

Company Registered Number 354715

# **AGA RANGEmaster**

Group plc



ANNUAL REPORT & ACCOUNTS **2009**

## Introduction

The AGA Rangemaster Group is a leading international premium consumer brands business which manufactures and distributes some of the best known and loved kitchen appliances and interior furnishings in the world

Our brands include

Known for its longstanding heritage, technical excellence and innovation, the Group now operates production facilities in the UK, North America, France, Canada and Ireland and has worldwide wholesale and retail distribution

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The new AGA Marvel factory became operational in March 2009 and has already obtained ISO 9001:2008 and ISO 14001:2004 accreditation the quality and environmental standards.

# AGA RANGEmaster

Group plc

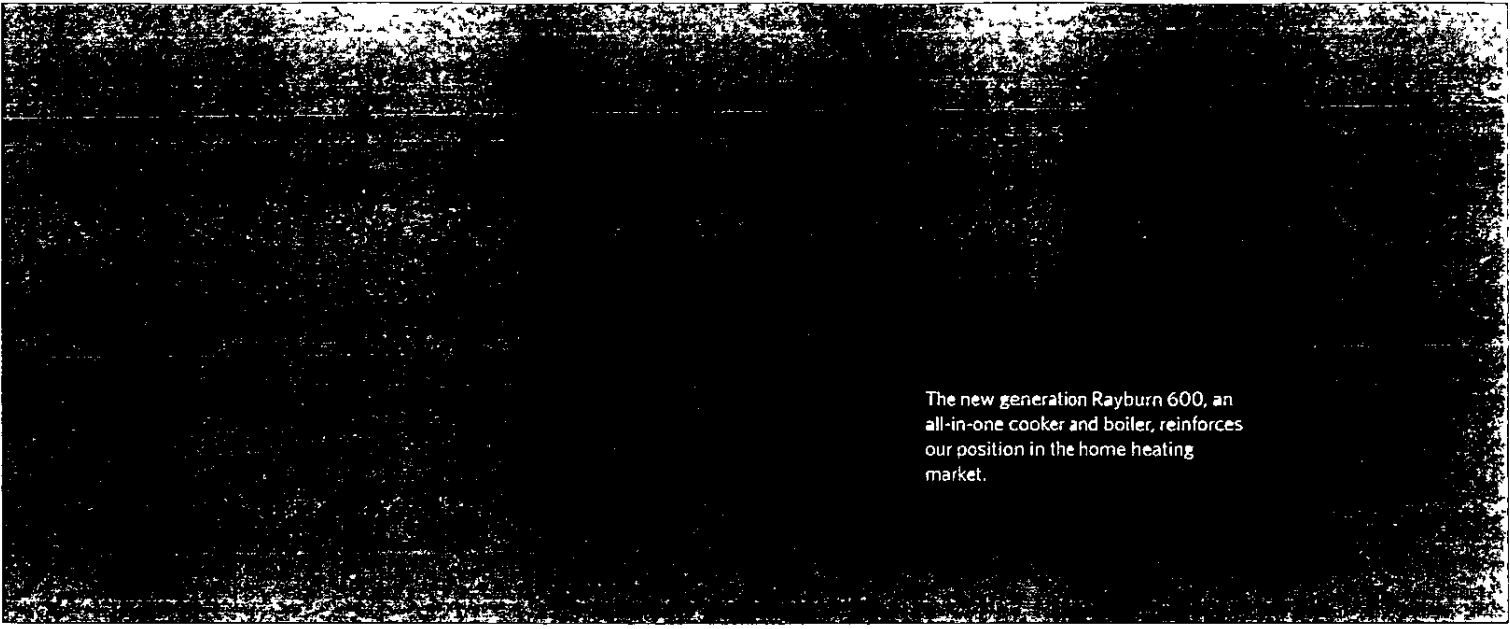
## Strategic and operational highlights

- Cash balances increased to £28.0 million from £5.8 million in the year reflecting the emphasis placed on strong business processes, good working capital management and on cash generation
- The Group made a profit before tax in an extremely tough year for its core product lines internationally
- Markets improved as the year progressed Rangemaster orders were up in the year whilst AGA cooker orders were ahead in the last quarter
- New products backed by strong commercial offers are designed to maintain the momentum established at the end of 2009
- The Group expects to contribute an additional £2 million this year and next to the Group's pension scheme

William McGrath, Chief Executive commented "The generation of cash was the big achievement of 2009 and that remains the focus given the caution needed in the current market. Our lead indicators, however, are positive and after a slow order intake at the start of the year, the prospects are encouraging heading into the Spring."

- a) La Cornue central island.
- b) Rangemaster, Professional+ 100.
- c) AGA Classic, 2 oven with integrated module.

	Year to 31st December	
	2009	2008
	£m	£m
<b>Revenue</b>	<b>245.0</b>	<b>279.4</b>
<b>EBITDA</b> (before non-recurring costs)	<b>12.6</b>	<b>24.6</b>
<b>Operating profit</b> before amortisation	<b>0.1</b>	<b>12.4</b>
<b>Operating (loss)/profit</b>	<b>(1.5)</b>	<b>11.1</b>
<b>Profit before tax</b>	<b>0.5</b>	<b>14.4</b>
<b>Basic earnings per share</b>	<b>2.5p</b>	<b>14.4p</b>
<b>Shareholders' equity</b>	<b>133.8</b>	<b>214.7</b>
<b>Net cash</b>	<b>28.0</b>	<b>5.8</b>



The new generation Rayburn 600, an all-in-one cooker and boiler, reinforces our position in the home heating market.

## Overview

The Group responded quickly and well to the downturn in the consumer markets caused by the recession which made 2009 a tough year. The Group was well placed to do so having maintained a net cash position after returning £140 million in cash to shareholders in May 2008 following the well timed Foodservice disposal at the end of 2007. The board prioritised remaining profitable and having more cash at the end of the year than at the start thereby ensuring that the Group's long-term financing arrangements organised in early 2008 remained unaltered. The stable financial base meant that the Group was free to direct its energies to work to integrate operations and to have a set of disciplined business processes that apply across the Group. These steps helped to reduce costs in a way that would be in the long-term interests of the Group and to sustain product investment, positioning the business for an upturn.

## Trading performance in 2009

2009 saw sharp falls in demand in the first half before levelling out and, in some areas, strengthening later in the year. These trends were reflected in first half sales down 18.8% and sales down 12.3% for the full year. This put 2009 revenues at £245.0 million down from £279.4 million in 2008. EBITDA (pre non-recurring costs) fell from £24.6 million to £12.6 million. There was an operating loss in the first half of £1.7 million and a small operating profit in the second half. Non-recurring rationalisation costs were incurred in the year of £3.6 million primarily from business integration costs and provisions against the carrying value of properties no longer required after the integration. With net finance income in the year and with pension credits arising, there was an overall profit before tax in the year. Given the sharp profit fall and the continuing market uncertainties the board concluded it would not be appropriate to pay a dividend in respect of 2009.

## Strategy for 2010

The 300 years of innovation we highlighted last year put us in good stead to deal with the current economic cycle. The warmth felt towards our key brands led by AGA came through strongly in the year – notably through the 300th anniversary of the first smelting of iron ore with coke at the AGA foundry which is where the Industrial Revolution began. Our confidence that the power of our brands will drive strong performance remains. The market conditions of 2009, however, required us to modify our ambitions for the business in the short-term and focus on cutting costs and cash generation to ensure we emerged stronger from the recession. We now have new opportunities to improve further our market positions.

## Our key objectives are.

- To continue to grow and create new markets for our range cookers and cooker/boilers. The board sees energy management in the home – seen in new Government initiatives to boost renewable energy – as a major theme for the years ahead and believes that the product offering it has been developing over the last decade is particularly well attuned to future consumer requirements.
- To widen the position of range cookers in the UK and Ireland and on the continent as being at the heart of family life and show that the look and functionality of the range cooker brings benefits over built-in equivalents which make up the larger part of the market.
- To become a significant force in the North American appliance market under the AGA Marvel brand – highlighting the best of European style range cooking and USA made undercounter refrigeration.
- To use the high level of consumer response we receive, to look to all our brands to increase the overall sales opportunities in the home by effective customer relationship management.

# Chairman's statement

With our well managed financial position, we have the financial flexibility to back our brands and to ensure that we use the capacity we have available to best effect. The board's strategy remains to focus on being the major force in the range cooker market internationally and to use that to attract consumers to the wider product offering. We will enhance our marketing effort to support our product introductions and will take market opportunities that saw the acquisition of Mercury in 2009 and saw that of La Cornue, Heartland and Stanley in earlier years.

We have to take into account our pension scheme to which we have already provided £50 million in guarantees of contingent liabilities. We are finalising funding arrangements with the trustee taking account of the 2008 actuarial valuation. We expect to make additional payments of £2 million into the scheme in 2010 and 2011. Total pension contributions could equate to £10 million per annum from 2012 depending on the outturn of the 2011 actuarial valuation.

In achieving these objectives the Group is dependent on the skills and commitment of its employees. It was an exceptionally difficult year in which short-time working was needed in some factories and staff reductions were made. The continuing enthusiasm and energy in the Group ensured that confidence grew over the year. The board is, of course, grateful to all the employees for their contributions. Helen Mahy left the board after six years. I should like to thank her in particular for her important contribution, notably in the development of our corporate governance practices.

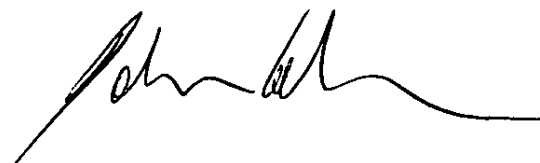
## Current trading

Economic uncertainties remain as markets seek to recover from the long and difficult recession and against that background we remain cautious and conservative in our trading and financial expectations. We have focused on having strong business processes and disciplines. We will continue to drive down costs and to generate cash as we did in 2009. In 2010 the Group will continue to keep capital expenditure below depreciation and to reduce inventory levels. The important benefits of integrating AGA and Rangemaster in the UK will show through. Overall the key factor is the extent of the revenue recovery.

The board has thus taken the right steps to ensure the Group is best placed to take advantage of improved conditions while remaining cautious and able to continue with the defensive approach of 2009 that saw costs cut and cash generation set as a key driver. At present the board would hope that the current year will show a real improvement. A decision on dividend payments will be made when the earnings outlook becomes clearer.

The cold weather may have slowed short-term activity but it has also highlighted the virtues of our heat storage and stove products and home survey numbers are ahead of 2009 and confidence in the AGA shops is high. For Rangemaster the start of the year has been slower after the VAT rate assisted end of 2009 but the trend lines continue to be positive. For Fired Earth and Grange improvement plans covering both broadening of markets and cost reductions are well underway. Headed into the Spring the Group expects revenues to run ahead of the prior year.

**John Coleman**  
Chairman  
12th March 2010



Rangemaster induction was launched in 2007 and is now a firmly established product line

### Business and finance review

Today's AGA Rangemaster Group has its strength in its much loved brands and well-developed sales channels and structures. In 2008 we concentrated the resources of the Group on our consumer operations as they have long-term significant growth potential arising from investments made over many years. We focus on producing products for the kitchen – the heart of family life – led by our outstanding range cookers. Looking back, key decisions in the creation of the Group had been to make AGA the centre stage brand in 2001 and the decision to concentrate resources on Rangemaster and the premium range cooker market and to sell off the lower added value brands in 2002. The AGA and Rangemaster operations have since then worked increasingly closely together. In 2009 we decided to integrate the operational management of the two businesses. This has worked well for all the core processes from product identification and now for manufacturing and distribution. It means that the Group has a single strong core cooker operation in the British Isles – encompassing the Group's Irish brand, Stanley.

We knew early in 2009 that it would be a difficult year but we remained determined not to lose sight of the key objectives we had set in 2007 for the development of the Group. We discuss below the progress made towards those objectives and related 'Key Performance Indicators' ('KPI'). With strong links across our international operations, the appliance-led activities are now well assimilated and able to benefit from the economies of scale and the customer-led opportunities of being part of a Group.

#### KPI 1. Grow sales of cast iron cookers

2007	2008	2009
19,600	15,400	12,150

Sales in 2007 have proved to be a peak – when a good level of Irish state supported orders assisted Stanley sales. From mid 2008 it became clear that customers were deferring expenditure because of weakening markets while at the same time there was enthusiasm for our modernisation programmes. Our response was to continue with the development themes of making the AGA programmable across the range and adding upgrade options for products in the field. This focus on customers who may have acquired their AGA many years ago was a major new development making all existing owners potential new customers. The Group does expect a significant number of owners to upgrade their existing model or return their existing model for recycling and purchasing a new product over the next few years. As consumers focused on what they found essential in their home, we also emphasised how the warmth and reliability of cast iron cookers was relevant to modern needs.

2009 also saw the Group increase its focus on Rayburn – and not only the successful upgraded wood burning model but now a restyled oil series. Rayburn – the all-in-one cooker/boiler – is not only a great cooker but its boiler – soon to have condensing oil as well as gas models – makes it tremendously flexible and an attractive alternative to standard boiler systems. With Rayburn launching a second generation of control systems linking to renewable energy sources, it is a highly relevant modern product. The objective is to ensure Rayburn is seen as a clear option to consumers and their installers assessing 'heating and eating' options.

In Ireland cast iron cooker sales fell again and for the first time the stove business was a similar revenue generator to cookers. Growth in stove sales in Ireland and the UK is set to continue as consumers ensure that given energy cost and availability concerns, that they have more than one energy source in their homes.

# Chief executive's review

The Group continues to make the foundry and factory complex in Shropshire more efficient. It has ample capacity to produce above the targeted level.

## KPI II: Grow sales of Rangemaster made cookers

2007	2008	2009
76,000	67,900	60,600

Rangemaster and our wider range cooker brands all proved resilient – with volumes lower but average selling prices up – and towards the end of 2009 orders were running well ahead of 2008 levels. Rangemaster was 14% down in order values at the half year but full year order values were just ahead of the prior year. The performance reflects the breadth of product and the international reach of Rangemaster – with sales on the continent where there is sustained expansion in France and now growth in Belgium and Holland and more recently Germany, being up. Ireland, in contrast, was again well down. The purchase of Mercury in August added a further modern style to our range and with new products to come to market this year under the Mercury brand aimed particularly at the independent kitchen specialist market – it is proving an important addition.

The range cooker market in the UK is estimated to be around 113,000 units per annum. The total UK equivalent premium built-in cooker market is larger. In 2010 Rangemaster and the related brands will emphasise the case for having the highly functional, attractive range at the heart of modern family life. Our efficient Leamington Spa factory has the capability of producing well above the targeted volumes. With higher volume expectations, notably with anticipated sales in North America of the new AGA Pro+ range, progress can be made in 2010 towards our performance objective.

Our cookware operations comprise AGA Cookware and Divertimenti and 2009 was a good year. Divertimenti has a new catalogue and has the potential to grow appreciably.

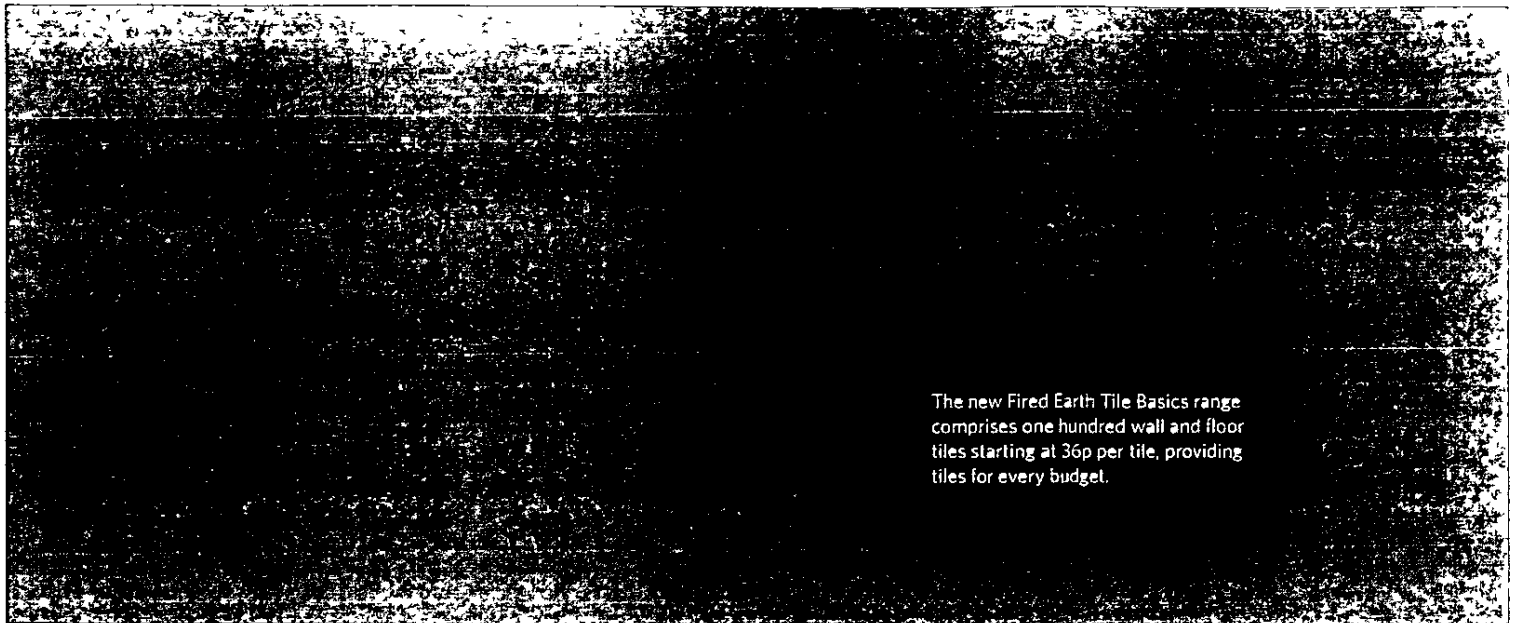
The newly upgraded web shopping sites of both brands have been successful.

## KPI III: Return Fired Earth and Grange to profit

Fired Earth specialises in tiles and paint. It had another tough year as consumers deferred major projects. Sales on a like-for-like basis were down 17% and did not show a marked improvement in the last quarter. Fired Earth has become tightly run and is admired for its quality and style. To balance the business, Fired Earth has set out to ensure it attracts consumers looking for quality products for everyday purposes at appropriate prices. This development of diffusion lines, combined with the new catalogue and the provision of consumer credit, is expected to boost Fired Earth with a wider audience. Additionally, a move into fitted kitchens, with Charles Smallbone designed product with an affordable luxury message made by Grange, is an exciting development. The first kitchen in the range attracted the Editor's prize at the House Beautiful 2009 Awards and features in our Marylebone High Street store and soon to be seen in our Adderbury and Cobham stores.

Grange similarly had a difficult year as revenues fell sharply – hitting the US design centre business particularly hard. Short time working was in place in the factories for much of the year. There was also a major production rationalisation programme in Lyon, France with three factories being merged into one. The confidence of the dealer base in the product range and prospects of Grange continues to improve. Orders at the start of 2010 are more encouraging. Particular effort will be made this year to raise Grange's UK profile using the database resources of the Group.

One of the key strategic objectives and a key performance indicator for the Group remains to see Grange and Fired Earth return to profit and for the inter-relationships with the wider customer base to prove effective.



The new Fired Earth Tile Basics range comprises one hundred wall and floor tiles starting at 36p per tile, providing tiles for every budget.

#### **KPI IV International expansion with half the business to be outside the UK**

The largest market for the Group is in the UK. The objective is to make overseas markets account for over half the business – up from the current 36%. On the continent we continue to progress where the Grange, La Cornue and Falcon brands are all well established.

In North America the Group set about revisiting its approach – accelerated by the three year decline in the appliance market which is now just bottoming out. We have integrated our activities under AGA Marvel to provide our overall market positioning as having available from Europe the best range cookers as with refrigeration “at its best” – made in North America at our new Greenville, Michigan factory. We are delighted with our new Greenville production facility which became fully operational in Spring 2009 and has already received ISO 9001 and ISO 14001 quality and environmental accreditation. It is producing at a substantially lower unit cost than was practical at our two previous facilities. We would like to acknowledge the excellent support of the State of Michigan in the successful delivery of the project. We have just launched the AGA Pro+ in Canada at C\$4,000 – a Rangemaster made product with a single oven and self cleaning features aimed at a competitive price in the North American market. This is backed by a suite of appliances including refrigerators and dishwashers similar to that found in design centres in the UK. We feel that dealers can look to our hot and cold offering to anchor their sales efforts.

We look to markets less mature than the UK for our products to provide sustained sales impetus taking us towards our KPI.

#### **KPI V Leveraging the Group's customer database**

The Group's contact with its customers is generated by advertising, direct marketing and through our retail operations. This continues through our service support for the products in the field – many of which last for decades. This all provides the Group with a large customer database in addition to that of dealers selling the Group's products.

The Group has 670,000 customers on its UK database and nearly another 600,000 prospective customers who have contacted the Group. In 2009 the Group received nearly 60,000 sales enquiries into the contact centre. It has nearly 200,000 customers contactable by email. It has 120,000 specifically AGA owners on the database – of which nearly 18,000 were added in 2009.

Web traffic increased across the brands in 2009 with AGA receiving over 700,000 visitors and Fired Earth nearly 600,000 visitors. At the start of 2010, web enquiries and brochure requests have increased markedly and for Fired Earth and Rangemaster web traffic is up over 20%. The Group sees the development of customer contact and the development of closer links in the eyes of customers across the brands as an important source of growth in the years ahead.

