process for 2010 and 2011 that are designed to bring a rebound in profitability. They are:

- The next generation of more flexible products as seen in the AGA Guide alongside the re-engagement with existing AGA owners.
- Establishing AGA Rayburn as the brand of choice for consumers considering home energy management and AGA Rayburn being more influential central heating installers.
- Rangemaster sustaining product initiatives entrenching ourselves in all routes to market, both domestically and in overseas markets
- The completion of loss elimination processes.

➤ **SLIDE 29 – SUMMARY**

Looking at current trading.

Current trading continues to be sound if unspectacular. Actual orders have slowed slightly although consumer engagement continues to increase, only underscoring the idea that consumers are cautious. Our strongest operation remains Rangemaster which continues to perform well. AGA leads and orders are satisfactory and some of our own retail outlets are confident of a strong autumn. Rayburn is expected to see the benefits of 12 months of pushing back into the mainstream boiler market. Overall the Group expects performance to track somewhat ahead of 2009 because of a market uptick and looks to its own initiatives to generate a greater revenue recovery. We are a well organised business and the benefits of the operational gearing, given the capacity available, provide a substantial upside when consumers

feel less cautious about the economic outlook. We are looking to provide greater certainty that the cost of the pension scheme can be managed down to levels that do not materially detract from the attraction of the Group as an investment

We focused the Group - with the well-timed disposals and capital returns in 2008 - on consumer brands that have succeeded across many economic cycles and which, with the modernisation we have brought to them are relevant and vivacious and well able to present a progressive, exciting investment case. Progress is seen in the reintroduction of the dividend. We have the challenges to address still but we do so with sound finances and with confidence in our market position.

From our brands the best is still to come.

- END -