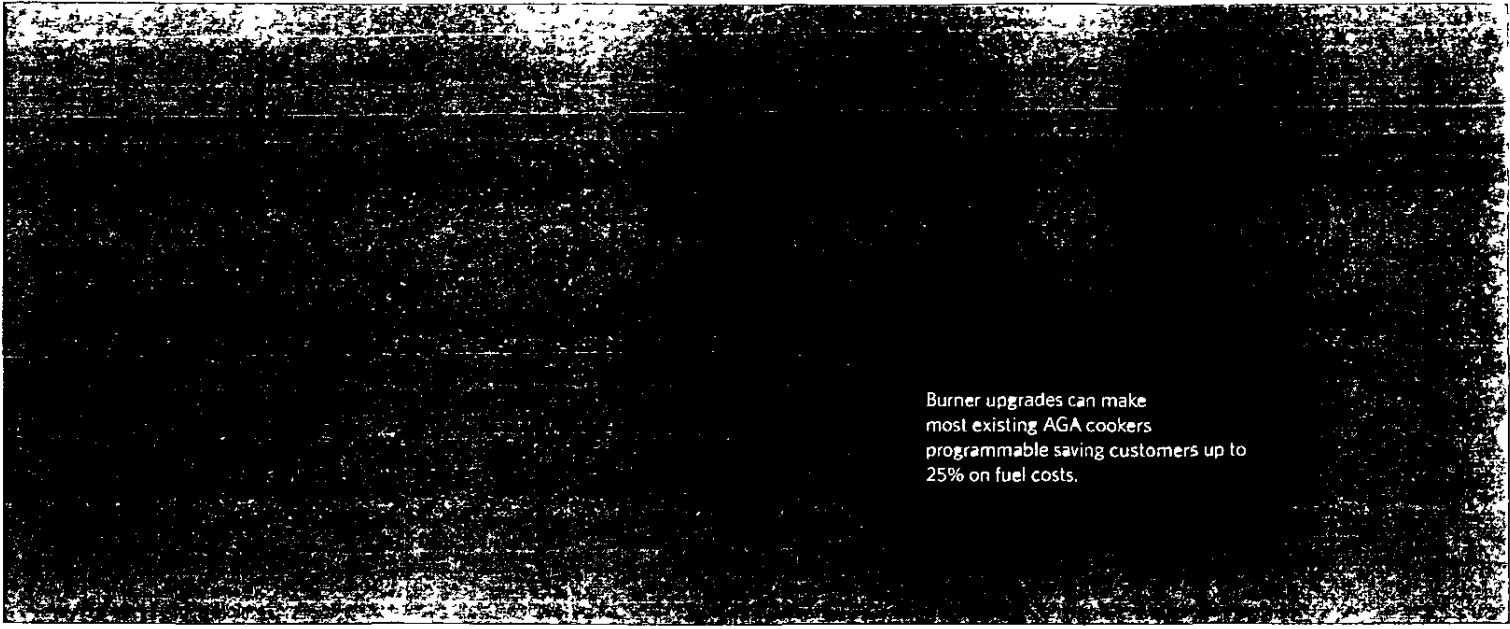
#### **KPI VI : Return on sales**

The Group believes that by raising efficiencies while also investing in product that there is appreciable operational gearing available in the business. An initial target of a return on sales of 10% was set in 2007. Some of the Group's operations achieved returns above that – but the average was below 10% when the recession impacted the Group. This has not deflected us from the belief that the brands and their strength with identifiable customer bases is such that returns at or above it – a peak cycle return on sales target is 12% – remain a reasonable expectation.



# Chief executive's review

The new generation of Mercury products, manufactured in Leamington Spa by Rangemaster, adds to Mercury's design icon status as a contemporary cooker suited to the minimalist look.



Burner upgrades can make most existing AGA cookers programmable saving customers up to 25% on fuel costs.

### **Raising efficiencies across the Group to improve operational gearing**

During the recession the Group has accelerated plans to cut costs, raise efficiencies and improve operational gearing. In particular, structures have been streamlined further – as with AGA and Rangemaster and in the North American operations – production facilities integrated – as for AGA Marvel and Grange. Company-wide procurement strategies have helped control costs. Over the last two years the Group has reduced the cost base by over £9 million through such measures. In addition to major structural programmes it continues to identify and implement a comprehensive programme of process improvement initiatives which senior managers have identified.

### **Home energy management and new product investments**

An underlying theme for the Group is investing in new product. A key area is looking into home energy management. The Group has the background and the technologies to play an important part in the changing approach to energy management in the home. The Government's new initiatives to boost the renewable energy market will further stimulate interest. The electric AGA uses a small amount of energy over a long period and can store energy. This works well with the intermittent nature of wind and solar micro generation. The Rayburn is primarily an all-in-one cooker and boiler. Its burners can use biofuels – we have field trials with methane produced from biomass and a blended Bio kerosene oil. We are now linking Rayburns with wood burning stoves and solar collectors in a comprehensive home heating package. Our investment programmes align our products to the renewables markets as they develop. We aim to make our products more flexible – future-proofing purchasers so that they can, if not immediately then in due course, take advantage of the rapidly increasing output of micro generation and of reliability of non-fossil fuels. This has been seen

- The introduction of the 13 amp electric AGA in 2005, made programmable in 2007,
- The launch of the gas condensing boiler Rayburn in 2006,
- Introduction of the programmable gas AGA in 2008
- The burner upgrade programmes for oil to electric and gas AGA models in 2009,
- The launch of the remodelled Rayburn 600 Series in 2009,
- 2010 will see the second generation of products to link energy from wood burning stoves and other renewable sources with Rayburn boilers providing back up

Consumers are concerned to ensure that their homes remain warm and comfortable and that they have reliable energy sources throughout the year. This means that having more than one energy source in the home is particularly attractive. We expect the rapid growth in stove sales to continue. We sold over 20,000 stoves in 2009 and they are now the core activity of Stanley in Ireland and they are a growing part of sales in the UK.

A household with an AGA at the heart of the home will require appreciably fewer other household appliances or can use them far less. The AGA substitutes substantially for radiators, being itself a very efficient radiator – hence an AGA household could use less energy than one without. The AGA CO<sub>2</sub> emission tonnages run at around four tonnes for an electric 3-oven product – half the output of a 4-person household. In due course it is likely that the AGA will link with energy sources generated at the point of use – the combined heat and power units, solar power and wind turbines.

### **Pension scheme funding**

The Group continues to consider carefully its obligations to its defined benefit pension scheme which is large, reflecting the Group's long industrial history in the Midlands. The scheme has around 14,000 members of which circa 650 are current employees.

# Chief executive's review

The triennial valuation as at 31st December 2008 is close to finalisation. It is likely to show a deficit of well over £100 million at a date when there was a £57.5 million surplus on an accounting basis. Rolled forward a year to 31st December 2009, the actuarial deficit is considered to be potentially around £50 million above the accounting deficit of £40.5 million. The Group has previously provided £50 million of guarantees in support of the Group's potential obligation to the scheme in 2020. The Group currently expects to be asked to contribute an additional £2 million per annum in 2010 and 2011. From 2012 the Group expects to be asked to contribute around £10 million annually to meet the current service cost and deficit contributions or to add to the guarantees already provided. The 2011 triennial valuation is expected to be concluded before these cash contributions or additional guarantees are required.

The Group continues to work hard and closely with the trustee of the scheme to ensure that the obligations to members are met and the costs to the Group are carefully monitored and managed as the scheme moves towards the targeted self-sufficiency position in 2020.

As part of the management of pension costs, following consultations, the current member pensionable salaries were frozen. This gave rise to a curtailment gain in 2009 against the previous IAS19 valuation assumptions for future salary inflation when applied to higher paid employees of £3.8 million and will give rise to a curtailment gain in 2010 of around £15 million when applied to all other current members.

The Group would like to reduce the contingent risks the scheme creates - should markets make that sensible economically for all relevant parties.

## Finance strategy

The Group maintains its conservative approach to finances in light of the difficult markets and the scale of the Group's pension scheme. The Group looked to maintain profits during the recession while investing carefully in product for the future.

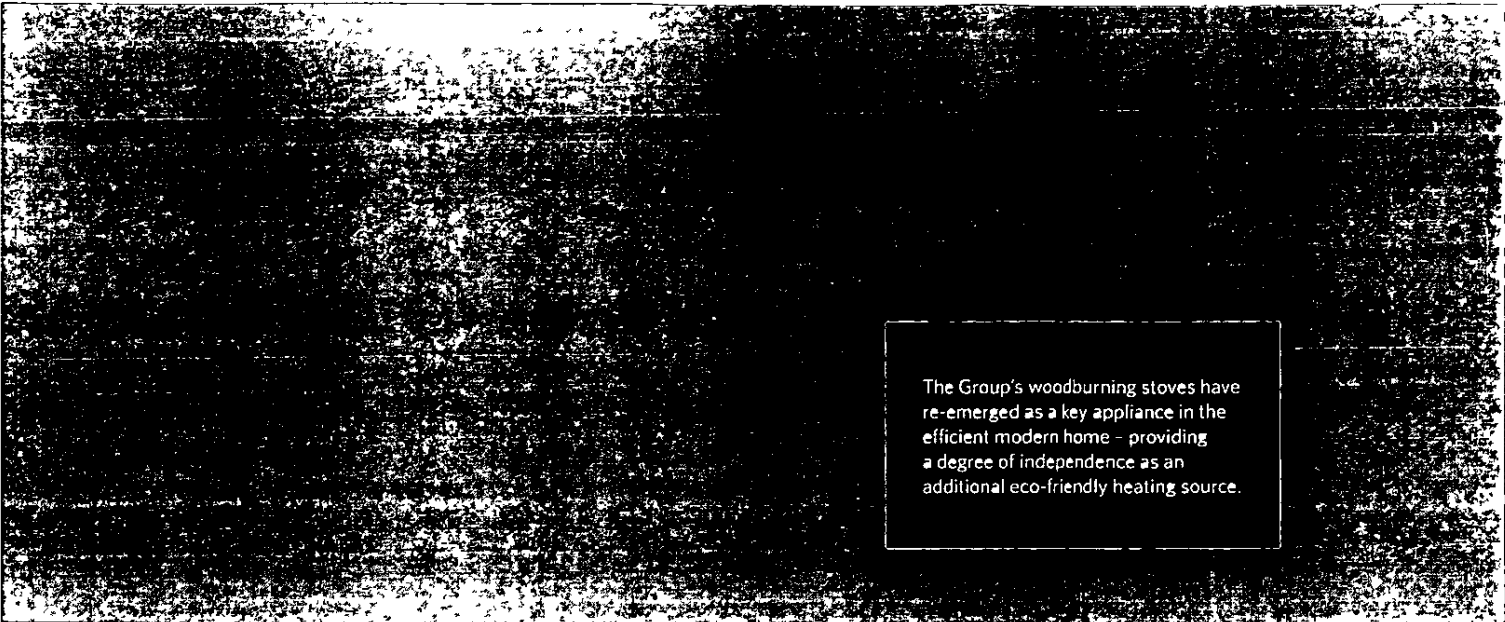
The Group had moved to a net cash position at the end of 2007 and we took further action to manage the business through a severe economic downturn. We set the objective of having more cash at the end of the year than at the start. It is, therefore, pleasing against this background to report cash of £28.0 million compared to £5.8 million. This gives us a strong position upon which we can build.

## Revenue

Group revenues decreased by 12.3% to £245.0 million from £279.4 million in 2008. In constant currency the revenue decrease was 15.7%. Second half revenues of £127.2 million were down 5.3% from £134.3 million which was much improved on the first half when revenues of £117.8 million were down 18.8% from the £145.1 million reported in the first half of 2008. Of total revenues 36% were outside the UK.

## Operating profit

The operating loss for the year was £1.5 million (2008 profit £11.1 million). The first half loss of £1.7 million was partly offset by a small second half profit. The results for the year reflect the significant fall in revenues. We took action early to address the revenue decrease by reducing headcount by a further 200 to below 2,600 following on from a reduction of around 400 in 2008. Non-recurring costs in the year totalled £3.6 million (2008 £5.3 million). The further reorganisations undertaken in the year were at a cost of £2.8 million. Taken together, cost cutting measures implemented in the last two years have led to cost savings of over £9 million.



The Group's woodburning stoves have re-emerged as a key appliance in the efficient modern home - providing a degree of independence as an additional eco-friendly heating source.

#### **Finance income**

Net finance income for the year was £0.2 million (2008 £3.2 million). The movement was principally due to lower interest income resulting from the substantial reduction in cash balances following the £140 million cash return to shareholders in 2008, lower interest rates on cash deposits offset by £0.8 million of interest on a tax repayment received.

#### **Taxation**

The Group's tax charge was nil on profits before tax of £0.5 million. The Group considered the level of tax paid for years yet to be finalised with the revenue and sought a tax repayment which was received in the second half. There was altogether a net tax repayment of £4.0 million relating to prior tax years.

Moving forward the Group expects to pay tax at around the UK standard rate of 28% once the benefit of tax losses arising during the recession have been utilised.

#### **Earnings per share**

Basic earnings per share were 2.5 pence (2008 14.4 pence) based on an average number of shares in issue of 69.2 million (2008 85.9 million).

#### **Dividends**

While no interim dividend has been paid or a final dividend proposed for 2009, the board will continue to keep this under review and intends to return to paying a dividend as soon as it is appropriate to do so.

#### **Cashflow**

One of the most encouraging features of the year was the cashflow from operational activities which at £25.3 million (2008 £4.5 million) was £20.8 million higher. The increase was mainly due to action taken in the first part of the year to destock in response to the downturn - the value of inventory held by the Group fell in the year by £15.3 million. Particular focus was also placed on debtor and creditor management across the Group. The net inflow from working capital was £22.9 million in the year (2008 outflow of £8.9 million).

New capital expenditure projects in the year totalled £3.4 million which makes the net cash flow on capital items, including intangibles, £8.1 million in the year. This figure includes the £2.8 million final payment on the AGA Marvel factory in the US. The depreciation and amortisation of intangibles charge in 2009 was £8.7 million (2008 £8.1 million).

The resulting net cash position at 31st December 2009 was £28.0 million (2008 £5.8 million).

# Chief executive's review

Confidence and creativity - Fired Earth's collage collection from the Tile Basics range together with Fired Earth brassware.

The new Divertimenti Directory and website have brought many new customers to Divertimenti – the much loved cook's emporium.

RISK	POTENTIAL IMPACT	STRATEGY TO MITIGATE
<b>Economic conditions</b> The economic environment may impact consumer spending plans  A swift economic recovery may increase raw material prices	A lack of consumer confidence may reduce Group sales, primarily of consumer appliances and household products impacting production levels and profitability  Reduced profitability and availability of components	<ul style="list-style-type: none"> <li>The Group monitors economic conditions in particular housing market trends</li> <li>The Group seeks to diversify sales away from the UK to reduce individual market dependency</li> <li>Internal processes continually monitor prices and the availability of raw materials</li> </ul>
<b>Competition</b> Competitors introduce upgraded products and add to marketing programmes  Downward pressure on pricing if sector accepts lower margins	Market share could be lost to competitors without continuing product innovation and strong marketing support  Reduced demand for our products and negative operational gearing if we were to become less price competitive	<ul style="list-style-type: none"> <li>Introduce new products that are well researched and market tested</li> <li>Investment in new product development and design capabilities</li> <li>Monitor our market position and competitor strategies</li> <li>Constant value engineering programmes to be price competitive</li> </ul>
<b>Intellectual property</b> Failure to identify the violation of our rights could lead to unfair competition	Others may imitate our products breaching our patents, trademarks and copyrights damaging our brands and profitability	<ul style="list-style-type: none"> <li>Monitor the market to identify breaches of our proprietary rights</li> <li>Take legal action wherever appropriate</li> </ul>
<b>Customer/supplier relationships</b> Some key relationships are central to trading performance	Loss of critical suppliers/customers could have a material impact on individual company volumes  Interruption to supply can stop production and impact profitability	<ul style="list-style-type: none"> <li>Sales teams meet regularly with senior management of key customers</li> <li>Regular monitoring of customer service</li> <li>The supply chain team holds regular review meetings with suppliers</li> <li>Where possible we maintain multiple supply sources</li> <li>Group seeks to avoid one sales account or supplier being material to overall performance</li> </ul>
<b>Manufacturing</b> External events, fires or workforce action could disrupt production  Manufacturing techniques and processes can become outdated	Disruption to manufacturing for a sustained period can impact profits  Product lines age or become obsolete or uneconomic	<ul style="list-style-type: none"> <li>Disaster recovery plans are in place at all units</li> <li>Manufacturing technology is shared so that best practice levels are maintained</li> <li>Maintain regular communication with workforce/unions</li> <li>Investment in new technologies and equipment is prioritised</li> <li>Ensure business operating standards are high as seen in ISO 9001 2008 and ISO 14001 2004 accreditations</li> </ul>

# Key risks & uncertainties

RISK	POTENTIAL IMPACT	STRATEGY / MITIGATION
<b>Environment</b> Manufacturing our product impacts the environment  Energy to run our products is excessive	Failure to manage our environmental impacts could damage our brand, lead to government/regulatory actions resulting in fines or enforcement notices	<ul style="list-style-type: none"> <li>We invest to improve environmental performance</li> <li>We have environmental impact targets as part of our ISO 14001: 2004 and Environmental Management System programmes</li> <li>We undertake to be a responsible manufacturer and ensure compliance with all new production regulations</li> <li>We treat effective energy management in the home as a priority</li> <li>The results are monitored at board level</li> </ul>
<b>People</b> Health and safety  Failure to attract, retain and motivate employees	<p>Failure to meet the appropriate standards can have a significant impact on our people, damage the brand and lead to significant financial and operational costs</p> <p>Loss of key people could damage the future prospects of the Group</p>	<ul style="list-style-type: none"> <li>We are committed to the highest standards and conduct regular audits as seen in our BS OHSAS 18001 accreditation</li> <li>Health and safety is a key agenda item at operational and board meetings</li> <li>Incentive and remuneration packages are designed to attract, retain and motivate key staff</li> <li>Succession planning is in place and reviewed regularly by the board</li> </ul>
<b>Financial</b> Foreign exchange and interest rates as we manufacture and sell across the world  The Group uses bank facilities that require renewal from time to time	<p>Significant movements can impact both profitability and cash flow of the Group</p> <p>Underperformance could lead to breaches in bank covenants, a lack of finance availability and increased costs</p>	<ul style="list-style-type: none"> <li>Group offsets currency flows within the Group wherever possible</li> <li>Forward foreign exchange contracts are entered into where necessary</li> <li>Treasury policy sets framework for hedging currency and interest rate risks</li> <li>Covenants are maintained against forecasts</li> <li>Consistent dialogue held with banking group</li> </ul>
<b>Pensions</b> The funding requirement of the Group's pension scheme could increase significantly	The finances of the Group could be significantly constrained by required pensions contributions	<ul style="list-style-type: none"> <li>The Group and the trustee have agreed a long-term funding structure and manage closely both assets and liabilities</li> </ul>
<b>Dividend policy</b> Weak markets could impact the Group's ability to restore dividend payments	Low dividend levels restrict the investment case	<ul style="list-style-type: none"> <li>The Group maintains a medium-term dividend cover policy of it being covered 2.5 times out of fully taxed profits</li> </ul>



Grange is renowned for its French cabinet making expertise and its skill and craftsmanship is at the centre of creating contemporary furniture for the family kitchen and home

### **Introduction**

Corporate Social Responsibility ('CSR') is integral to all aspects of our operations and our Statement of Core Principles sets out our undertaking to act ethically and responsibly in all our business relationships and dealings with stakeholders. We are committed to continuous improvements in all aspects of CSR - our policies, our systems, our performance and our reporting.

Our programmes to enhance the sustainability of our business and products include responsible sourcing, our community activities, our health, safety and environmental programmes and our engagement with employees, customers and other stakeholders. As a supplier of premium consumer appliances, the Group sees product stewardship as a key part of its CSR programme. We work to design our products to be more energy efficient in use, to have a high degree of recyclability and to utilise eco-friendly and sustainable energy solutions.

In addition to this report, the Group provides CSR related information on its website and its 2009 CSR Report will be published online in May 2010. The CSR Report will include further details of our policies and performance with case study examples describing policy implementation and effectiveness.

### **Management of CSR**

The chief executive is accountable to the board for the Group's CSR policies and procedures. He is supported by the Group HR director and by the executive management committee. The management of each operation has responsibility for CSR and is accountable to the chief executive in respect of all CSR matters. Environmental, health and safety policies are included in the schedule of matters reserved for board approval and CSR is included in the ongoing risk management process.

In 2009 the Group continued with its rolling programme of internal CSR audits which now include an extended range of compliance matters. The audits are undertaken by functional specialists reporting to the Group HR director with support from external advisers, where appropriate.

Our objective is to audit each production site at least once every two years with a systematic programme of visits to our retail sites. During the year all operations were covered by the CSR/compliance audit process. The CSR audit programme assists with the development of benchmark standards of best practice across the Group. We plan to implement a new internet based improvement notice system that will streamline the issue resolution process across the Group whilst supporting our ongoing working relationships with suppliers and external contacts.

The AGA Rangemaster Group is a member of the FTSE4Good index and uses this index in conjunction with stakeholder consultations and other benchmarks to help identify key priorities and to drive progress.

### **Employment and stakeholder engagement**

The Group engages in proactive two way dialogue with stakeholders and in particular liaises with shareholders, employees, customers, suppliers, local communities, government bodies, other authorities and non-governmental organisations. This engagement includes reviews of the impact of our operations on local communities.

Management hold face-to-face briefing sessions to keep employees informed of developments across the Group and to receive feedback. Employee communications are supported by local newsletters. During 2009 the Company rolled out its Group-wide intranet. The intranet is regularly updated with information from all Group companies and



# Corporate social responsibility

is used as a communications medium and to reinforce policies and common themes, including health and safety, environmental, core values and employee benefits. We continue to develop content and comments from employees are welcomed. Employees are encouraged to access the Group's websites and the intranet. During 2010 we plan to extend awareness to include employees who do not have access to computers as part of their duties. This includes a trial which will provide computer access in a number of factories.

## Human resources

We recognise that our people are key to the Group's ongoing success and the Group HR director now takes an active role in developing and embedding best practice and procedure benchmarking around the Group.

During the year the Group employed an average of 2,656 people in six countries. Some 71% of our staff are located in the UK, 19% elsewhere in Europe and 10% in North America. Over 99% are permanent employees, 70% are male and 30% are female. Of those in management roles 75% are male and 25% are female.

Voluntary staff turnover during the year was on average 7% across the Group. Total staff turnover was 13%.

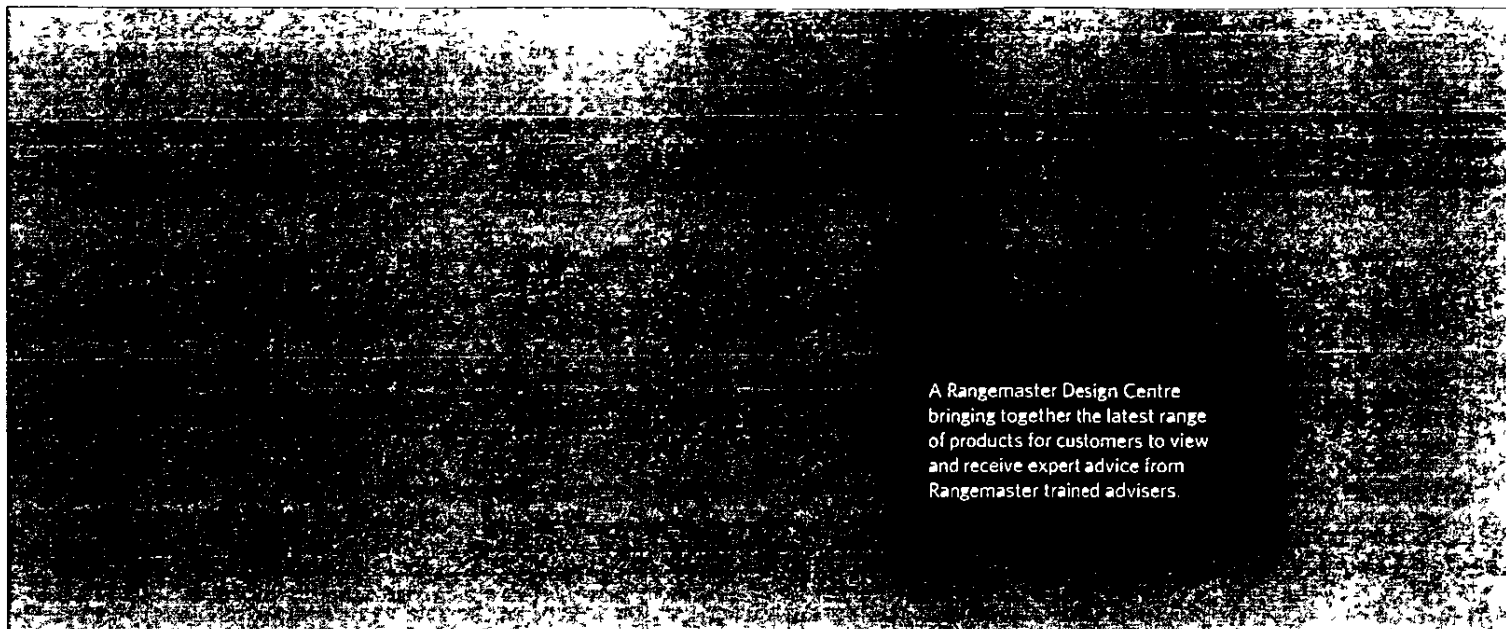
In view of the difficult economic and market conditions, the Group has maintained short time working in selected areas as part of its policy to avoid compulsory redundancies, where possible. It has also accepted selected voluntary redundancies whilst ensuring key skills and capabilities are retained. The Group regularly reviews resourcing levels and has on-going dialogue with employees, union representatives and other employee representatives in this regard.

## Human resources policies

The Group's policy is to invest in its people and to encourage them to develop to their maximum potential according to the needs of our operations and our customers. The Group's Code of Conduct for employees outlines the standards of integrity and honest conduct expected, and explains that breaches of Company policy may result in disciplinary action and dismissal. The Code of Conduct is published on the Group's website and includes the whistleblowing policy which enables employees and others to report any breaches of the Code of Conduct, fraud or any other criminal acts in confidence and without fear of retribution. All employees worldwide may use the internal whistleblowing provisions and UK and US employees may alternatively use the external independent services available in those areas. All reports are logged and monitored by the audit and risk committee and appropriate investigations and action undertaken.

We support the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work concerning the fundamental rights including freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation.

The Group requires that its operations comply with its equal opportunities policy and it does not tolerate harassment or discrimination in any form. Each operation must ensure that there is equal opportunity of employment, retention, promotion and training regardless of race, ethnic or national origin, gender, marital status, age, sexual orientation, religion, trade union membership or disability and that appropriate consideration is given to disabled applicants in terms of employment taking into account local legislation.



A Rangemaster Design Centre bringing together the latest range of products for customers to view and receive expert advice from Rangemaster trained advisers.

### **Training and development**

The Group invests in the capabilities of its employees and encourages them to be fully involved in their development and training. Some 2,180 days of 'off-the-job' training were recorded during the year. This is in addition to 'on-the-job' and 'tool-box training'.

The in-house AGA Management Programme was launched in March 2009 with the Institute of Leadership and Management (ILM). The programme focuses on leadership, management and supervisory skills. Employees successfully completing the programme are awarded ILM certificates after completing five training modules and a work-related project which is externally verified by Mercia Management. A total of 66 AGA and Fired Earth employees have been enrolled on the programme with 31 awards made to date. In addition AGA currently has a total of 84 manufacturing and warehouse based employees studying for National Vocational Qualifications in the UK.

### **Environmental, health and safety**

The Group is committed to the continuous improvement of its environmental, health and safety ('EHS') performance and to enhancing the overall sustainability of its operations, products and services. A summary of our progress during the year is included here and further details will be included in our 2009 CSR Report.

The Group's EHS policies are underpinned by detailed procedures within each of the Group's operations. Management are responsible for their implementation and for keeping all concerned informed of best practice and the statutory frameworks. Policies and practices are reviewed and updated for changes in legislation and employees are made aware of the policies and their responsibility to ensure that these are effectively applied. The chief executive is accountable to the board for EHS matters, supported by the Group HR director. In practice all employees are responsible for implementing our EHS policies and for identifying opportunities for improvement.

The Group HR director ensures performance is regularly reviewed, that targets are set for improvement and for the benchmarking, leveraging and promoting best practice. As noted above, the system of CSR/compliance audits supports this work and external consultants are utilised when specific needs arise.

### **Health and safety targets and performance**

The Group uses a number of key performance indicators ('KPIs'), to monitor accident frequencies, accident causes and the amount of time lost at all operations and sets annual improvement targets.

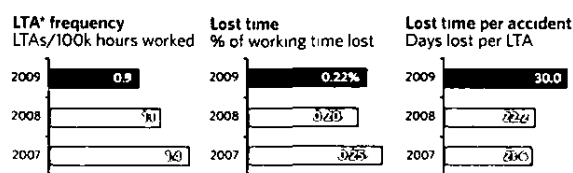
All our locations have health and safety management systems in place. During the year, the Group's four UK manufacturing sites were accredited to BS OHSAS 18001:2007, the occupational health and safety standard.

Our long-term aim is to have no accidents, and we made progress towards this goal during the year. Across the Group the frequency of lost time accidents ('LTAs') per 100,000 hours was down by 19.5% to 0.9 LTAs per 100,000 hours worked. This was ahead of our improvement target of 5%. The lost time due to accidents as a proportion of working time increased by 9% to 0.22% against our improvement target of a 15% decrease. This was due to an increase in the average lost time per LTA to 30 days. This was up by 35% against a targeted 10% reduction. The increase was in part due to two accidents, one of which occurred in 2008 with the employee only returning to work part-time during 2009. The other occurred in January 2009 and the employee did not return to work during the year. Other than these two cases, our risk management and 'return to work' initiatives targeting specific locations with below average performance resulted in a general improvement in performance.

We monitor accident causes on a consistent global basis, with the most common cause of accidents across the Group being cuts and abrasions. We will continue to focus

# Corporate social responsibility

on reducing accidents in this area at locations with below average performance



All KPIs are for the continuing operations only with 2007 restated accordingly  
LTAs are defined as those resulting in lost time of one or more days not including the day of the accident

## Environmental targets and performance

We work to minimise the environmental impact of our business on the environment and to enhance the sustainability of the products we make and sell. The Group's environmental impacts include energy use and transport and the resultant climate change related emissions, water consumption and the waste and recycling arising from our manufacturing processes and general business operations. The environmental data in this report covers 100% of our manufacturing locations and the retail sites for which the data is available, in total some 98% of Group revenue. Further details of our performance will be included in the 2009 CSR report.

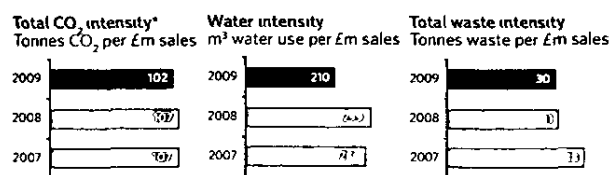
As a result of efficiency and reduction programmes across the Group our CO<sub>2</sub> emissions intensity over the two years 2007-09 was reduced by 8% to 102 tonnes per £million of sales. This was ahead of our two year target of a 5% reduction. Total 2009 CO<sub>2</sub> emissions due to energy use and in-house transport were some 25,900 tonnes, down from 32,200 tonnes in 2008 and 34,800 tonnes in 2007.

Achieving reductions in water use was a major focus at operations within the AGA and Rangemaster operating segments during the year. As a result, water use was down

from 89,635m<sup>3</sup> in 2008 to 53,125m<sup>3</sup> in 2009 and water intensity was down 27% over the two years 2007-09 to 210m<sup>3</sup> of water per £million sales. Our two year target was for a 5% reduction.

Reported waste intensity was down by 2% in the year to 30 tonnes per £million sales, bringing the reduction over the period 2007-09 to 21%. This was driven by a large reduction in 2008 and was ahead of our two year reduction target of 5%. Total waste was down from 9,276 tonnes in 2008 to 7,647 tonnes in 2009. The proportion of total waste which was recycled increased by 12 percentage points from 62% in 2008 to 74% in 2009.

The Group supports the adoption and implementation of environmental management systems across the



All KPIs are for the continuing operations only with 2007 restated accordingly  
Includes emissions due to energy use and due to in-house transport operations

operations. Some eleven locations have environmental management systems in place covering over 80% of production, including the two Rangemaster sites which are accredited to ISO 14001 2004. Following the year end, the new AGA Marvel site in Greenville, Michigan, USA was accredited to ISO 9001 2008 and ISO 14001 2004. We are now also reviewing plans for the two AGA sites in the UK to achieve ISO 14001 accreditation in 2011.



Falcon is a fast growing brand on the continent.

### **Environmental improvement initiatives**

The Company has a number of programmes in place to support and facilitate environmental improvements across the Group. The 2009 Group environmental competition inspired entries from across the operations and a variety of energy saving and waste reduction ideas were received from employees. The winning entries came from AGA Marvel and Rangemaster employees. Both entries were based on the same theme - to reuse waste heat from air compressors and exhaust gases and to convert this into a useful, environmentally friendly source of heat for the premises and for curing painted parts. These initiatives were implemented during the year and will help increase efficiency, save costs and reduce our carbon footprint.

At Grange, a new drying process was introduced by creating separation in the existing dryer, combined with a slight increase in temperature and improved ventilation. This cut the drying time per operation by 70% and has significantly reduced energy usage.

We continue to make improvements in waste intensity and we are extending the use of waste compactors across the Group which helps cut disposal costs and CO<sub>2</sub> emissions due to fewer skip removals.

Fired Earth was the winner of the Oxfordshire Waste Partnership Sustainability Award in 2009, reflecting an ongoing commitment to the environment. Fired Earth has introduced a number of initiatives including eco-friendly and reusable packaging and it recovers as much packaging as possible to prevent it going into the waste stream. In 2009, Fired Earth reduced packaging use per £million sales by 11% and recycled 90% of all waste.

### **Compliance**

There were no environmental or health and safety related fines, penalties or prosecutions by any regulatory body during the year.

### **Product stewardship**

The Group continues to place great emphasis on consumer and environmental issues. We are committed to minimising the environmental impact of our products during manufacture, in use and at the end of life. We aim to offer our customers well designed, quality products which have been sustainably sourced, are energy efficient and have a high degree of recyclability. We work to ensure that the products we make and sell are compliant with the REACH (Registration, Evaluation and Authorisation of Chemicals), the RoHS (Restriction of the use of certain Hazardous Substances) and WEEE (Waste, Electrical and Electronic Equipment) Directives.

We are also pursuing eco-friendly and sustainable energy solutions to help ensure that our products address increasing concerns over the use of energy and the related CO<sub>2</sub> emissions. Further details of the economic and environmental performance of our cast iron cookers and the resulting conclusions are set out in the 'Aganomics' and 'Rayburnomics' papers available on our website. These emphasise the multi-functional nature of the products, their recyclability and their long lives. Increased flexibility, burner upgrades, energy management systems and the potential to link with alternative sources of energy confirms the relevance of cast iron cooking to contemporary needs.

### **Supply chain - ethical trading policy**

The board recognises the importance of managing its supply chain to ensure, so far as is practicable, that its direct and indirect suppliers adopt the same core principles as the Group. The Group first introduced an ethical trading policy in 2002. This encompasses a set of global sourcing principles covering fair terms of employment, human rights, health and safety, equal opportunities and good environmental practice. All operating companies are required to review supplier compliance with this policy, identify any areas of non-conformance and take action where appropriate. The Group monitors quality, design and availability of all sourced components and products,

# Corporate social responsibility

to ensure high standards are maintained. The Group's supplier development programme has been updated to include a more comprehensive monitoring questionnaire to help ensure suppliers conform to standards set by the Group.

All print and paper sourced by the Group is accredited to Forest Stewardship Council ('FSC') and the Program for the Endorsement of Forest Certification ('PEFC') standards.

## Customers

The Group's customer service strategy is to respond rapidly to evolving customer demand, to identify and anticipate emerging needs and to continuously improve product availability, quality and value. Our quality management systems help ensure that our products meet or exceed customer requirements with 70% of the Group's manufacturing capacity accredited to ISO 9001:2008.

In the coming year we will further engage with our customers to reinforce our product stewardship and other customer related initiatives. Our customer relationship management team keeps owners and potential owners of our products up to date on our new product and sales initiatives.

## Community involvement

Each of our operations and their employees are encouraged to become involved with and to support local community projects, educational establishments, charities and other causes. This support takes various forms including donations, fundraising, payroll giving or personal time and commitment. Our retail operations also organise events and allow charities to hold meetings in their outlets. Charitable initiatives include financial and product donations, equipment maintenance and employee involvement.

Liaison on community issues is encouraged and comments are logged, responded to and reviewed at Group level.

In 2009, the Group began working to raise funds and awareness for The Place2Be - an innovative and award winning UK registered charity that works inside schools to improve the emotional well-being of children, their families and the whole school community. Our retail shops have hosted a number of fundraising events for The Place2Be.

Fired Earth launched a campaign to raise funds to support the work of the National Trust in the UK. Between 20p and 50p per can of paint sold through Fired Earth stores and independent stockists is donated to the National Trust.

The Group continues to support Birchfield Harriers - the UK's premier athletics club and its members as they prepare for the London 2012 games.

Details of other initiatives to support local charities and community events will be included in the Group's 2009 CSR report.

## Verification

In addition to our internal CSR audit programme, those operations certified to ISO 14001:2004 and other standards are subject to regular external audits. Since March 2002 the Group has also been advised by CSR Consulting Ltd, who assist the Company in evaluating its policies and procedures and with the reporting and review of its CSR related performance. CSR related risks are included in the Group's risk management process and at present the board does not believe that an overall external CSR audit would be appropriate. However, where required the Group utilises external specialists as necessary. The information in this CSR report is not subject to audit by Ernst & Young LLP.

## The board

### **John Coleman (B\*, A, N\*, R)**

#### **Chairman (independent)**

John Coleman was appointed an independent non-executive director in March 2008 and became chairman of the board in May 2008. John chairs the nomination committee and became a member of the audit and risk and remuneration committees in January 2010. John is currently executive chairman of Holidaybreak plc and a non-executive director of Travis Perkins plc. He was chief executive of House of Fraser plc from 1996 to 2006. Prior to that he was chief executive of Texas Homecare and held a number of senior management positions within the Burton Group PLC. He is a chartered management accountant.

### **William McGrath (B)**

#### **Chief executive**

William McGrath was appointed chief executive in March 2001. William joined the Group as finance director in October 1997 from Aggregate Industries plc where he had become finance director in 1992. He had previously worked in the investment banking and construction sectors. He is a qualified accountant and a history graduate.

### **Shaun Smith (B)**

#### **Finance director**

Shaun Smith was appointed to the board as finance director in March 2001. Shaun joined the Group from Marks and Spencer plc in 1989 and worked in treasury becoming the group treasurer in 1999. He is a co-opted member of the audit committee of Birmingham City University. He is a qualified treasurer and economics graduate.

### **Pam Sissons**

#### **Company secretary**

Pam Sissons joined the Group in 1999 and was appointed company secretary in October 2004. She is a Fellow of the Chartered Insurance Institute and an Associate of the Chartered Institute of Secretaries and Administrators.

B - Board member  
A - Audit and risk committee member  
N - Nomination committee member  
R - Remuneration committee member  
denotes chairman of the board or committee

# The board and its advisers

## **Paul Jackson** (B, A, N, R)

### **Non-executive director (independent)**

Paul Jackson joined the board in December 2005. Paul has spent his career in advertising. He started his career with Saatchi & Saatchi and later became executive managing partner and vice chairman of Ammirati Puris Lintas. He joined Ogilvy & Mather, part of WPP Group, in 1999. He was a director at Ogilvy Group and chief executive of Ogilvy & Mather, until 2007. He has wide experience in brand and international product development.

## **Paul Dermody OBE** (B, A\*, N, R)

### **Non-executive director (independent)**

Paul Dermody joined the board in March 2004 and chairs the audit and risk committee. Paul is a non-executive director of Majestic Wine PLC and chairman of the trustees of The National Football Museum. He was formerly chief executive of De Vere Group PLC, having spent his career with its predecessor Greenalls. He is a chartered management accountant.

## **Peter Tom CBE** (B, A, N, R\*)

### **Non-executive director (senior independent director)**

Peter Tom joined the board in February 2004 and chairs the remuneration committee. Peter has spent his career in the aggregates industry. He started his career at Bardon Hill Quarries Limited and was appointed chief executive of Aggregate Industries plc in 1997, until the sale of the company in 2005. Peter is the chairman of Leicester Football Club plc (Leicester Tigers), Rapid Realisations Fund Limited and Marwyn Materials Limited and is a director of NewRiver Retail Limited.

## **Advisers**

### **Auditor**

Ernst & Young LLP  
No 1 Colmore Square  
Birmingham  
B4 6HQ

### **Bankers**

Svenska Handelsbanken AB  
HSBC Bank plc  
Lloyds TSB Bank plc  
The Royal Bank of Scotland Group plc

### **Financial advisers and stockbrokers**

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 7LT

Execution Noble & Company Limited  
Block D  
The Old Truman Brewery  
91 Brick Lane  
London E1 6QL

### **Registrar**

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA  
Telephone UK 0871 384 2355  
International 00 44 121 415 7046

### **Solicitor**

Allen & Overy LLP  
One Bishops Square  
London E1 6AD

# Directors' report

## Directors' report

The directors present their report on the affairs of the Company and the Group, together with the financial statements and the independent auditor's reports for the year ended 31st December 2009

## Principal activities and business review

AGA Rangemaster Group plc is the holding company of the Group. Detailed information on the Group's principal activities, its performance during the past year and its prospects for future development are reported in the chairman's statement on pages 2 to 3, the chief executive's review on pages 4 to 11, key risks and uncertainties on pages 12 to 13 and corporate social responsibility on pages 14 to 19. The statements and reviews are incorporated into this report by reference. The principal trading subsidiaries and the countries in which they operate are shown on page 78.

## Results and dividends

The profit attributable to equity shareholders for the period was £17m (2008: £12.4m) and is shown in the consolidated income statement. No interim dividend was paid in the year (2008: 4.0p per share). No final dividend is recommended for the financial year ended 31st December 2009 (2008: nil per share).

## Directors and their interests

The names and biographical details of those persons serving as directors of the Company as at the date of this report are shown on pages 20 to 21. Details of changes to the board during the year and of the directors offering themselves for re-election at the AGM are set out on page 30.

Details of directors' service agreements are set out in the directors' remuneration report on page 39.

The interests of the directors in shares of the company are set out in the directors' remuneration report in the table on page 37.

## Directors' indemnities

Directors and officers of the Company and its subsidiaries benefit from directors' and officers' liability insurance cover in respect of legal actions brought against them. This provision, which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006 ('CA2006'), was in force throughout the financial year and remains in force. In addition, directors of the Company are indemnified in accordance with the Company's articles of association and to the maximum extent permitted by law. All directors have deeds of

indemnity that are in force as at the date of this report. Neither the insurance nor the indemnities provide cover where the relevant director or officer has acted fraudulently or dishonestly.

The Trust Deeds to the Company's principal UK pension scheme includes the provision of an indemnity from the Company to the scheme trustee's directors, save in the case of gross negligence or conscious bad faith and only to the extent that the provision of the indemnity to such directors would not infringe applicable legal requirements.

## Articles of association

The board of directors may exercise all the powers of the Company, subject to the provisions of relevant statutes, the Company's articles of association (the 'Articles') and any directions given by a special resolution of the shareholders. The Articles, for instance, contain certain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are included in the Articles and such authorities are renewed by shareholders each year at the AGM. The rules for the appointment and removal of directors set out in the Articles are detailed in the corporate governance report on pages 29 and 30.

The Articles can only be changed by a special resolution passed in a general meeting of shareholders. The Company is committed to ensuring it keeps pace with changing legislation and regulation. Accordingly, the directors propose to recommend to shareholders at the Annual General Meeting ('AGM') that the current Articles be updated primarily to reflect the implementation of the Companies (Shareholders' Rights) Regulations 2009 and the remaining provisions of the CA 2006. Full details are set out in the Notice of AGM.

## Charitable and political donations

Charitable donations made during the year were £4,801 (2008: £22,952). These donations were made across the operations principally to local charities serving the communities in which the Group operates. No political donations or political expenditure were made during the year (2008: nil).

## Employees

The average number of employees within the Group is shown in note 5 to the accounts. The Group is committed to the fair and equitable treatment of all its employees, irrespective of sex, race, age, religion, disability or sexual orientation. To this end, policies have been implemented to ensure this is practised at recruitment and then continues



# Directors' report

throughout an individual's employment with the Group. The Group encourages recruitment, training, career development and promotion on the basis of aptitude and ability, without regard to disability. It is also committed to retaining and retraining as necessary employees who become disabled during the course of their employment.

The Group has a policy of actively communicating information to employees concerning the development of the Group and how this may affect their interests and of ensuring their appropriate involvement. We have introduced a Group wide intranet which employees can access which provides up to date information on developments around the Group. Employee involvement in the Group's performance continues to be encouraged through share ownership. Further details of the Group's human resources policies are provided on pages 15 to 16 of the CSR section.

## Health, safety and environmental

It is important for the Group to provide and maintain a safe environment for all employees, customers and other visitors to its premises and the wider workplace. The Group complies with the relevant health and safety legislation in the jurisdictions in which it operates. The Group's health and safety policy and performance is regularly reviewed by the board.

The Group also recognises that it is part of the wider community and that it has a responsibility to act in a way that respects the environment and the social well-being of others. The Group's environmental policy and performance against objectives and targets is regularly reviewed by the board. Further details are included on pages 16 to 18 of the CSR section of this report.

## Research and development

Research and development plays an important role in the development of the Group. Product innovation has been a key feature of the Group's strategy. Development departments across the Group are increasingly working together to develop products for our international customer base. The Group capitalises certain development spend under IAS 38. During the year, the Group capitalised expenditure on development of £17m (2008: £2.5m).

## Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensuring that suppliers are made aware of the terms of payment and to endeavour to abide by those terms and conditions, subject to the supplier performing to its obligations.

Trade payables at the year end equated to 77 days of related purchases (2008: 63 days).

## Treasury management

The Group's policy on the use of financial instruments and the management of financial risks is set out in note 19 to the accounts.

## Share capital

Details of authorised and issued share capital, together with details of the movements in the Company's issued share capital are provided in note 22 to the accounts. Under the CA2006 companies will no longer need to have an authorised share capital and a resolution will be put to the AGM to take advantage of this deregulating measure. The Company has one class of ordinary share in issue and all issued shares are fully paid. Each ordinary share of 46 $\frac{7}{8}$  pence carries the right to one vote on a poll at a general meeting of the Company. Deadlines on exercising voting rights are set out in the Notice of AGM and in the Proxy Form.

There are no restrictions on transfer or limitations on the holding of the Company's ordinary shares and no requirements for prior approval of any transfers. Under the Company's articles of association, the directors have the power to suspend voting rights where the holder of shares fails to comply with a notice issued under section 793 of the CA2006.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the articles of association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that might result in restrictions on the transfer of securities or on voting rights.

Details of share based payments can be found in note 23 to the accounts. Participants in employee share schemes have no voting rights in respect of the shares subject to those awards until the allocations are exercised, at which time the shares rank equally with all other ordinary shares in issue. No such schemes have any rights with regard to control of the Company.

At the 2009 AGM, shareholders approved a resolution to permit directors to allot ordinary shares of 46 $\frac{7}{8}$  pence each up to an aggregate nominal amount of £10,818,136 (being approximately one third of the nominal value of the Company's issued ordinary share capital) and to undertake market purchases of its own shares up to a maximum

## Directors' report

number of 6,923,607 ordinary shares of 46 $\frac{7}{8}$  pence each. These authorities will expire at the forthcoming AGM and, in accordance with current best practice, the Company will seek to renew them. No shares were allotted or bought back under these authorities during the year and at present the Company does not hold any shares in treasury.

### Change of control

There are a number of agreements that take effect after, or terminate, upon a change of control of the Company, such as commercial contracts, bank facility agreements, guarantees, property agreements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

### Substantial shareholdings

As at the date of this report, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, or through other disclosures of substantial interests in the share capital of the Company as set out in the table on page 25.

### Disclosure of audit information

Each of the persons who is a director at the date of approval of this annual report confirms that so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each of the directors has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information. Relevant audit information means information needed by the Company's auditor in connection with preparing his report. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the CA2006.

### Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor and resolutions to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the forthcoming AGM.

### Going concern

The directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in note 18 to the accounts. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 19 to the accounts.

The directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 months from the balance sheet date. The directors considered a range of potential scenarios within the key markets the Group serves and how these may impact on cash flow, facility headroom and banking covenants.

The Group and Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the chief executive's review on pages 4 to 11. The directors also considered what mitigating actions the Group could take to limit any adverse consequences.

Having undertaken this assessment, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2009 Company and Group financial statements to be prepared on a going concern basis.

### Annual General Meeting

The AGM of the Company will be held at Mallory Court Hotel, Leamington Spa, Warwickshire at 11.00 a.m. on 7th May 2010. The notice convening the meeting, together with the special business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on the Company's website [www.agarangemaster.com](http://www.agarangemaster.com), where a copy can be viewed or downloaded in 'PDF' format by following the link to Investor Relations and then AGM or Report & Accounts.

# Directors' report

Notifying person(s)	% of voting rights and issued share capital	Ordinary shares of 46 7/8p each	Nature of holding
Pension Insurance Corporation Ltd	19.00	13,155,000	direct
BlackRock Inc	11.07	6,891,243	indirect and cfd
J O Hambro Capital Management Group Ltd	9.77	6,765,120	direct
Cazenove Capital Management Ltd	6.63	4,593,253	direct and cfd
Pension Corporation GP Ltd and others	5.34	3,698,229	direct
J P Morgan Chase & Co	4.97	3,439,953	indirect
Prudential plc group of companies	3.89	2,694,715	direct
Legal & General Group Plc	3.81	2,644,302	direct
Deutsche Bank AG	3.76	2,601,902	direct
BlackRock UK Equity Recovery Fund	3.01	2,087,369	direct

## Cautionary statement

Under the CA2006, a company's directors' report is required, among other matters, to contain a fair review by the directors of the Group's business through a balanced and comprehensive analysis of the development and performance of the business of the Group and the position of the Group at the year-end, consistent with the size and complexity of the business.

The directors' report set out above, including the chairman's statement, the chief executive's review, the principal risks and uncertainties and corporate social responsibility incorporated into it by reference (together, the directors' report), has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. The directors' report should not be relied upon by any other party or for any other purpose.

The directors' report (as defined) contains certain forward looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and

such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

By order of the board,

*P M Sissons*

## P M Sissons

Company Secretary  
12th March 2010

## Registered office.

Juno Drive, Leamington Spa,  
Warwickshire, CV31 3RG

**Company registered number:** 00354715

# Statement of directors' responsibilities

## Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the remuneration report and the Group and Company financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and the Company financial statements in accordance with the applicable law and United Kingdom Accounting Standards (Generally Accepted Accounting Practice ('UK GAAP')) and the remuneration report in accordance with the applicable law. The Group and Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state that the Group financial statements comply with IFRS as adopted by the EU and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the Group financial statements and the remuneration report comply with the CA2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company website. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

Each of the directors confirm that to the best of their knowledge

- the Group financial statements, prepared in accordance with IFRS as adopted by the EU and the Company financial statements prepared under UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole, and
- the chief executive's review, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

By order of the board,



**William McGrath**  
Chief Executive  
12th March 2010



**Shaun Smith**  
Finance Director

# Corporate governance

## Corporate governance

The directors of the Company are committed to the highest standards of corporate governance in the management of the Company and the Group. The directors consider that the Company has applied the principles and complied with the provisions of section 1 of the Combined Code on Corporate Governance (the 'Code') adopted by the Financial Reporting Council ('FRC') in June 2008 throughout the year ended 31st December 2009. This report, together with the directors' report set out on pages 2 to 25, the remuneration report set out on pages 34 to 41 explains our governance policies and practices and describes how the Company has applied each referenced section of the Code. Further information on the Code can be found on the FRC website ([www.frc.org.uk](http://www.frc.org.uk)). This statement has also been prepared in compliance with the Disclosure and Transparency Rules ('DTR') made by the Financial Services Authority ('FSA') specifically DTR 7.2 – Corporate governance statements.

## A. Directors

### A.1 The board

The board of directors is responsible to the Company's shareholders for the success of the Company, the Group's system of corporate governance, setting broad strategic objectives, monitoring business and financial performance and for the stewardship of the Company's resources. The board is satisfied that it meets the Code's requirements for effective operation.

The board promotes the success of the Group and provides leadership within a framework of prudent and effective controls that enable risks and opportunities to be assessed and managed. In pursuance of the Group's strategy, the board has delegated the day-to-day operational management to the chief executive but it has agreed a

formal schedule of matters reserved solely for its decision. The reserved powers ensure that certain transactions, significant in terms of size or type are undertaken only after board review and approval. Matters specifically reserved for board approval cover a range of key issues including the development of corporate strategy, long-term objectives and the approval of annual budgets, financial reporting and internal controls, treasury policy, major changes to the rules and funding of the Company's pension schemes, corporate governance matters and risk management and social, environmental and ethical matters. The matters reserved for the board were reviewed and updated during 2009. Delegated authorities are also clearly defined.

The board has a schedule of regular meetings and may hold additional meetings as necessary. Table 1 below sets out the names of each board director, their attendance at meetings and those board committees of which they were a member during the year ended 31st December 2009.

The terms of reference of each board committee are reviewed annually by the board. Copies are available on request from the company secretary or on the Group's corporate website ([www.agarangemaster.com](http://www.agarangemaster.com)). Following formal consideration the board may, on occasion, delegate authority to a standing committee consisting of at least two directors to facilitate final sign-off for an agreed course of action within pre-defined parameters.

The biographical details of the directors serving on the board at the date of this report are set out on pages 20 to 21. During the year the board comprised two executive directors and five non-executive directors. The two executive directors are William McGrath, chief executive and Shaun Smith, finance director. John Coleman was appointed to the board in March 2008 and he became

Table 1

Director	Board	Audit and risk committee	Remuneration committee	Nomination committee
W B McGrath	9/9	-	-	-
S M Smith	9/9	-	-	-
J Coleman	9/9	-	-	2/2
P B Dermody	9/9	3/3	3/3	2/2
P E Jackson	9/9	3/3	3/3	2/2
H M Mahy (resigned 31st Dec 2009) (note 1)	9/9	2/3	3/3	2/2
P W G Tom (note 2)	8/9	2/3	3/3	2/2

Attendance is expressed as the number of meetings attended/number eligible to attend

note 1 - Helen Mahy was unable to attend one audit and risk committee meeting due to prior commitments, which were notified in advance

note 2 - Peter Tom was unable to attend one board and one audit and risk committee meeting due to prior commitments, which were notified in advance

# Corporate governance

chairman of the board in May 2008. He met the independence criteria defined in the Code at the time of his appointment. There were four independent non-executive directors serving on the board – Paul Dermody, Paul Jackson, Helen Mahy and Peter Tom.

Helen Mahy resigned as a director on the 31st December 2009, having served six years as a non-executive director.

## A.2 Chairman and chief executive

It is the Company's policy that the roles of chairman and chief executive are separate, with their roles and responsibilities clearly defined and recorded.

The chairman is responsible for the effective running of the board and its governance. The chairman's other significant commitments are disclosed in his biography and changes to these commitments were disclosed to the board during the year. The board considers that these commitments do not hinder the chairman's ability to discharge his responsibilities to the Company effectively.

The chief executive is responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for board approval in addition to executing the approved strategy.

The chief executive has chosen to discharge his responsibilities for the operational management of the business with the chief operating decision maker being the executive management committee, which meets regularly throughout the year. Its members currently comprise the executive directors, William McGrath and Shaun Smith and senior operational management – Mike Bufton, Gary Green and Richard Eagleton. The executive management team reviews results and makes assessments of performance together with decisions about resource allocations within the AGA and Rangemaster operating segments and there is regular dialogue and meetings with the operations. Those members of the executive management committee and other senior managers who are not directors of the Company are regularly invited to attend and present at board meetings. The respective roles of the board, executive management committee and operational management are discussed further under internal control.

## A.3 Board balance and independence

The Code recommends that at least half of the board excluding the chairman should comprise non-executive directors determined by the board to be independent. Each of the non-executive directors has been determined by the board to be independent according to the criteria set out in the Code and to have no business or other relationship that could interfere materially with the exercise of their judgement. The independence of the non-executive directors is considered at least annually. Each non-executive director possesses a wide range of skills and experience. The senior independent director throughout the year was Peter Tom and he is available to meet shareholders as required.

## Directors' conflicts of interest

Directors have a statutory duty to avoid a situation in which he has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. A director will not breach that duty if the relevant matter has been authorised in accordance with the Articles by the other directors. In line with the CA2006, the Articles were amended in 2008 to allow the board to authorise potential conflicts of interest that may arise and impose such limits or conditions as it thinks fit. The decision to authorise a conflict can only be made by those directors who have no interest in the matter being considered and in making such decision, the directors must act in a way they consider in good faith will be most likely to promote the Company's success.

The Company has established a procedure whereby actual or potential conflicts of interest are regularly reviewed by the board and updated as appropriate. This procedure has operated satisfactorily throughout the year. Appropriate authorisation would be considered prior to the appointment of any new director.

## A.4 Appointments to the board/nomination committee

During the year the nomination committee ('the committee') comprised John Coleman (chairman), Paul Dermody, Paul Jackson, Helen Mahy and Peter Tom. The chief executive, senior management and external advisers may be invited to attend meetings at the request of the committee. The committee met twice during the year and attendance is set out in table 1 on page 27.

The committee's terms of reference are available for review on the Company's website and comply with the Code. These set out the main responsibilities of the committee. All non-executive directors are appointed for

an initial three-year term pursuant to a standard letter of appointment, which is available for viewing at the Company's registered office during normal business hours and at the AGM

During the year, the committee reviewed the re-election of directors under the provisions in the Articles and the renewal of terms of office of non-executive directors Paul Dermody and Peter Tom were appointed as directors in 2004 and their initial three year terms of office were renewed in 2007. During the year, following a rigorous review in accordance with the Code, the committee recommended the renewal of Paul Dermody's and Peter Tom's appointments for further three year terms, subject to re-election by shareholders as required under the provisions in the Articles

The committee, in conjunction with the board, receives updates from the chief executive, the Group HR director and other advisers, as appropriate, on succession and development planning for senior positions within the Group. On an ongoing basis, the committee reviews the size, structure and composition of the board and its committees. Such reviews take into account the balance of skills, knowledge and experience of the existing board members to establish whether any further appointments or changes were deemed necessary. Following the resignation of Helen Mahy in December 2009, the committee undertook a further review and also considered the membership of the committees of the board and made recommendations to the board effective from January 2010. At present the committee does not believe further appointments to the board are required

The board accepted all recommendations made by the nomination committee during the year

## **A 5 Information and professional development**

The company secretary, under the chairman's direction, is responsible for ensuring that information flows within and between the board and its committees, the non-executive directors and senior management. The company secretary is also responsible for advising the board, through the chairman, on governance matters

The board has a forward rolling business agenda, which is updated after each meeting to include specific topics that directors have requested be reviewed at future meetings. The board reviews the key activities and performance of the business and receives papers and presentations from the executive management committee, other senior managers and external advisers to enable it to discharge its duties effectively

On joining the board all directors receive appropriate induction training which is tailored to the director's specific needs. Major shareholders are offered the opportunity to meet new non-executive directors. Directors receive regular updates appropriate to the business throughout the year and the Company provides resources for directors to develop and refresh their knowledge and capabilities as required. All directors are suitably qualified, trained and experienced so as to be able to participate fully in the work of the board. Training needs are discussed with each director as part of the annual board performance evaluation

To assist with the independent conduct of their function, the non-executive directors are able to obtain professional advice at the Company's expense, if required in connection with their duties. A process is in place to facilitate this. In addition, all directors have access to the advice and services of the company secretary. The appointment or removal of the company secretary is a matter reserved for board decision

## **A.6 Performance evaluation**

The board, as part of its commitment to ensure its effectiveness, carried out a formal evaluation of its performance and processes during the year and it also reviewed the performance of its committees and the individual directors. Each director completed a confidential questionnaire which considered a number of areas including the performance of the chairman, executive and non-executive directors, the operation and performance of the board, its committees and the committee chairman, governance matters and evaluation methods

The questionnaire was supplemented with a private meeting with the chairman, which covered a broad range of topics including discussions on specific projects and performance, areas for improvement, as well as a review of individual performance, knowledge gaps and training requirements. The expected time commitments and independence criteria were reviewed for each non-executive director

Following the review, the results and observations were summarised by the chairman in a report to the board. It concluded that the board and its committees were operating effectively and agreed actions in respect of certain processes and procedures identified for improvement. The aim of the action plan is to continually improve processes, procedures and performance. The chairman confirmed that each director was contributing effectively to the Group's performance and demonstrated commitment to his duties

## Corporate governance

The schedule of matters reserved for the board, statements outlining the roles of the chairman and chief executive, the terms of reference of the committees and other policy statements are reviewed annually as part of the formal evaluation process. These were last updated in December 2009.

The chairman communicates frequently with the non-executive and executive directors. Directors are encouraged to discuss any issues or concerns with the chairman at any time throughout the year and to ensure that any unresolved issues are formally minuted. The chairman and non-executive directors met during the year without the executive directors present.

The chairman's performance was reviewed by the non-executive directors, led by the senior independent director and taking into account the views of the executive directors.

### A.7 Re-election

In accordance with the Articles, any director appointed during the year will stand for election at the next general meeting and all directors will stand for re-election at least every three years. These requirements ensure that each board member is subject to re-election at regular intervals.

Non-executive directors are initially appointed for a term of three years subject to election and re-election as set out above, and subject to satisfactory performance, their three year term of appointment may be renewed. Should a non-executive director serve for more than six years their re-election would be subject to particularly rigorous review. Should any non-executive director serve for longer than nine years they would then be subject to annual re-election.

This year, two directors will be standing for re-election at the AGM to be held in 2010, namely, William McGrath and Peter Tom. Biographical details of both of the directors standing for re-election are given on pages 20 and 21. William McGrath is chief executive and details of his rolling service agreement are set out on page 39. Peter Tom was appointed as a non-executive director in 2004 for an initial three year term which was renewed for a further three years in 2007. During the year, following a rigorous review in accordance with the Code, the nomination committee recommended the renewal of Mr Tom's appointment for a further three year term, subject to shareholders approving his re-election in accordance with the Articles.

The board considers that the performance of the directors

proposed for re-election continues to be effective and they make a valuable contribution and demonstrate a strong commitment to their respective roles. The directors were subject to performance evaluation during the year. The board unanimously recommends the re-election of each of these directors.

### B Remuneration

Details of the directors' remuneration and the work of the remuneration committee, as required by the Code and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008, is included in the remuneration report on pages 34 to 41.

### C Accountability and audit

#### C.1 Financial reporting

All communications with shareholders, regulators and other stakeholders are designed to present a balanced and understandable view of the Group's position and prospects. We report to our shareholders on a half-yearly basis, supplemented by interim management statements and other market announcements, as appropriate. The statement of the responsibility of directors for the preparation of the annual report, remuneration report and the financial statements under IFRS and UK GAAP is set out on page 26. The Group going concern statement is on page 24.

#### C.2 Internal control and risk management

The board confirms that it has complied with the Code in respect of the revised guidance on internal control published in October 2005 (the Turnbull Guidance) and is reporting in accordance with that guidance.

The board of directors has overall responsibility for reviewing and approving the Group's system of internal controls and its adequacy and effectiveness. This established system of internal controls includes financial, operational and compliance controls and risk management systems. The audit and risk committee assists the board in discharging its review responsibilities and considers reports from the Group's independent auditor and internal auditors on the effectiveness of the operation of internal control procedures. It is the role of management to implement the agreed policies on risk and control and to continually monitor risk and control systems.

Our systems of internal financial and operational control are designed to facilitate effective and efficient operations, to safeguard assets, to ensure proper accounting records are maintained, to provide reliable financial information for use in the business and in external publications,



# Corporate governance

to identify and manage business risks, to maintain compliance with appropriate legislation and to identify and adopt best practice. Our risk management process identifies the key risks facing each operation within the AGA and Rangemaster operating segments and the Group as a whole. Management reports to the audit and risk committee and the board on how those risks are being managed.

Such a system of internal control can only manage rather than eliminate risk of failure to achieve business objectives and can provide reasonable, but not absolute assurance against material misstatement or loss. It is necessary to take commercial risks in the course of the management of the Group's operations and those risks are evaluated as part of the decision making process. The board has not identified or been advised of any significant failings or weaknesses where action has not been taken which might have a material impact on the business.

The process for identifying, evaluating and managing the risks faced by the Group and its operations is ongoing. The process covers all the Group's operations. The audit and risk committee formally reviews the operation and effectiveness of the Group's systems of internal controls on an annual basis. The latest review covered the financial year to 31st December 2009 and included the period to the approval of this report and financial statements.

The Group's risk management framework requires the operations to record formally the significant risks they face. The process identifies both short and long-term risks to business performance and takes into account the likelihood of occurrence and potential impact. Risks considered include operational and financial contingencies, legal and regulatory compliance and social, environmental and ethical issues. Management is required to identify key internal controls for each of the risks they are responsible for and to identify control owners.

The main features of the internal control and risk management systems include:

- an established internal organisational structure with clearly defined lines of responsibility, authority and accountability including the segregation of certain duties and functions and a schedule of matters reserved for the board,
- well established and clearly documented control structures including documented accounting policies and procedures with which all the Group's operations are required to comply or obtain express dispensation from, with an agreed mitigating action plan,
- comprehensive business planning, risk assessment and financial reporting procedures, including the annual approval of a strategic plan and budget by the board and preparation of detailed operational budgets for the following year,
- detailed financial reporting with monthly consolidated management accounts reviewed by the executive management committee and circulated to all board directors. These compare actual performance to the annual budget, forecasts and the prior year. The accounts are used to update forecasts and other information to enable the board to assess the prospects of the Group,
- specific procedures for the appraisal and authorisation of capital expenditure and other major projects,
- certain of the Group's key functions (including company secretarial, insurance, internal audit, pensions, taxation (compliance and planning) treasury and financial accounting) are performed centrally under the control of executive directors and the board receives regular updates on the work undertaken by these functions,
- regular meetings of the board and the executive management committee,
- an ongoing risk management process designed to identify and mitigate or manage any material risks identified. This process is further described in this section and in the key risks and uncertainties on pages 12 to 13. This includes self assessment by management teams and a bi-annual Group overview being undertaken and reviewed by the audit and risk committee.

At operational level, there are regular management meetings to review all aspects of the Group's business, including potential and actual risks to the Group. Executive directors undertake frequent visits to the operations within the AGA and Rangemaster operating segments to discuss strategy, review business performance and significant operational and financial risks. Key procedures include planning, budgeting and investment appraisal. Feedback is provided to the board.

Local management are responsible for the implementation and continual monitoring of the systems of internal financial and operational controls and risk management and they are supported by suitably qualified and experienced personnel. They report back to internal audit annually by way of the controls self assessment questionnaire.

The internal audit function undertakes a rolling programme of visits to review internal control and risk management processes with particular reference to the Turnbull

# Corporate governance

Guidance Copies of the internal auditors' reports and any recommendations made in them are communicated to the relevant level of management. The internal auditors report directly to the audit and risk committee on a regular basis. Follow up visits are arranged if considered necessary and the implementation of recommendations is monitored.

## C.3 Audit and risk committee

During the year, membership of the audit and risk committee ('the committee') comprised Paul Dermody (chairman), Paul Jackson, Helen Mahy and Peter Tom. All members of the committee are considered by the board to be independent. The board has determined that Paul Dermody has recent and relevant financial experience.

The chairman, chief executive, finance director, head of internal audit and the external auditor attend the majority of meetings by invitation. Other senior management and advisers are invited to attend meetings as required. The head of internal audit reports to the finance director and has direct access to the chairman of the committee. The committee members, all other directors and senior management have direct access to the external auditor throughout the year, to seek advice or raise any issues or concerns. The committee met three times during the year and attendance is set out in table 1 on page 27. During the year, the committee members met with the external auditor without the executive management being present. Following the resignation of Helen Mahy as a director on 31st December 2009, the nomination committee recommended that John Coleman become a member of, but not chair the committee, with effect from 1st January 2010. John Coleman was independent at the time of his appointment as chairman of the board.

The committee's terms of reference are available for review on the Group's website and comply with the Code. These set out the main responsibilities of the committee. During the year the committee's activities have included:

- monitoring the integrity of and reviewing the Company's financial statements focussing on the key judgemental areas and accounting policies,
- reviewing the effectiveness of the Group's systems of internal financial control, operational control and compliance control, risk management and whistleblowing arrangements,
- monitoring and reviewing the effectiveness of the internal audit function, resourcing levels, agreeing the programme of work and receiving reports arising from

the work of internal audit,

- monitoring the performance of the external auditor and the effectiveness of the audit process, their findings in relation to the annual report and half-year report and the consolidation process, including their review of the effectiveness of controls across the Group,
- reviewing various financial and technical updates during the course of the year, including the guidance notes issued by the FRC.

## Review of the external auditor

The committee has delegated responsibility for making recommendations to the board on the appointment and removal of the external auditor. The auditor is subject to annual re-appointment by shareholders at the AGM. The committee conducts a continuous review of the relationship between the Group and the auditor, including the nature and scope of the external audit, consideration of the auditor's independence and objectivity and advance approval of any fees for non-audit services above a pre-agreed threshold as set out in the policy agreed by the committee. A breakdown of the audit and non-audit fees is set out in note 4 to the Group accounts. The committee discussed the level of fees and considered them to be appropriate given the recent reorganisation of the Group. The committee only endorses the use of the audit firm for taxation compliance work and some specific tax advisory work when the committee believes they are best placed to carry out the work. During the year non-audit work undertaken by the audit firm principally related to these services. The committee is satisfied that the level and scope of the non-audit services does not impair the independence and objectivity of the auditor. The Group is increasingly looking to use a panel of advisers going forward and will take into account which firm is in the best position to undertake the work effectively.

Ernst & Young LLP were appointed auditor following a formal tender exercise overseen by the committee in June 2006. The auditor confirms bi-annually that their policies ensure audit independence and provides the committee with a report of their own audit quality procedures.

The committee keeps the potential re-tendering of the external audit services under review and the committee believes that alternative advisers could be appointed in the event of the auditor withdrawing from the market. The committee made a recommendation to the board with respect to the level of audit fees paid to the external auditor and their re-appointment as independent auditor.

# Corporate governance

The board accepted all recommendations made by the audit and risk committee during the year

Resolution 5 set out in the Notice of AGM recommends that shareholders re-appoint Ernst & Young LLP as the Company's independent auditor and Resolution 6 authorises the directors to determine their remuneration

## **D Relations with shareholders**

### **D 1 Dialogue with institutional shareholders**

In its reporting to shareholders, the board aims to present a balanced and understandable assessment of the Group's financial position and prospects and this is outlined in the chief executive's review. Relations with shareholders are managed mainly by the chief executive and finance director. There are regular institutional, analyst and media presentations which cover a range of relevant issues including strategy, performance, management and governance within the constraints of information already made publicly available.

The chairman ensures that the views of shareholders are communicated to the board as a whole. The board receives feedback from broker and shareholder meetings. During the year, the chairman, chief executive and finance director undertook a review of the brokers used by the Company. This resulted in the appointment of Numis Securities and Execution Noble as joint corporate brokers.

The chairman held meetings with shareholders during the year and is available to shareholders to discuss governance and strategy. Following such meetings a briefing note is circulated to the board as a whole and the key topics raised by shareholders are discussed. No formal meetings were requested with the senior independent director or the other non-executive directors during the year, but they remain available to attend meetings on request.

The Company has taken advantage of the provisions within the CA2006 allowing communication to be made electronically to shareholders where they have not requested hard copy documentation. As a result the Company's website has become the primary method of communication for the vast majority of shareholders. Copies of the major presentations including the annual and half-year results presentations, all market announcements and share price information are made available on the Group's corporate website.

### **D 2 Constructive use of the AGM**

The AGM is attended by all members of the board and this provides a valuable opportunity to communicate with shareholders and for private investors to meet with the directors, senior managers and the Company's advisers and to ask questions.

The Notice of AGM and related papers are sent to shareholders at least twenty working days before the meeting, and separate resolutions are proposed on each substantial issue. Usually at an AGM each resolution is dealt with on a show of hands, with details of the results of proxy voting announced thereafter. Immediately after the AGM the Company issues a market announcement setting out the results of the AGM and details of all votes cast are made available on the Group's corporate website.

Details of the 2010 AGM are set out in the Notice of AGM in a separate circular issued to shareholders, along with details of the facilities available for proxy votes to be cast electronically. The Company offers shareholders the right to withhold their vote, if they so wish, in line with best practice.

By order of the board,



**P M Sissons**

Company Secretary  
12th March 2010

# Remuneration report

This report has been prepared by the remuneration committee and has been approved by the board. The report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008 (the 'Accounting Regulations') under the CA2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the remuneration committee has applied the principles relating to directors' remuneration in the Combined Code on Corporate Governance 2008 ('the Code').

The CA2006 requires the auditor to report to the Company's members on certain parts of the directors' remuneration report and state whether in their opinion those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

A resolution will be proposed at the AGM which invites members to approve the remuneration report for the financial year ended 31st December 2009.

## Unaudited information Remuneration committee

During the year, the remuneration committee ('the committee') comprised Peter Tom (chairman), Paul Dermody, Paul Jackson and Helen Mahy. All members of the committee are considered by the board to be independent. The committee met three times during the year and details of attendance at committee meetings can be found in table 1 on page 27. The chairman of the board, chief executive and external advisers are invited to attend meetings as required. Following the resignation of Helen Mahy as a director on 31st December 2009, the nomination committee recommended that John Coleman become a member of, but not chair, the committee with effect from 1st January 2010. John Coleman was independent at the time of his appointment as chairman of the board. Neither the chairman of the board nor any executive director participates in any discussion relating to his own remuneration. No committee member has any personal financial interest, other than as a shareholder, or other conflicts of interest in relation to matters to be decided by the committee. The remuneration of the non-executive directors is decided by the board as a whole on the advice of executive directors, supported by external benchmarked data and the independent remuneration advisers to the committee.

The committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration and seeks advice from external advisers when it considers it is appropriate. The committee appointed, and continued to use KPMG LLP ('KPMG') as its independent remuneration and benefits adviser. During the year, KPMG has provided actuarial advice to the Company, guidance on developments and best practice in the field of remuneration and has assisted the Company with the drafting of and taxation advice relating to the proposed introduction of a Company Share Option Plan ('CSOP'). KPMG provided some non-audit services to the Company during the year in relation to general taxation advice. The fees were less than £10,000. During the year the committee also received advice from Alithos Limited in relation to performance monitoring under the Long-Term Incentive Plan. Alithos has no other relationship with the Group.

The committee's terms of reference are available for review on the Group's website and comply with the Code. These set out the main responsibilities of the committee. The chairman of the committee is available to discuss remuneration arrangements with shareholder representatives as required.

Items discussed by the committee during the year to enable it to discharge its duties in accordance with its terms of reference included:

- a review of market trends and publicly available benchmarked data to review the competitiveness of remuneration policy and arrangements for the executive directors and senior management,
- a review of the overall balance of benefits between the fixed and variable components,
- a review of executive bonus scheme targets and agreed the bonus payable for the financial year ended 31st December 2009,
- a half yearly review of performance in relation to the awards granted under the Long-Term Incentive Plan and the vesting status at the end of the performance period
- a review of the share schemes and remuneration policy elsewhere in the Group, which led to the proposal to introduce a CSOP,
- a review of the current investor guidelines on executive remuneration,
- a review of the disclosures in the remuneration report.

The board accepted all recommendations made by the remuneration committee during the year.

# Remuneration report

## Remuneration policy

The Group's remuneration policy is designed to ensure that the remuneration of executive directors is sufficiently competitive to retain and motivate the existing directors and to attract high calibre candidates to ensure the continued success and development of the business. The performance measurement of the executive directors and determination of their annual remuneration package is undertaken by the committee, taking into account the level and structure of remuneration of senior management and pay and conditions elsewhere in the Group.

The current policy is based around the following principles

- that total compensation should be set at levels that are competitive in comparison to companies of a similar profile, size by turnover and geographical spread from within and outside the industry sector,
- to position base salaries around the median level in the relevant pay peer group and to supplement base salaries by variable performance related rewards and incentives which can raise the total value of the remuneration package into the upper quartile, if demanding performance targets, which are aligned to shareholder interests, are met,
- to align management incentives with the creation of shareholder value over both the short and longer term

The main elements to the remuneration package for executive directors and senior management are as follows

### Fixed

- Basic annual salary
- Benefits in kind and cash benefits
- Pension benefits

### Variable

- |   | <b>% of salary</b> |
|---|--------------------|
| • Annual bonus related to the Group's performance and strategic objectives  | Up to 75%          |
| • Annual award of nil cost options under the Long-Term Incentive Plan, with vesting after three years subject to performance conditions being met | Up to 100%         |

### Basic salary

Salaries for the executive directors are reviewed annually and are targeted broadly at the median position in the relevant pay peer group. The committee takes into consideration the size, complexity and responsibilities of the individual's role, the individual's experience and the overall business performance. In deciding the appropriate level, the committee considers salary practices prevailing

in the Group as a whole and relies on independent research, which gives up to date information on a comparator group of companies.

It also considers the balance between fixed and variable rewards and the total compensation achievable. Basic salaries were reviewed in December 2008 and the committee decided that in view of the general market conditions and previous guidance from the remuneration adviser there would be no increase in basic salaries for the executive directors effective from 1st January 2009. Basic salaries were reviewed by the Committee in January 2010 and it was agreed that a 2% increase would be awarded effective from 1st January 2010.

### Benefits in kind

The executive directors receive certain benefits in kind, principally the provision of a car or car benefit, fuel or equivalent cash allowance, private health care and life assurance.

### Annual bonus

The committee establishes the objectives that must be met each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters, the committee reviewed independent research on a comparator group of companies compiled by the remuneration adviser. In 2008 the maximum bonus potential was reduced from 100% to 75% of basic salary, subject to meeting challenging performance conditions. In 2009, the committee maintained the maximum bonus potential at 75% of basic salary. However, the key performance indicators were revised to align them with the Group's stated strategic objectives. The performance targets set measured the improvement in profit and delivery of cash targets set in the budget and aligned with market expectations. This was subject to a sliding scale, with a maximum award of 37.5% of basic salary being paid for superior performance under each of the performance targets. The committee approved the targets at the beginning of the year and reviewed performance against these targets and key growth objectives during and at the end of the year. The directors are not entitled to an award in respect of the profit target. However, the cash targets were exceeded substantially. The committee considered all the relevant facts, taking into account the underlying performance of the business, current investor guidelines and that fact that the directors had agreed to waive part of their bonus, as they had done in the prior year. The committee exercised its discretion and recommended that a bonus award of 20% of basic salary be made to the directors for the financial year ended 31st December 2009.

# Remuneration report

## Share option schemes

All equity based awards granted under the Company's share plans are subject to qualifying services. Commitments to issue new shares or reissue treasury shares, when aggregated with awards under all the Company's other share schemes, may not exceed 10% of the issued share capital in any ten year period (5% of the issued share capital in any rolling ten year period in respect of discretionary schemes, this limit may only be exceeded if vesting is dependent on significantly more stretching performance conditions)

## Long-Term Incentive Plan ('LTIP')

The LTIP seeks to motivate and retain executive directors and other senior executives, to enable them potentially to benefit from improved total shareholder return ('TSR') and the earnings per share ('EPS') performance of the Company. The committee administers the LTIP and the grant of nil cost options under the LTIP. The maximum annual nil cost option award that can be made to an individual is equivalent to 100% of basic salary. The options granted will only become exercisable (vest) if the performance conditions are met.

In considering the balance between fixed and variable rewards and the total compensation achievable and awards made under the LTIP in recent years, the committee decided not to make any awards under the plan during 2009. The authority to grant options under the LTIP expired in May 2009.

A full summary of the performance conditions attaching to outstanding awards can be found in note 23 to the accounts. To the extent that these performance conditions are not met at the end of the three year period, the options will lapse. Once an option has vested, the percentage of the options which have vested may be exercised during the remainder of a ten year period from the date of the grant of the option. The committee believes the performance conditions remain appropriate. The committee regularly receives reports on actual Company performance against the relevant conditions from Alithos Limited. The LTIP options granted in 2006, which had completed the three year performance period and were available for vesting during the year, lapsed as the performance condition had not been met.

The committee does not plan to renew the authority for the LTIP at present. It is, however, recommending that a CSOP be adopted (see below).

## Sharesave Plan

The Group also operates an HMRC approved Sharesave Plan which is open to eligible employees, including the executive directors, on the completion of a minimum service period at the time of invitation. The committee considers whether to offer invitations annually, but did not proceed with an invitation in 2009. Savings contracts are of three or five year terms and subject to a maximum monthly savings limit of £250. The committee has the discretion to grant options at a discount of 20% of the market value at the date of grant (2008 options were granted at market value). Their exercise is not subject to performance conditions.

## Company Share Option Plan

The Senior Executive Share Option Scheme lapsed in 2004.

Following advice from KPMG in 2009, the committee recommended that a new HMRC approved Company Share Option Plan be introduced. This will enable the committee to make grants of approved and unapproved share options to employees (subject to headroom limitations). This will enable participants to benefit from an increased market capitalisation of the Company. If the CSOP is adopted the committee will be responsible for supervising the plan and the grant of options under its terms. The performance criteria will be set by the committee at the time an option is awarded. The first award, will require the Company's EPS to increase to a minimum of 10p per share for minimum vesting and up to 20p per share for full vesting over the three consecutive financial years commencing with the financial year in which the grant is made. Upon vesting the option may be exercised for the rest of its ten year life without further test.

The Company's policy is to grant options to the directors at the discretion of the committee taking into account individual performance. The committee will be able to make awards of up to 100% of basic salaries in exceptional circumstances, and subject to headroom. However, grants will be limited to a maximum of 50% of basic salary in the first year. It is the Company's policy to phase the granting of share options rather than award them in a single large block to any individual.

Further details of the plan rules are set out on pages 11 to 12 of the Notice of AGM and Resolution 12 will be put to shareholders to approve and adopt the new CSOP.

# Remuneration report

## Directors' interests

The beneficial interests of the directors serving at the year ended 31st December 2009 in the ordinary shares of AGA Rangemaster Group plc are shown in the table below. Directors' interests include the interests of their spouses, civil partners and infant children or step children as required by section 822 of the CA2006.

	At 12th March 2010	At 31st December 2009	At 31st December 2008
W B McGrath	102,632	102,632	102,632
S M Smith	85,278	85,278	85,278
J Coleman	5,000	5,000	5,000
P B Dermody	13,166	13,166	13,166
P E Jackson	2,032	2,032	2,032
H M Mahy	-	5,222	5,222
P W G Tom	15,000	15,000	15,000

The executive directors are required to build a significant holding in the Company. Directors will be expected to retain 50% of the shares vesting under share plans. In practice the executive directors have retained 100% of options exercised over the last five years and neither of the executive directors has sold any shares during the last five years.

## Pension arrangements

The committee takes into account pension arrangements and associated costs in reviewing remuneration policy. Pensions and retirement benefits provided to executive directors are currently considered by the committee to be appropriate but are kept under review in light of changing circumstances including the planned changes to restrict tax relief on contributions to the pension scheme for higher earners.

The executive directors are members of the Group's UK pension scheme on a defined benefit basis of pension provision. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. On their retirement from service at their normal retirement age of 60, the arrangements provide for a pension of two-thirds of final pensionable salary. The pensions of William McGrath and Shaun Smith are subject to the statutory earnings cap. No other payments are pensionable and there are no unfunded pension promises or similar arrangements for directors. William McGrath and Shaun Smith receive additional salary in lieu of pension on remuneration above the statutory cap as detailed in table 2 on page 40.

On death after retirement the spouse's pension payable will be 50% of the member's pre commutation pension for William McGrath and 63% of the member's pre commutation pension for Shaun Smith.

Post retirement pension increases for William McGrath's pension will be in line with statutory requirements. Shaun Smith's pension will receive annual post retirement increases on pension earned prior to 1st October 2001 at the increase in RPI subject to a maximum of 5% and a minimum of 3%, on pension earned between 1st October 2001 and 30th September 2005 at the increase in RPI subject to a maximum of 5% and on pension earned on and from 1st October 2005 at the increase in RPI subject to a maximum of 2.5%. The Trustee of the pension scheme with the consent of the Company has the discretion to grant pension increases above these rates.

The transfer values corresponding to the directors' accrued pensions at 31st December 2009 after deduction of contributions paid by them, are shown in table 3 on page 40. Executive directors receive life assurance cover equal to four times their basic salary. During the year the Company paid premiums respectively of £2,346 and £1,488 to provide life assurance cover on that part of William McGrath's and Shaun Smith's basic salary above the statutory cap for the year.

The Company closed the Group's UK pension scheme to new members on a defined benefit basis of pension provision in 2001 and froze the pensionable salaries of current active defined benefit members of the UK Pension Scheme at the end of 2009 for higher earners and in January 2010 for all other active defined benefit members. From 2002 new members of the scheme join on a defined contribution basis of pension provision.

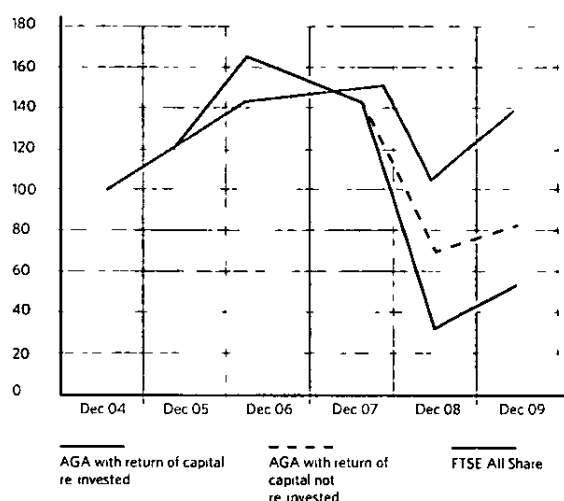
## Performance graph

The following graph shows the comparative TSR performance of the Company against the FTSE All Share Index during the previous five financial years. The TSR indices used in the chart have been calculated in accordance with paragraph 5 of Schedule 8 of the Accounting Regulations relative to a base date beginning on 31st December 2004. This requires that when calculating TSR, all cash payments made to the Company's shareholders, including special payments in addition to ordinary dividends, are treated as immediately reinvested in further ordinary shares in the Company at the prevailing market price on the date of receipt by shareholders. Therefore the Company's TSR performance as reflected in the graph below reflects the substantial special payment.

# Remuneration report

to shareholders by the Company in May 2008 of 121 pence per share. As the Company's share price fell markedly in the second half of 2008, this special payment exacerbates the deterioration in the Company's TSR as presented. If shareholders did not in fact immediately reinvest their special payments into the Company's shares, but retained the payment in cash until 31st December 2009, then their actual return would have been better as demonstrated by the dotted line.

The FTSE All Share Index has been selected as a comparator because the Group believes it is the most meaningful market index of which the Company is a member.



## Directors' contracts

### Non-executive directors

The chairman and the non-executive directors have letters of appointment stating their annual fee and that their appointment is initially for a term of three years subject to satisfactory performance and their re-election at AGMs in accordance with the Articles.

The services of Peter Tom are provided by a consultancy agreement dated 15th July 2008 with Rise Rocks Limited. The consultancy agreement may be terminated by either party subject to one month's notice. Fees for services provided during 2009 have been paid to Rise Rocks Limited.

The table below shows the dates of appointment and the most recent re-election dates for the chairman and the non-executive directors.

Name of director	Date of appointment	Date of last re-election at an AGM
J Coleman	March 2008	2008 AGM
P B Dermody	April 2004	2009 AGM
P E Jackson	December 2005	2009 AGM
P W G Tom (note 1)	February 2004	2007 AGM

note 1 Peter Tom will stand for re-election at the AGM to be held on 7th May 2010.

Copies of the letters of appointment, the consultancy agreement and deeds of indemnity will be available for inspection prior to and during the AGM and are also available for inspection at the Company's registered office during normal business hours.

The remuneration of the chairman is determined by the committee. The remuneration of non-executive directors is determined by the board on the recommendation of the executive directors within the limits set out in the Articles and on the basis of independent advice or publicly available benchmarked data which takes into consideration the level of fees paid to non-executive directors of comparator companies. The Group's policy in respect of non-executive directors is to pay annual fees which reflect the time commitment, responsibilities and duties placed upon them, whilst also having regard to market practice.

The chairman and non-executive directors are not eligible to participate in the Company's LTIP, share option schemes, annual bonus scheme, receive any payment on termination and are not eligible to join the Company's pension scheme. They are allowed to claim reasonable out of pocket expenses in connection with the performance of their duties.

The fees of the non-executive directors were last reviewed in January 2010. It was determined that they should not be changed. The current fee structure is shown in the following table.

Role	Last reviewed	Fee
Chairman	January 2010	£125,000
Non-executive director	January 2010	£35,000
Committee chairman	January 2010	£5,000



# Remuneration report

In addition, a per diem rate has been agreed in the event that the chairman's hours exceed the expected time commitment for the role. No additional payments were made during 2009.

No additional fees are paid for attendance or being a member of a board committee, but a fee of £5,000 is paid for chairing the audit and risk committee and the remuneration committee.

## Executive directors

The service agreements of the executive directors are summarised in the table below.

Executive	Notice period	Date of contract	Unexpired term of contract
W B McGrath	12 months	September 1998	Rolling contract
S M Smith	12 months	March 2001	Rolling contract

It is the Company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice in line with the best practice provisions set out in the Code. In the event of early termination, the directors' contracts provide for compensation of up to a maximum of one year's basic salary for the notice period. The committee does not consider it to be in the best interests of shareholders for directors' contracts to provide explicitly for pre-determined compensation in the event of early termination. However, the principle of mitigation would be applied to reduce any compensation payable to departing directors, with each case being taken on its own merits.

The service agreements will terminate when the director reaches the retirement age as determined by the board, which in normal circumstances is 60, and are otherwise terminable on giving 12 months notice.

## External appointments

The board recognises the benefit which the Group can obtain if the executive directors serve as non-executive directors of other companies. Subject to review in each case, the board's general policy is that each executive director may accept one non-executive directorship with another company from which any fees received may be retained. At present neither of the executive directors hold any outside directorships and do not earn fees for any other services outside employment with the Company. Shaun Smith has a voluntary role as a co-opted member of the audit committee of Birmingham City University.

## Audited information

### Directors' emoluments

The remuneration of each director, excluding share options, LTIP awards and pensions during the year ended 31st December 2009 is set out in table 2 on page 40. There were no taxable expenses in 2008 or 2009 for any of the directors.

### Pension arrangements

The executive directors are members of the Group's UK pension scheme on a defined benefit basis of pension provision. Table 3 on page 40 shows the directors' accrued pensions under the scheme and the corresponding transfer values calculated in a manner consistent with regulations 7 to 7E of the Occupational Pensions Scheme (Transfer Values) Regulations 1996.

### Directors' share options

Directors' emoluments disclosed in table 2 on page 40 do not include any value in relation to the options to acquire ordinary shares in the Company granted to or held by the directors.

The interests of directors in options held under the LTIP (which lapsed in 2009) and the Sharesave Plan at the beginning and end of the financial year are shown in table 4 on page 41.

On behalf of the board,

P W G Tom

Chairman of the remuneration committee  
12th March 2010

# Remuneration report

Table 2

	Salary/ fees £000	Salary in lieu of pension above earnings cap £000	Benefits in kind and cash benefits £000	Annual bonus £000	2009 Total £000	2008 Total £000
W B McGrath	487	80	26	97	690	595
S M Smith	280	35	23	56	394	339
J Coleman (appointed March 2008)	125	-	-	-	125	102
P B Dermody	40	-	-	-	40	40
P E Jackson	35	-	-	-	35	35
H M Mahy (resigned December 2009)	35	-	-	-	35	35
P W G Tom (note 1)	40	-	-	-	40	40
V Cocker (resigned May 2008)	-	-	-	-	-	40
<b>Total</b>	<b>1,042</b>	<b>115</b>	<b>49</b>	<b>153</b>	<b>1,359</b>	<b>1,226</b>

note 1 Relates to consultancy fees in respect of qualifying services to the Company paid under a consultancy agreement

Table 3

	Accrued pension at 31st Dec 2009 £000 pa	Increase in accrued pension over the year £000 pa	Transfer value of accrued pension at 31st Dec 2008 £000	Transfer value of accrued pension at 31st Dec 2009 (note 1) £000	Increase in transfer value over the year, net of director's contributions (note 2) £000	Increase in accrued pension over the year (net of inflation) £000 pa	Transfer value of increase in accrued pension over the year, net of director's contributions (note 3) £000
W B McGrath	48	6	317	651	330	4	43
S M Smith	52	5	341	640	295	3	25

The transfer values calculated have been verified by a consulting actuary

note 1 Transfer values at 31st December 2009 were calculated using a revised Trustee's transfer value basis effective from 1st January 2009

note 2 The increase in transfer values over the year (net of director's contributions) reflects the comparison of the transfer value of the accrued pensions at the start and end of the period. Transfer values are not cash payments due to the individual concerned but are the present actuarial value of the directors' pension benefits payable in the future. They are therefore discounted amounts which take into account market conditions and may change materially from year to year, even though no additional benefits were promised during the year.

The increase in transfer values over the year largely arises from the effect of using the revised transfer value basis at 31st December 2009 referred to in note 1 above. The transfer value basis used at 31st December 2008 applied a market value adjustment based on actual equity market conditions, whereas the transfer value basis used at 31st December 2009 applied a market value adjustment derived from a model of projected equity market performance. It is considered that the methodology underlying the revised transfer value basis is now the most appropriate for calculating transfer values and the revised basis should result in greater stability of transfer values in the future.

If the transfer values at 31st December 2008 were restated on a basis consistent with the transfer values at 31st December 2009, the restated transfer value in respect of William McGrath's accrued pension would be £469k and the transfer value in respect of Shaun Smith's accrued pension would be £507k and therefore the increase in transfer value over the year, net of director's contributions, on a restated basis would be £178k and £130k respectively.

note 3 The transfer value of the increase in accrued pensions over the year (net of director's contributions) reflects the transfer value of the increase in the accrued pensions over the period only.

## Remuneration report

Table 4

	Sharesave Plan approved in 2008	Long-Term Incentive Plan approved in 1999			
<b>W B McGrath</b>					
At 1st January 2009	8,014	28,149	33,922	121,262	85,391
Lapsed 8th May	-	-	(33,922)	-	-
<b>At 31st December 2009</b>	<b>8,014</b>	<b>28,149</b>	<b>-</b>	<b>121,262</b>	<b>85,391</b>
<b>S M Smith</b>					
At 1st January 2009	8,014	-	19,486	69,656	49,051
Lapsed 8th May	-	-	(19,486)	-	-
<b>At 31st December 2009</b>	<b>8,014</b>	<b>-</b>	<b>-</b>	<b>69,656</b>	<b>49,051</b>
<b>Option grant date</b>	<b>26 Sep 08</b>	<b>13 Oct 03</b>	<b>27 Apr 06</b>	<b>14 May 07</b>	<b>12 May 08</b>
<b>Exercisable period</b>	<b>01 Dec 13</b>	<b>13 Oct 06</b>	<b>27 Apr 09</b>	<b>14 May 10</b>	<b>12 May 11</b>
	to	to	to	to	to
	<b>31 May 14</b>	<b>12 Oct 13</b>	<b>26 Apr 16</b>	<b>13 May 17</b>	<b>11 May 18</b>

The exercise price per share in respect of options granted under the Sharesave Plan in 2008 is 209 pence per share. Subject to performance conditions, the LTIP consists of a right to acquire shares under option at an aggregate price of £1 per award.

Qualifying performance conditions for the LTIP are shown in note 23 to the accounts.

No options were exercised by the directors during the year and therefore no gains were made during 2009 (2008 £56,422).

The mid-market price of ordinary shares on 31st December 2009 was 120.0 pence and the highest and lowest mid-market prices during the financial year were 162.0 pence and 55.25 pence respectively.

# Consolidated income statement

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2009 £m	2008 £m
Revenue	3 & 4	245 0	279 4
Net operating costs	4	(246 5)	(268 3)
<b>Group operating (loss)/profit</b>	4	<b>(15)</b>	<b>111</b>
Net pension credit	6	5 4	5 4
Non-recurring cost	4	(3 6)	(5 3)
<b>Profit before net finance income and income tax</b>		<b>0 3</b>	<b>11 2</b>
Finance income	7	11	4 8
Finance costs	7	(0 9)	(1 6)
<b>Profit before income tax</b>		<b>0 5</b>	<b>14 4</b>
Income tax expense	8	-	(2 7)
<b>Profit for year</b>		<b>0 5</b>	<b>11 7</b>
<b>Profit attributable to</b>			
Equity holders of the parent		17	12 4
Minority shareholders		(1 2)	(0 7)
<b>Profit for year</b>		<b>0 5</b>	<b>11 7</b>
<b>Earnings per share</b>	11	<b>p</b>	<b>p</b>
Basic		2 5	14 4
Diluted		2 5	14 4
<b>Dividend per share</b>	10	<b>p</b>	<b>p</b>
Interim paid		-	4 0
Final proposed		-	-
<b>Total ordinary dividend</b>		<b>-</b>	<b>4 0</b>
<b>Cash return</b>	10	<b>-</b>	<b>121 0</b>

All operations are continuing

Notes to the accounts are on pages 48 to 78

# Consolidated statement of comprehensive (losses)/income for the year ended 31st December

	Notes	2009 £m	2008 £m
Profit for year		0.5	11.7
Exchange adjustments on hedge of net investments		16	(3.2)
Exchange differences on translation of foreign operations		(9.3)	23.0
Actuarial losses on defined benefit pension schemes	6	(104.5)	(28.7)
Deferred tax on actuarial losses	21	29.3	7.9
<b>Other comprehensive losses for the year</b>		<b>(82.9)</b>	<b>(10)</b>
<b>Total comprehensive (losses)/income for the year</b>		<b>(82.4)</b>	<b>10.7</b>
Attributable to			
Equity holders of the parent		(81.1)	11.0
Minority interests		(1.3)	(0.3)
<b>Total comprehensive (losses)/income for the year</b>		<b>(82.4)</b>	<b>10.7</b>

Notes to the accounts are on pages 48 to 78

# Consolidated balance sheet

AS AT 31ST DECEMBER

		2009	2008
	Notes	£m	£m
<b>Non-current assets</b>			
Goodwill	12	66.9	70.9
Intangible assets	13	23.2	24.0
Property, plant and equipment	14	50.8	58.7
Retirement benefit surplus	6	-	58.7
Deferred tax assets	21	21.7	5.5
		<b>162.6</b>	<b>217.8</b>
<b>Current assets</b>			
Inventories	15	46.0	63.5
Trade and other receivables	16	31.7	39.9
Current tax assets		1.8	2.1
Cash and cash equivalents	18	45.0	42.9
		<b>124.5</b>	<b>148.4</b>
<b>Assets held for sale</b>	14	<b>3.1</b>	<b>1.9</b>
<b>Total assets</b>		<b>290.2</b>	<b>368.1</b>
<b>Current liabilities</b>			
Borrowings	18	(13)	(9.7)
Trade and other payables	17	(63.2)	(66.8)
Current tax liabilities		(18.4)	(11.6)
Current provisions	20	(2.4)	(4.3)
		<b>(85.3)</b>	<b>(92.4)</b>
<b>Net current assets</b>		<b>39.2</b>	<b>56.0</b>
<b>Non-current liabilities</b>			
Borrowings	18	(15.7)	(27.4)
Retirement benefit obligation	6	(40.5)	(1.2)
Deferred tax liabilities	21	(6.1)	(21.9)
Provisions	20	(8.3)	(8.7)
		<b>(70.6)</b>	<b>(59.2)</b>
<b>Total liabilities</b>		<b>(155.9)</b>	<b>(151.6)</b>
<b>Net assets</b>		<b>134.3</b>	<b>216.5</b>
<b>Shareholders' equity</b>			
Share capital	22	32.5	32.5
Share premium account		29.6	29.6
Other reserves	25	85.8	95.5
Retained (losses)/earnings		(14.1)	5.71
<b>Equity attributable to equity holders of the parent</b>		<b>133.8</b>	<b>214.7</b>
Minority interest		0.5	1.8
<b>Total equity</b>		<b>134.3</b>	<b>216.5</b>

The accounts on pages 42 to 78 were approved by the board of directors on 12th March 2010 and were signed on its behalf by

W B McGrath

Chief Executive

S M Smith

Finance Director

Notes to the accounts are on pages 48 to 78

# Consolidated cash flow statement

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2009 £m	2008 £m
<b>Cash flows from operating activities</b>			
Profit before income tax		0 5	14 4
Reconciliation of profit before income tax to net cashflows			
Net finance income		(0 2)	(3 2)
Depreciation of property, plant and equipment	14	71	6 8
Impairment of assets held for sale		0 8	-
Amortisation of intangible assets	13	16	1 3
Loss on disposal of property, plant and equipment		0 1	0 3
Share based payments expense		0 2	-
Decrease/(increase) in inventories		15 3	(3 6)
Decrease in receivables		5 6	5 4
Increase/(decrease) in payables		2 0	(10 7)
(Decrease)/increase in provisions		(1 3)	0 5
Movement in pensions		(6 4)	(6 7)
<b>Cash generated from operating activities</b>		<b>25 3</b>	<b>4 5</b>
Finance income		11	5 0
Finance costs		(0 9)	(1 6)
Tax receipt/(payment)		4 0	(2 7)
<b>Net cash generated from operating activities</b>		<b>29 5</b>	<b>5 2</b>
<b>Cash flows from investing activities</b>			
Disposal proceeds from sale of subsidiaries less costs	9	(0 4)	(2 4)
Purchase of Mercury	24	(0 5)	-
Purchase of property, plant and equipment		(6 2)	(10 2)
Expenditure on intangibles	13	(1 9)	(3 3)
Proceeds from disposal of property, plant and equipment		-	0 5
<b>Net cash used in investing activities</b>		<b>(9 0)</b>	<b>(15 4)</b>
<b>Cash flows from financing activities</b>			
Dividends paid and cash returned to shareholders	10	-	(151 2)
Net proceeds from issue of ordinary share capital and cost of share consolidation		-	(0 1)
Repayment of borrowings		(20 5)	(1 5)
New bank loans raised		2 6	22 7
<b>Net cash used in financing activities</b>		<b>(17 9)</b>	<b>(130 1)</b>
Effects of exchange rate changes		(0 5)	1 7
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2 1</b>	<b>(138 6)</b>
Cash and cash equivalents at beginning of year		42 9	181 5
<b>Cash and cash equivalents at end of year</b>	18a	<b>45 0</b>	<b>42 9</b>

Notes to the accounts are on pages 48 to 78

# Consolidated statement of changes in equity

FOR THE YEAR ENDED 31ST DECEMBER 2009

	Equity attributable to equity holders of the parent					Minority interests £m	Total equity £m
	Share capital (note 22) £m	Share premium £m	Other reserves (note 25) £m	Retained earnings £m	Total £m		
At 1st January 2009	32.5	29.6	95.5	571	214.7	18	216.5
<b>Comprehensive income</b>							
Profit/(loss) for the year	-	-	-	17	17	(12)	0.5
<b>Other comprehensive (losses)/income</b>							
Exchange adjustments on hedge of net investments	-	-	16	-	16	-	16
Exchange differences on translation of foreign operations	-	-	(9.2)	-	(9.2)	(0.1)	(9.3)
Actuarial losses on defined benefit pension schemes	-	-	-	(104.5)	(104.5)	-	(104.5)
Deferred tax on actuarial losses	-	-	-	29.3	29.3	-	29.3
<b>Total comprehensive losses for the year to 31st December 2009</b>	-	-	(7.6)	(73.5)	(81.1)	(1.3)	(82.4)
Transfer between reserves	-	-	(2.1)	2.1	-	-	-
Share based payments	-	-	-	0.2	0.2	-	0.2
<b>At 31st December 2009</b>	<b>32.5</b>	<b>29.6</b>	<b>85.8</b>	<b>(14.1)</b>	<b>133.8</b>	<b>0.5</b>	<b>134.3</b>

The cumulative amount of goodwill taken direct to reserves since 1985 in respect of businesses that were members of the Group at 31st December 2009 is £6.3m (2008: £6.3m)

On the 30th December 2009 the minority interest in Grange SA decreased from 25% to 5%

For each currency, exchange differences arising from the translation of foreign currency borrowings used to finance foreign currency investments have been offset as reserves movements against exchange differences arising on the retranslation of the net investment in that currency. In total, net exchange gains on foreign currency borrowings of £1.6m (2008: losses £3.2m) have been taken to reserves



# Consolidated statement of changes in equity

for the year ended 31st December 2008

	Equity attributable to equity holders of the parent						Total equity £m
	Share capital (note 22) £m	Share premium £m	Other reserves (note 25) £m	Retained earnings £m	Total £m	Minority interests £m	
At 1st January 2008	32.4	68.8	371	216.7	355.0	2.1	357.1
<b>Comprehensive income</b>							
Profit/(loss) for the year	-	-	-	12.4	12.4	(0.7)	11.7
<b>Other comprehensive (losses)/income</b>							
Exchange adjustments on hedge of net investments	-	-	(3.2)	-	(3.2)	-	(3.2)
Exchange differences on translation of foreign operations	-	-	22.6	-	22.6	0.4	23.0
Actuarial losses on defined benefit pension schemes	-	-	-	(28.7)	(28.7)	-	(28.7)
Deferred tax on actuarial losses	-	-	-	7.9	7.9	-	7.9
<b>Total comprehensive income/(losses) for the year to 31st December 2008</b>	-	-	19.4	(8.4)	11.0	(0.3)	10.7
Dividends and cash return	-	-	-	(151.2)	(151.2)	-	(151.2)
Shares issued	0.1	0.2	-	-	0.3	-	0.3
Costs associated with share consolidation	-	(0.4)	-	-	(0.4)	-	(0.4)
Transfer between reserves	-	(39.0)	39.0	-	-	-	-
<b>At 31st December 2008</b>	<b>32.5</b>	<b>29.6</b>	<b>95.5</b>	<b>57.1</b>	<b>214.7</b>	<b>1.8</b>	<b>216.5</b>

Notes to the accounts are on pages 48 to 78

# Notes to the accounts

## 1. Corporate information

The consolidated financial statements of the Group for the year ended 31st December 2009 were authorised for issue in accordance with a resolution of the directors on 11th March 2010

The Group is a public limited company incorporated and domiciled in the UK whose shares are publicly traded on the London Stock Exchange

The principal activities of the Group are the manufacture and sale of range cookers and related home fashions product

## 2 Accounting policies

### Basis of accounting

The Group financial statements presented in this document have been prepared on the basis of all International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations issued by the International Accounting Standards Board ('IASB') and its committees, and as interpreted by any regulatory bodies applicable to the Group published by 31st December 2009 and adopted by the European Union. The financial statements have also been prepared in accordance with the Companies Act 2006 applicable to companies reporting under IFRS

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement of defined benefit pension obligations, see note 6 and the provision for taxes, see current and deferred tax accounting policy, for further details

The following standards, amendments and interpretations to existing standards have been adopted for the first time in the Group's annual report

- IAS 1 Presentation of Financial Statements (revised)

The revised standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity is a primary statement and includes details of transactions with owners and with non-owners. In addition,

the standard introduces the consolidated statement of comprehensive income in place of the statement of recognised income and expense. This presents all non-owner items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements

- IFRIC 13 Customer Loyalty Programmes

This interpretation clarifies where goods and services are sold together with a customer loyalty incentive that the arrangement should be accounted for as a sale of two components – the goods/services and the incentive. Amounts due from the customer should be allocated between these two elements in proportion to their fair values and recognised as revenue at different times. The adoption of this interpretation did not have any material impact on the financial position or performance of the Group

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

This interpretation provides guidance on the accounting for a hedge of a net investment. It provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. As the Group did not dispose of any net investment it has no impact on the financial position or results

The adoption of the following amendments resulted in changes to accounting policies which either had no or no material impact on the financial position or performance or disclosures of the Group

- IAS 1 Presentation of Financial Statements

Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments Recognition and Measurement are not automatically classified as current in the balance sheet

- IAS 16 Property, Plant and Equipment

The term 'net selling price' has been replaced with 'fair value less costs to sell'

- IAS 38 Intangible Assets

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has a right to access the goods or has received the service

# Notes to the accounts

## 2 Accounting policies (continued)

- IFRS 7 Financial Instruments - Disclosures

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

- IAS 23 Borrowing Costs (revised)

This revision requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. However, there were no such borrowing costs in 2009.

- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria.

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's future accounting periods but which the Group has not early adopted. The relevant ones effective for the year ended 31st December 2010 are set out below.

- IAS 27 (revised) Consolidated and Separate Financial Statements
- IAS 38 (amendments) Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 1 (amended)/IAS 27 (amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 2 Share-based Payments - Group Cash-settled Share-based Payment Transactions
- IFRS 3 (revised) Business Combinations
- IFRS 5 (amendment) Non-current Assets Held for Sale and Discontinued Operations
- IFRIC 17 Distributions on Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers

The Group has considered the above standards, interpretations and amendments. The Group intends to comply with these from the effective date. The directors anticipate that the adoption of these standards and interpretations in future periods will have no material

impact on the financial statements. A summary of the principal Group IFRS accounting policies is set out below.

### Basis of consolidation

The consolidated income statement and balance sheet include the accounts of the parent Company and all its subsidiaries made up to the end of the financial year and include the results of subsidiaries and businesses acquired and sold during the year from or up to their effective date of acquisition or sale. The Group defines a subsidiary as an entity that the Group has the power to control. All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Minority interests represent the proportion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Shares issued as consideration for the acquisition of companies have a fair value attributed to them, which are normally their market value at the date of acquisition. Net assets acquired are consolidated at a fair value to the Group at the date of acquisition. Changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary, are credited and charged to the post-acquisition income statement or the statement of comprehensive income/losses, where appropriate. On the acquisition of minority interests the difference between cost and the minority interest is taken to goodwill.

Goodwill arising on acquisitions prior to 1998 was written off to reserves. From 1998, goodwill, being the difference between the fair value of the purchase consideration and the fair value of the assets acquired, was capitalised in the balance sheet as goodwill and until 31st December 2003 was amortised on a straight line basis over its estimated useful life, not exceeding 20 years.

### Segmental reporting

An operating segment is described in IFRS 8 as a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief executive and his senior management team to make decisions about the resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

# Notes to the accounts

## 2 Accounting policies (continued)

### Segmental reporting (continued)

There are two operating segments, namely AGA and Rangemaster, which meet the aggregation criteria of IFRS 8 in full, therefore, the directors consider that there is only one reportable aggregated segment, this is consistent with the core principle that the result is to provide information that enables users to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates. Aggregation is based on an assessment that the operating segments have similar economic characteristics, products and services, production processes, types and classes of customer and methods used to distribute products. The directors consider the aggregated reportable segment to be the manufacture and sale of range cookers and related home fashions product.

### Revenue recognition

Revenue, which excludes value added tax and intra-group revenue, principally represents the invoiced value of goods sold, services rendered and short-term maintenance contracts. Appropriate provisions for returns, trade discounts and other allowances are deducted from revenue as appropriate. The Group has no barter transactions. Revenue is recognised from the sale of goods when the significant risks and rewards of ownership of the goods have passed to the buyer or can be readily measured. This is deemed to be when the goods have been dispatched or are available for delivery.

### Post retirement benefits

The Group's main pension schemes are of a defined benefit type. Under IAS 19 'Employee Benefits' the employer's portion of the current service costs, settlement gains and curtailment gains are charged to the income statement for these schemes, with the interest cost net of the expected return on assets in the schemes also being credited to the income statement. When a settlement or a curtailment occurs the obligation and scheme assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the year in which the settlement or curtailment occurs. Actuarial gains and losses are recognised directly in equity, in the statement of comprehensive income and losses, and the balance sheet reflects the schemes' surplus or deficit at the balance sheet date. The determination of the present value of obligations and scheme assets is done with sufficient regularity that the amounts do not differ from the amounts determined at the balance sheet date. A full valuation is carried out triennially using the projected unit credit method.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on scheme assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of scheme assets of contributions received and benefits paid in the year.

The defined benefit pension asset or liability in the balance sheet comprises the total for each scheme of the present value of the defined benefit obligation, using a discount rate based on high quality corporate bonds, less any past service cost not recognised and less the fair value of scheme assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. Measurement of defined benefit obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, and the selection of a suitable discount rate.

Payments to defined contribution schemes are charged to the income statement as they become payable.

### Intangible assets

Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after the following criteria are met: the project's technical feasibility and commercial viability can be demonstrated, the availability of adequate technical and financial resources and an intention to complete the project have been confirmed and the correlation between development costs and future revenues has been established. The development costs are then amortised on a straight line basis over the life of the project, limited to a maximum of seven and a half years following the commencement of its commercial production. Development expenditure that has not been brought into use is also reviewed for impairment on an annual basis. All other research and development expenditure is written off in the year in which it is incurred.

Computer software licences acquired, costs associated with the developing of software products and software that is not integral to a related item of hardware, are recognised as intangible assets and are amortised over their useful lives, which is limited to a maximum of five years.

Development costs mainly arise from internal development and brands are acquired separately.

# Notes to the accounts

## 2 Accounting policies (continued)

### Impairment of goodwill and intangibles

Goodwill is subject to an impairment review annually or when there are indications that the carrying value may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its discounted value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The carrying amount of goodwill allocated to a cash-generating unit (CGU) is taken into account when determining the gain or loss on disposal of a unit. Goodwill arising on acquisitions prior to 1998 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

Separable intangible assets, such as trademarks, licences and brands, are recognised separately from goodwill on all acquisitions after 1st January 2004, the date of transition to IFRS, which are carried at cost less accumulated amortisation and are amortised over their estimated useful life. Brands identified in certain business combinations have been assessed as having an indefinite useful life. In reaching this assessment, account was made of their market-leading position in niche markets, premium image, length of history and unchanging fashion. These factors are coupled with continuing marketing spend to maintain the brand. These brands are assessed for impairment on an annual basis or sooner where there is indication of impairment. The carrying values are assessed by reference to the net present values of forecast future cash flows. For brands, the Royalty Relief Methodology is used to forecast future cash flows. This is based on the notion of what an independent third party would need to pay a brand owner in order to use that brand name in a particular marketplace or defined territory.

### Assets held for sale

Assets held for sale are valued at the lower of carrying amount and fair value less costs to sell.

### Property, plant and equipment

Under IAS 16 'Property, Plant and Equipment' assets are held at cost less accumulated depreciation. Assets held at the date of transition are held at deemed cost. Depreciation is provided on property, plant and equipment, other than freehold land and assets in the course of construction, at rates calculated to write off the cost of each asset on a straight line basis down to its residual value as follows:

- i Freehold buildings over 50 years

- ii Leasehold buildings over 50 years or the period of the lease whichever is less

- iii Plant and equipment over a period of 3 to 12½ years

The Group annually reviews the assessment of residual values and useful lives in accordance with IAS 16. The carrying value of property, plant and equipment is reviewed for impairment if there are indicators that the carrying value amount may not be recoverable.

The gain or loss arising on the disposal of an asset is determined as the difference between the net sales proceeds and the carrying value of the asset and is recognised in income.

### Leases

Under IAS 17 'Leases,' assets held under leases and hire purchase contracts, where the Group has substantially all the risks and rewards of ownership, are capitalised as owned property, plant and equipment and the obligations relating thereto, excluding finance charges, are included in borrowings. Finance costs are charged to the income statement over the contract term to give a constant rate of interest on the outstanding balance. Finance lease assets held as property, plant and equipment are depreciated over the shorter of the asset's expected useful life and the lease term.

Payments in respect of operating leases, net of any incentives received, are charged in arriving at the operating profit on a straight line basis over the period of the lease.

The Group treats sale and operating leasebacks as disposals and any profit or loss on the transaction is recognised at the time of the sale.

### Inventories

In accordance with IAS 2 'Inventories' the Group's inventories are valued at the lower of cost on a first in first out basis and net realisable value. Cost includes a proportion of production overheads based on normal levels of activity. Provision is made for obsolete and slow moving items.

### Borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance income and finance cost.

# Notes to the accounts

## 2 Accounting policies (continued)

### Borrowings (continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at the balance sheet date

### Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with a maturity of three months or less. In certain circumstances cash deposits with a maturity of up to six months may be included. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment when the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the average exchange rate for the month in which they arise. The main foreign currencies used are US Dollars and Euros. The year end rate of exchange used for the Euro was 113 (2008 103) and for the US Dollar was 161 (2008 144) and the average rates were 112 (2008 126) and 156 (2008 185), respectively. The resulting exchange differences are taken directly to a separate component of equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the

income statement, these include loans and receivables, held-to-maturity investments or available-for-sale financial assets, under the requirements of IAS 39.

Derivative financial instruments are classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

### Dividends

Final dividends are only recognised at the point when they are declared and approved by the shareholders at the Annual General Meeting. Interim dividends are recognised on payment.

### Derivative financial instruments and hedging

Where appropriate, the Group uses derivative financial instruments such as forward foreign exchange contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Where the criteria are met for hedge accounting, it is applied to the forward foreign exchange contracts put in place to reduce exposure to currency denominated sales and purchases.

Where the criteria for hedge accounting are not met, or the Group elects not to hedge account, gains and losses on the fair value of forward contracts are taken to the income statement as they arise.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected to be highly effective at inception.

For the purpose of hedge accounting, a hedge is classified as

- a fair value hedge, i.e. a hedge of the fair value of an asset or a liability,

# Notes to the accounts

## 2 Accounting policies (continued)

- a cash flow hedge, i.e. a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction,
- a hedge of a net investment in a foreign entity

### Fair value hedges

Changes in the fair value of derivative instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk

### Cash flow hedges

Changes in the fair value of derivative instruments designated as cash flow hedges such as forward foreign exchange contracts are recognised in equity, to the extent that the hedges are effective. Any ineffective portion is recognised as a profit or loss. Amounts deferred in equity are released when the forecast hedged transaction impacts profit and loss.

### Hedge of net investments in foreign entities

The Group hedges net investments in foreign entities primarily through currency borrowings. Any gains or losses on the translation of the borrowings are recognised in equity. As the hedge relationship is expected to remain highly effective, the accounting treatment will be applied on an ongoing basis until the Group revokes the designation or the investment is disposed of.

### Current and deferred tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities, based on tax rates and laws that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group has not provided for deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries. However, based on current enacted law and on the basis that the Group is in a position to control the timing and realisation of these temporary differences, no material tax consequences are expected to arise.

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is expected that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

### Employee share options

IFRS 2 'Share-based Payments' requires that the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service or performance conditions (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition or a non-vesting condition, which are treated as vesting irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet

# Notes to the accounts

## 2 Accounting policies (continued)

### Employee share options (continued)

recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The measurement of this expense is calculated only on options granted after 7th November 2002. Further details are given in note 23.

### Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Provision is made for the estimated liability on all products still under warranty. Product warranties of between one and three

years are given, where appropriate, by individual businesses in the Group. Following the disposal programme of previous years certain vacant properties located in the UK remain with the Group. Full provision has been made for the residual onerous lease commitments, together with other outgoings, for the remaining period of the leases. The Group's other provisions relate to the remaining costs in respect of earlier disposals, including probable warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses. Provisions are not discounted where the effect is not material.

### Non-recurring costs

The Group presents as non-recurring items on the face of the income statement, those items of income and expense which, because of the non-recurring nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

## 3. Segmental analysis

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief executive and his senior management team to make decisions about the resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

There are two operating segments, namely AGA (which comprises the brands and operations of AGA, Fired Earth, Waterford Stanley and Grange) and Rangemaster (which comprises the brands and operations of Rangemaster, AGA Marvel, Heartland, La Cornue and Divertimenti). The two operating segments are considered to meet the aggregation criteria of IFRS 8 in full and so the directors consider that there is only one aggregated reportable segment, therefore the majority of the disclosures as required under IFRS 8 have already been given in these financial statements.

Segment assets include property, plant and equipment, intangibles, inventories, retirement benefit surpluses and receivables. Cash, borrowings and taxation are not included. Non-current assets exclude the retirement benefit surplus and deferred tax assets. Entity wide disclosures in respect of revenues from external customers, total segment assets and non-current assets are provided below.

	2009			2008		
	Revenue	Total segment assets	Non-current assets	Revenue	Total segment assets	Non-current assets
	£m	£m	£m	£m	£m	£m
United Kingdom	156.5	116.3	69.0	175.3	191.0	73.6
North America	30.6	43.2	30.5	40.0	55.0	34.4
Europe	53.8	62.2	41.4	60.0	71.6	45.6
Rest of World	4.1	-	-	4.1	-	-
<b>Total operations</b>	<b>245.0</b>	<b>221.7</b>	<b>140.9</b>	<b>279.4</b>	<b>317.6</b>	<b>153.6</b>
Tax	-	23.5	-	-	7.6	-
Cash	-	45.0	-	-	42.9	-
<b>Total</b>	<b>245.0</b>	<b>290.2</b>	<b>140.9</b>	<b>279.4</b>	<b>368.1</b>	<b>153.6</b>



# Notes to the accounts

## 4 Net operating costs

	2009 £m	2008 £m
Revenue	245 0	279 4
Operating loss/(profit)	15	(111)
<b>Net operating costs</b>	<b>246 5</b>	<b>268 3</b>
<b>Net operating costs</b>		
Raw materials and consumables	93 4	107 5
Staff costs (note 5)	72 6	81 4
Other operating charges	64 8	68 1
Change in inventories of finished goods and work in progress	7 5	3 7
Other operating income	(0 5)	(0 5)
Amortisation of intangibles (note 13)	1 6	1 3
Depreciation of property, plant and equipment (note 14)	7 1	6 8
<b>Net operating costs</b>	<b>246 5</b>	<b>268 3</b>

Group operating (loss)/profit for the year is stated after charging/(crediting)

	2009 £m	2008 £m
Loss on disposal of property, plant and equipment	0 1	0 3
Trade receivables impairment (note 16)	-	(0 3)
Reversal of inventory write down made in previous year (note 15)	(11)	(0 2)
Inventory provision charged in the year (note 15)	0 6	0 9
Research and development expenditure	1 5	1 3
Depreciation of property, plant and equipment (note 14)	7 1	6 8
Amortisation of intangibles (note 13)	1 6	1 3
Operating lease rentals payable		
- plant and machinery	2 6	2 6
- property	7 5	6 0
Net exchange differences	(1 3)	(2 0)
Auditor's remuneration		
- Group audit fees	0 1	0 1
- Audit of Company's subsidiaries	0 1	0 1
Other fees to auditor		
- Taxation services	0 6	0 7
- All other services	-	0 2

### Non-recurring cost

The £3 6m (2008 £5 3m) non-recurring cost relates to £2 8m of predominantly reorganisation and redundancy programmes across the Group, primarily integration costs at AGA Rangemaster and factory rationalisation programmes at AGA Marvel and Grange. There is also £0 8m of impairment of assets now held for sale as described in note 14. In 2008 the £5 3m non-recurring cost related to reorganisation and redundancy programmes primarily at Marvel, Rangemaster and Waterford Stanley.

# Notes to the accounts

## 5 Employee information

Average number of employees (including directors)	2009	2008
Production	1,364	1,429
Selling and distribution	749	773
Administration and support services	543	571
<b>Total</b>	<b>2,656</b>	<b>2,773</b>

Total staff costs (including directors)	2009	2008
	£m	£m
Wages and salaries	631	717
Social security costs	84	89
Share based payments	02	-
Other pension costs	09	08
<b>Staff costs (note 4)</b>	<b>726</b>	<b>814</b>
Pension credit (note 6)	(54)	(54)
<b>Net staff costs</b>	<b>672</b>	<b>760</b>

The defined benefit pension credit of £5.4m (2008 £5.4m) is included on the face of the income statement

Details of directors' compensation, share options, Long-Term Incentive Plans and pensions are set out in the audited part of the remuneration report on pages 39 to 41

## 6. Pensions

The Group operates a pension scheme which covers the majority of UK employees. Membership on a defined benefit basis was closed in 2001 but the scheme remains open to new entrants on a defined contribution basis. The assets are held in trust funds separate from the Group's assets although they are included in the Group's balance sheet. The other defined benefit schemes operating within the Group are the Amari plc Pension and Life Assurance Plan in the UK and the Waterford Stanley pension schemes in Ireland. Various defined contribution schemes exist across the Group and the total contributions in the year were £0.9m (2008 £0.8m) which are included under staff costs in note 5.

The latest full valuation of the main UK scheme was carried out by Watson Wyatt Limited, independent consulting actuaries, as at 31st December 2005 using the projected unit credit method. The valuation as at 31st December 2008 is currently nearing completion. Defined benefit scheme contributions of £1.2m (2008 £1.2m) based on pensionable salaries were made during the year ended 31st December 2009. Contributions of £0.1m (2008 £0.1m) were owed to the scheme at 31st December 2009. Contributions for 2010 under the main UK scheme will be 5.5% (2009 5.5%) and for all members accruing benefits on a final salary basis with the exception of six members of the former 1970 scheme who accrue benefits at 27.4% (2009 27.4%) of pensionable salaries. Normal Company contributions of £1.3m and £2m additional contributions are expected to be paid to this scheme during 2010. A curtailment gain of around £15m, subject to review by the consulting actuaries, is also expected in 2010 in respect of the freezing of the pensionable salaries for those members whose pensionable salaries were not frozen in 2009.

The financial assumptions used to calculate the defined benefit schemes' liabilities under IAS 19 were

	UK Schemes 2009	Waterford Stanley Schemes 2009	UK Schemes 2008	Waterford Stanley Schemes 2008
Rate of increase in pensionable salaries	4.0%	3.0%	2.9%	3.0%
Rate of increase of pensions in payment	2.3 - 3.6%	2.0%	2.0 - 3.2%	2.0%
Discount rate	5.7%	5.3%	6.4%	6.0%
Inflation rate	3.5%	2.0%	2.4%	2.0%
Expected rate of return on schemes' assets	6.3%	6.0%	6.4%	5.8%

# Notes to the accounts

## 6 Pensions (continued)

The overall expected rate of return on assets is the average of the best estimate for the expected long-term rate of return for each of the major asset classes weighted according to the percentage allocation of the aggregated assets to each of the asset classes at the reporting date

The demographic assumptions used include rates for mortality which, for example, generally lead to an average projected life expectancy of 18.9 (2008: 18.1) years for male members currently aged 65 and of 20.4 (2008: 19.2) years from age 65 for male members currently aged 50

### Sensitivities

The value of scheme assets is sensitive to market conditions, particularly equity values. Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the income statement and the balance sheet. The main assumptions are the discount rate, the rate of inflation and the assumed mortality rate. The following table provides an estimate of the potential impact on the principal pension schemes of changing each of these variables

	Higher/(lower) pension credit		Increase/(decrease) in liabilities	
	2009	2008	2009	2008
	£m	£m	£m	£m
Discount rate - 0.1% decrease	(0.1)	-	12.2	9.1
- 0.1% increase	-	0.1	(11.9)	(9.0)
Inflation rate - 0.1% decrease	0.6	0.6	(9.6)	(6.1)
- 0.1% increase	(0.6)	(0.5)	9.6	6.1
Mortality rate - one year increase in life expectancy	(2.3)	(2.3)	36.8	29.9

### The assets and obligations of the aggregated schemes

	2009	2008
	£m	£m
Equities	248.6	197.7
Bonds	376.9	364.4
Property	76.6	75.7
Other	13.9	17.2
Fair value of schemes' assets	716.0	655.0
Present value of funded obligation	(756.5)	(597.5)
(Deficit)/surplus in the schemes	(40.5)	57.5

### Balance sheet presentation

Retirement benefit surplus	-	58.7
Retirement benefit obligation	(40.5)	(1.2)
(Deficit)/surplus in the schemes	(40.5)	57.5

Included above are assets with a market value of £5.1m (2008: £4.6m) and a deficit of £1.2m (2008: £1.2m) in respect of overseas schemes. The foreign exchange impact on the overseas schemes is £0.1m

# Notes to the accounts

## 6 Pensions (continued)

	2009	2008
	£m	£m
The amounts recognised in the income statement are as follows		
Current service cost	23	35
Curtailment gain	(38)	-
Expected return on pension schemes' assets	(408)	(483)
Interest cost on pension schemes' liabilities	369	394
<b>Net pension credit included in income statement</b>	<b>(54)</b>	<b>(54)</b>

The curtailment gain relates to the freezing of pensionable salaries for certain members of the main UK scheme in the year ended 31st December 2009

### History of experience gains and losses

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Fair value of schemes' assets	716.0	655.0	776.9	784.6	750.6
Present value of funded obligation	(756.5)	(597.5)	(697.3)	(760.2)	(768.8)
<b>(Deficit)/surplus in the schemes</b>	<b>(40.5)</b>	<b>57.5</b>	<b>79.6</b>	<b>24.4</b>	<b>(18.2)</b>
Experience (loss)/gain on schemes' liabilities	(51)	20	15.3	2.4	(7.8)
<b>Experience gain/(loss) on schemes' assets</b>	<b>57.3</b>	<b>(137.0)</b>	<b>(31.2)</b>	<b>14.6</b>	<b>57.2</b>

	2009	2008
	£m	£m
Movement in surplus of the aggregated schemes during the year		
Surplus of the schemes at 1st January	57.5	79.6
Exchange	(0.1)	(0.1)
Net pension credit	5.4	5.4
Company contributions	1.2	1.3
Actuarial loss	(104.5)	(28.7)
<b>(Deficit)/surplus of the schemes at 31st December</b>	<b>(40.5)</b>	<b>57.5</b>

The cumulative amount recognised in the statement of comprehensive income / losses since 1st January 2004 is £71.8m loss (2008 £32.7m income)

	2009	2008
	£m	£m
Changes in the present value of the defined benefit obligation are as follows		
Present value of obligation at 1st January	597.5	697.3
Interest costs	36.9	39.4
Current service cost	2.3	3.5
Member contributions	0.6	0.7
Benefit payments (including lump sums on retirement)	(38.8)	(36.0)
Curtailments	(3.8)	-
Increase/(reduction) on change of actuarial assumptions	161.9	(108.3)
Other adjustments	(0.1)	0.9
<b>Present value of obligation at 31st December</b>	<b>756.5</b>	<b>597.5</b>

# Notes to the accounts

## 6 Pensions (continued)

Changes in the fair value of the schemes' assets are as follows	2009	2008
	£m	£m
Fair value of schemes' assets at 1st January	655 0	776 9
Benefit payments (including lump sums on retirement)	(38 8)	(36 0)
Company contributions	12	13
Member contributions	0 6	0 7
Expected return on schemes' assets	40 8	48 3
Experience gain/(loss)	57 3	(137 0)
Other adjustments	(0 1)	0 8
<b>Fair value of schemes' assets at 31st December</b>	<b>716 0</b>	<b>655 0</b>

The actual gain on the schemes' assets was £98 1m (2008 loss £88 7m)

## 7. Net finance income

	2009	2008
	£m	£m
Finance income		
Bank interest	0 3	4 8
Interest on repayment of tax	0 8	-
<b>Total finance income</b>	<b>11</b>	<b>4 8</b>

	£m	£m
Finance costs		
Bank borrowings	(0 9)	(14)
Other borrowings	-	(0 2)
<b>Total finance costs</b>	<b>(0 9)</b>	<b>(16)</b>

<b>Net finance income</b>	<b>0 2</b>	<b>3 2</b>
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## 8 Income tax

	2009	2008
	£m	£m
United Kingdom corporation tax based on a rate of 28 0% (2008 28 5%)		
Current tax on income for year	(16)	15
Adjustments in respect of prior years	3 5	2 6
United Kingdom corporation tax	19	41
Overseas current tax on income for year	11	14
<b>Total current tax charge</b>	<b>3 0</b>	<b>5 5</b>

	(0 8)	(16)
United Kingdom deferred tax credit		
Overseas deferred tax credit in year	(2 2)	(12)
<b>Total deferred tax credit</b>	<b>(3 0)</b>	<b>(2 8)</b>

Total United Kingdom tax	11	25
Total overseas tax	(11)	0 2
<b>Total income tax</b>	<b>-</b>	<b>2 7</b>

Deferred tax on items taken direct to reserves was a credit of £29 3m (2008 credit £79m)

# Notes to the accounts

## 8 Income tax (continued)

The total tax assessed for the year is lower than the standard rate of corporation tax in the UK as explained below

	2009 £m	2008 £m
<b>Profit before income tax</b>	<b>0.5</b>	<b>14.4</b>
Profit multiplied by the standard rate of corporation tax in the UK of 28.0% (2008 28.5%)	0.1	4.1
Effects of		
- non-deductible expenses	-	1.1
- adjustment to tax charge in respect of prior years	3.5	2.6
- lower rates of tax on overseas earnings	(3.6)	(5.1)
<b>Total tax charge for the year</b>	<b>-</b>	<b>2.7</b>

## 9. Discontinued operations

During the year further proceeds of £0.9m (2008 £4.8m) were received in respect of the Foodservice disposal and costs of £1.3m (2008 £7.2m) were paid during the year, leaving a net outflow of £0.4m (2008 £2.4m)

## 10. Dividends and cash return

	2009 £m	2008 £m
Nil final dividend paid for the year ended 31st December 2008 (2007 7.65 pence per share)	-	8.7
Nil interim dividend paid (2008 4.0 pence per share)	-	2.8
Nil return of cash (2008 £1.21 per share)	-	139.7
<b>Amounts recognised as distributions to equity shareholders in the year</b>	<b>-</b>	<b>151.2</b>

The directors are not recommending a final dividend in respect of the financial year ended 31st December 2009 (2008 nil)

There was no actual dividend (ordinary or special) paid or cash returned in the year (2008 132.65 pence per share)

# Notes to the accounts

## 11 Earnings per share

The basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of the parent by the weighted average number of ordinary shares outstanding during the year

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. The Group has two classes of dilutive potential shares – the share options granted to employees and the Long-Term Incentive Plan. In 2009 the share options granted to employees have been treated as contingently issuable.

The earnings and weighted average number of shares are set out below

	2009 £m	2008 £m
<b>Earnings for the purpose of the basic and diluted EPS</b>		
Profit after tax	0.5	11.7
Minority interests	1.2	0.7
<b>Profit attributable to equity shareholders – for basic and diluted EPS</b>	<b>1.7</b>	<b>12.4</b>
<b>Weighted average number of shares in issue</b>	<b>million</b>	<b>million</b>
For basic EPS calculation	69.2	85.9
Dilutive effect of share options and Long-Term Incentive Plan	–	0.2
<b>For diluted EPS calculation</b>	<b>69.2</b>	<b>86.1</b>
<b>Earnings per share</b>	<b>p</b>	<b>p</b>
Basic	2.5	14.4
Diluted	2.5	14.4

## 12. Goodwill

	2009 £m	2008 £m
<b>Cost</b>		
At 1st January	70.9	60.1
Exchange adjustment	(4.0)	10.8
<b>At 31st December</b>	<b>66.9</b>	<b>70.9</b>

The combined operations of AGA, Fired Earth, Waterford Stanley and Grange form one CGU with the combined operations of Rangemaster, AGA Marvel, Heartland, La Cornue and Divertimenti forming a second CGU. Given the shared resource and integration within these two business combinations they are deemed to be the smallest identifiable group of assets that generate cash inflows that are largely independent of each other.

Goodwill at 31st December 2009 is allocated over the two cash generating units as follows: AGA £38.8m (2008: £41.1m) and Rangemaster £28.1m (2008: £29.8m).

# Notes to the accounts

## 12 Goodwill (continued)

For goodwill impairment testing future cash flows are estimated based on the board approved, budgeted, risk adjusted trading cash flows for both of the relevant CGUs for the next year and 2% (2008 2%) growth, thereafter, based on the current external inflation forecasts for the medium-term. The operating cash flows included within the impairment reviews reflect management's current expectations of future performance incorporating judgements around the current economic climate and reflecting cost savings made as a result of the non-recurring costs incurred during the year. The future cash flows are discounted at the relevant risk adjusted weighted average cost of capital ('WACC') applicable to that particular CGU. The Group WACC of 8.4% (2008 8.7%) has been adjusted to reflect an independent capital structure which incorporates management's estimate of the incremental cost of further borrowing as required by IAS 36. In addition, the Group has risk adjusted the discount rate, by utilising a cautious company beta and equity risk premium.

A reasonable change in key assumptions, on which management has based its determination of the recoverable amount, does not cause the carrying amount to exceed its recoverable amount.

## 13 Intangible assets

	Computer software £m	Brands £m	Development costs £m	Other £m	Total £m
<b>Cost</b>					
At 1st January 2009	4.6	14.6	12.0	0.5	31.7
Exchange adjustment	(0.1)	(1.2)	(0.5)	-	(1.8)
Purchase of Mercury (note 24)	-	0.2	-	0.3	0.5
Additions - internally generated	-	-	1.5	-	1.5
Additions - externally acquired	0.2	-	0.2	-	0.4
Disposals	(0.1)	-	-	-	(0.1)
At 31st December 2009	4.6	13.6	13.2	0.8	32.2
<b>Amortisation</b>					
At 1st January 2009	3.3	-	4.2	0.2	7.7
Exchange adjustment	(0.1)	-	(0.1)	-	(0.2)
Disposals	(0.1)	-	-	-	(0.1)
Charge for the year	0.4	-	1.2	-	1.6
At 31st December 2009	3.5	-	5.3	0.2	9.0
Net book value at 31st December 2009	1.1	13.6	7.9	0.6	23.2



## Notes to the accounts

## 13 Intangible assets (continued)

	Computer software £m	Brands £m	Development costs £m	Other £m	Total £m
<b>Cost</b>					
At 1st January 2008	3.8	11.2	8.7	0.4	24.1
Exchange adjustment	0.3	3.6	0.8	0.1	4.8
Additions - internally generated	0.8	-	2.5	-	3.3
Disposals	(0.3)	(0.2)	-	-	(0.5)
At 31st December 2008	4.6	14.6	12.0	0.5	31.7
<b>Amortisation</b>					
At 1st January 2008	2.9	-	3.1	0.1	6.1
Exchange adjustment	0.3	-	0.2	-	0.5
Disposals	(0.3)	-	-	0.1	(0.2)
Charge for the year	0.4	-	0.9	-	1.3
At 31st December 2008	3.3	-	4.2	0.2	7.7
Net book value at 31st December 2008	1.3	14.6	7.8	0.3	24.0

Items included in the 'other' category include patents and customer lists acquired

Brands and other intangibles are considered to have an indefinite life and are subject to impairment tests. Computer software and development costs are amortised and the amortisation charged directly to the income statement.

For brands impairment testing the Royalty Relief Methodology is used to forecast future cash flows. Cash flows are estimated using an imputed royalty rate applied to budgeted, board approved, risk adjusted revenue for the next year and 2% growth, thereafter, based on the current external inflation forecasts for the medium-term. Future cash flows are discounted at the relevant risk adjusted weighted average cost of capital applicable to that particular brand. The Group WACC has been adjusted to reflect an independent capital structure which incorporates management's estimate of the incremental cost of further borrowing as required by IAS 36. In addition, the Group has risk adjusted the discount rate by utilising a cautious company beta and equity risk premium. For 2009 testing these were in the range 7.4% to 8.4% (2008 6.8% to 8.7%). Imputed royalty rates used in the cash flow forecasts for brands are in the range 2.9% to 3.5%. Management consider the appropriateness of the royalty rates used on an annual basis.

# Notes to the accounts

## 14 Property, plant and equipment

	Freehold and long leasehold land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total £m
<b>Cost</b>				
At 1st January 2009	35.6	90.2	0.5	126.3
Exchange adjustment	(1.7)	(1.8)	(0.1)	(3.6)
Capital expenditure	0.3	2.9	0.2	3.4
Impairment of assets transferred to held for sale	(0.5)	-	-	(0.5)
Transfer to assets held for sale	(1.7)	-	-	(1.7)
Disposals	(0.4)	(1.9)	-	(2.3)
Reclassification	-	0.1	(0.1)	-
<b>At 31st December 2009</b>	<b>31.6</b>	<b>89.5</b>	<b>0.5</b>	<b>121.6</b>
<b>Depreciation</b>				
At 1st January 2009	9.8	57.8	-	67.6
Exchange adjustment	(0.4)	(1.1)	-	(1.5)
Charge for the year	0.9	6.2	-	7.1
Transfer to assets held for sale	(0.2)	-	-	(0.2)
Disposals	(0.4)	(1.8)	-	(2.2)
<b>At 31st December 2009</b>	<b>9.7</b>	<b>61.1</b>	<b>-</b>	<b>70.8</b>
<b>Net book value at 31st December 2009</b>	<b>21.9</b>	<b>28.4</b>	<b>0.5</b>	<b>50.8</b>

The cost of property, plant and equipment includes £0.1m (2008: £0.1m) of assets held under finance leases. The net book value of these assets was £0.1m (2008: £nil). All leases have been reviewed throughout the year and are capitalised where appropriate.

### Assets held for sale

Following the move of the head office to Leamington Spa the former head office property is surplus to requirements and is being marketed for sale and has been transferred to assets held for sale during the year at a fair value of £1.7m after being impaired by £0.5m.

The Marvel site in Richmond, Indiana, USA, which was held for sale in 2008 has been impaired by £0.3m to a fair value of £1.4m. Due to turbulent market conditions in the local property market this property remained unsold in 2009. However, it continues to be actively marketed and we believe a sale can be agreed during the year.

# Notes to the accounts

## 14 Property, plant and equipment (continued)

	Freehold and long leasehold land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total £m
<b>Cost</b>				
At 1st January 2008	28.5	82.8	1.0	112.3
Exchange adjustment	2.5	5.3	0.2	8.0
Capital expenditure	6.7	6.0	0.3	13.0
Transfer to assets held for sale	(2.0)	-	-	(2.0)
Disposals	(0.4)	(4.6)	-	(5.0)
Reclassification	0.3	0.7	(1.0)	-
At 31st December 2008	35.6	90.2	0.5	126.3
<b>Depreciation</b>				
At 1st January 2008	8.2	52.4	-	60.6
Exchange adjustment	1.1	3.7	-	4.8
Charge for the year	0.9	5.9	-	6.8
Transfer to assets held for sale	(0.1)	-	-	(0.1)
Disposals	(0.3)	(4.2)	-	(4.5)
At 31st December 2008	9.8	57.8	-	67.6
Net book value at 31st December 2008	25.8	32.4	0.5	58.7

Some properties have been valued using previously revalued amounts as the deemed cost, no adjustment to the carrying amount as previously recorded has been made

## 15. Inventories

	2009 £m	2008 £m
Raw materials and consumables	9.5	14.0
Work in progress	7.0	9.0
Finished goods	29.5	40.5
<b>Total inventories</b>	<b>46.0</b>	<b>63.5</b>

The Group expensed £100.9m of inventories during the year (2008 £111.2m). The Group charged £0.6m to inventory provisions in the year (2008 £0.9m). The Group reversed £1.1m of the inventory provision in the year that was subsequently not required (2008 £0.2m). The Group did not hold any inventories pledged as security for liabilities (2008 £nil).

# Notes to the accounts

## 16 Trade and other receivables

	2009 £m	2008 £m
Amounts falling due within one year		
Trade receivables	23.8	29.7
Less provision for impairment of receivables	(0.5)	(0.5)
Trade receivables – net	23.3	29.2
Other receivables	2.7	3.5
Prepayments and accrued income	4.8	6.0
<b>Total receivables falling due within one year</b>	<b>30.8</b>	<b>38.7</b>
Amounts falling due after one year		
Other receivables	0.9	1.2
<b>Total receivables</b>	<b>31.7</b>	<b>39.9</b>

Trade and other receivables are initially recorded at fair value and thereafter amortised at an effective interest rate. The effective interest rate used for calculating the fair value of non-current receivables was 5.7% (2008: 6.4%).

The Group provides for trade receivables on estimated irrecoverable amounts from the sale of goods based on the age of debt, past default experience and any other information which comes to light which suggests that the recoverable amount may be impaired. There is a Group-wide credit insurance policy in which the main operating units in the UK participate. This covers 90% of individual debts in these units up to specific insured limits.

The Group uses external agencies to credit score new customers where appropriate to assess their credit quality and define an initial credit limit. Limits and credit scoring are reviewed as necessary. Aged debt reports are reviewed by local management on a regular basis with 'debt at risk' forms being formally submitted to Group on a monthly basis.

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the Group first traded with that company. Credit risk is mitigated by the relatively large customer base.

Included in trade receivables are balances of £4.6m (2008: £7.8m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

	2009 £m	2008 £m
Ageing of past due but not impaired receivables		
30-60 days	2.9	4.9
60-90 days	0.7	1.6
90-120 days	0.4	0.7
120+ days	0.6	0.6
<b>Total receivables</b>	<b>4.6</b>	<b>7.8</b>

# Notes to the accounts

## 16 Trade and other receivables (continued)

	2009 £m	2008 £m
Movement in the provision for impairment of receivables		
Balance at 1st January	0.5	0.8
Impairment losses recognised	0.1	0.1
Amounts previously impaired recovered	(0.1)	(0.4)
<b>Balance at 31st December</b>	<b>0.5</b>	<b>0.5</b>

	2009 £m	2008 £m
Ageing of impaired trade receivables		
60-90 days	0.1	0.1
90-120 days	0.1	0.1
120+ days	0.3	0.3
<b>Balance at 31st December</b>	<b>0.5</b>	<b>0.5</b>

## 17 Trade and other payables

	2009 £m	2008 £m
Current trade and other payables		
Trade payables	35.5	39.7
Payments on account	1.1	0.8
Social security	3.9	3.9
Accruals and deferred income	14.1	15.5
Other payables	8.6	6.9
<b>Total current operating payables</b>	<b>63.2</b>	<b>66.8</b>

## 18. Cash and borrowings

### a) Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	0.1	-
Short-term bank deposits	44.9	42.9
<b>Cash and cash equivalents</b>	<b>45.0</b>	<b>42.9</b>

Included in cash and cash equivalents was cash held for unclaimed dividends of £0.5m (2008 £0.5m)

The Group's cash balance of £45.0m includes £22.5m, which is collateralised against a bank guarantee that the Group has provided to the AGA Rangemaster Group Pension Scheme

The short-term bank deposits have a weighted average maturity of under one month (2008 four months) with an effective interest rate of 0.3% (2008 1.8%)

The fair value of cash and short-term deposits is £45.0m (2008 £42.9m)

# Notes to the accounts

## 18 Cash and borrowings (continued)

### b) Financial liabilities - borrowings

	2009	2008
	£m	£m
Current		
Bank borrowings	13	97
Current borrowings	13	97
Non-current		
Non-current obligations under finance leases	01	-
Bank borrowings	15.6	27.4
Non-current borrowings	15.7	27.4

The non-current obligations under finance leases are due for repayment after one year but not more than five years

The Group's bank borrowings are primarily loan advances denominated in a number of currencies and interest is based on LIBOR or foreign equivalents. Bank borrowings have been classified as current and non-current liabilities with reference to the final maturity date of the facility agreements

	Interest rate	2009	2008
	basis	£m	£m
Bank borrowings comprise the following			
Unsecured bank loans - current	Floating	13	97
Unsecured bank loans - non-current	Floating	15.2	26.9
Other secured loans 2018	Floating	0.4	0.5
Total bank borrowings		16.9	37.1

Included in the £15.2m non-current unsecured bank loans are currency denominated loan advances from committed revolving credit facilities, which bear interest rates based on LIBOR and margins ranging between 0.375% and 0.60%

## 19. Financial instruments

### Capital management

The Group's capital comprises the equity attributable to the equity holders of the parent. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Group monitors the demographic spread of its shareholders and employees are encouraged to hold shares in the Company. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group also has bank facilities in place to fund the business. These are discussed in more detail under liquidity risk below.

The central treasury function sets out the treasury policy including guidelines for managing interest rate and cash flow rate risk, credit and price risk, foreign currency risk and liquidity risk as discussed below. The objective of the treasury policy is to manage the Group's financial risk and to ensure that adequate financial resources are available for the development of the Group.

# Notes to the accounts

## 19 Financial instruments (continued)

### Interest rate and cash flow risk

The Group is exposed to a number of global interest rates – notably the UK, Eurozone and US rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group analyses its interest rate exposure on a regular basis. Based on various scenarios the Group calculates the impact on profit and loss for a defined interest rate shift.

The following table demonstrates the sensitivity to a change in interest rates, with all other variables held constant on the Group's profit before tax. There were no interest rate swap agreements in place throughout 2009 (2008: nil).

		Increase/ (decrease) in basis points	Effect on profit before tax £m
2009	Cash	+50 / (50)	0.2 / (0.2)
	Borrowings	+50 / (50)	(0.1) / 0.1
2008	Cash	+50 / (50)	0.2 / (0.2)
	Borrowings	+50 / (50)	(0.2) / 0.2

### Credit and price risk

The Group monitors closely the availability of trade finance to its customers and suppliers – given the constraint on the business this can become. The ability for the Group and its principal operations to maintain trade credit insurance on our customers is a significant issue for the Group. Where insurers inform us it is their intention to withdraw or reduce trade credit insurance cover on our customers we undertake detailed analysis on commercial and financial information available and actively manage the terms of trade with any such customers as appropriate. In addition, the ability of our suppliers to maintain credit insurance on the Group and its principal operations is an important issue. We have excellent relationships with our suppliers and we continue to work closely with them on a normal commercial basis. There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date. The Group's policy on minimising credit risk with respect to its trade and other receivables is stated in note 16 on page 66.

The Group is exposed to risk in the price movement of key raw materials and energy. The Group manages these risks and has in place a two year fixed price energy supply contract and a one year partially fixed steel supply contract for its main activities. The Group continually reviews its exposure to any remaining commodity risk to ensure that commercial opportunities are fully maximised and risks mitigated wherever possible.

### Foreign currency risk

The Group's main transaction exposures are in respect of products manufactured in one currency region and sold in another currency and exposure through the movement in exchange rates on purchases of raw materials and other goods that are not denominated in sterling. These are mainly imports from Asia and the US which are denominated in US Dollars and imports from Europe which are denominated in Euros. These currency outflows are offset by inflows of US Dollars relating to UK exports to US markets and inflows of Euros in respect of UK exports to the eurozone respectively. The main translation risk is that the results of non-UK businesses will translate into differing sterling values depending on the exchange rates.

#### a) Forward foreign exchange contracts

As a result of the Group's geographical presence and operations, forward foreign exchange contracts are put in place.

As at 31st December 2009, the notional amounts of outstanding forward foreign exchange contracts that the Group was committed to were AUD nil (2008: AUD 11m), GBP 0.75m (2008: GBP 0.4m), CHF nil (2008: CHF 0.9m) and USD nil (2008: USD 11m). The fair value of these open forward foreign exchange contracts approximate to their carrying amount. The contracts have been put in place to mitigate the foreign currency risk of anticipated future sales and purchase commitments and mature over the next twelve months.

There were no forward foreign exchange contracts designated as cash flow hedges at the balance sheet date (2008: nil).

# Notes to the accounts

## 19. Financial instruments (continued)

### b) Hedge of net investment in foreign entities

The Group has Euro and US Dollar denominated borrowings, which it has designated as a hedge of a proportion of its investment in its subsidiaries in Europe and the US. The carrying value of such Euro borrowings at 31st December 2009 was £6.6m (2008: £7.3m) and the carrying value of the US Dollar borrowings was £8.5m (2008: £6.8m). The exchange difference on the translation of the borrowings into sterling has been recognised in translation reserves.

### Liquidity risk

The Group's funding objective is to have sufficient long-term committed facilities, in addition to uncommitted facilities and finance lease agreements, to meet its funding needs. The Group maintains relationships with several large financial institutions. The Group's committed loan facilities have two principal financial covenants, interest cover and net debt EBITDA. The Group complied with them at the end of the year. The Group has sound and long established arrangements in place with its relationship banks who offer committed and uncommitted facilities, which together with cash flow monitoring and cash surpluses, provide adequate funding for the Group's operations. In the ordinary course, no committed facilities are due for renewal until November 2010. New facilities, if required are expected to be available from existing lenders although this cannot be assured in light of the current market conditions.

The Group maintains a mixture of short-term uncommitted and medium-term committed facilities to ensure a sufficient level of funds and guarantee facilities are available for its business operations. The £85.0m committed facilities have been arranged to help finance the expansion of the Group's activities. These facilities incur commitment fees at market rates.

The following table analyses utilisation of the Group's principal committed facilities at the year-end.

	2009 £m	2008 £m
Expiring within 1 year	10.0	-
Expiring between 1 and 2 years	-	5.0
Expiring between 2 and 5 years	32.4	25.9
<b>Total undrawn committed facilities</b>	<b>42.4</b>	<b>30.9</b>
Hedging loans	15.1	14.1
Sterling loans	-	12.5
Guarantees provided	27.5	27.5
<b>Total committed facilities</b>	<b>85.0</b>	<b>85.0</b>

In addition to the committed facilities detailed above, the Group also has uncommitted facilities totalling £22.5m (2008: £31.5m).



# Notes to the accounts

## 19 Financial instruments (continued)

### Maturity profile of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2009 and 2008 based on contractual undiscounted payments. Floating rate borrowings are re-priced within six months from the balance sheet date.

	Interest rate basis	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	5 years and over £m	Total £m
2009								
Borrowings	Floating	15	0.2	0.2	15.2	-	0.3	17.4
Trade payables		35.5	-	-	-	-	-	35.5
Other payables		8.6	-	-	-	-	-	8.6
<b>Total</b>		<b>45.6</b>	<b>0.2</b>	<b>0.2</b>	<b>15.2</b>	<b>-</b>	<b>0.3</b>	<b>61.5</b>

	Interest rate basis	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	5 years and over £m	Total £m
2008								
Borrowings	Floating	10.9	6.1	0.8	0.7	21.8	0.3	40.6
Trade payables		39.7	-	-	-	-	-	39.7
Other payables		6.9	-	-	-	-	-	6.9
<b>Total</b>		<b>57.5</b>	<b>6.1</b>	<b>0.8</b>	<b>0.7</b>	<b>21.8</b>	<b>0.3</b>	<b>87.2</b>

### Carrying value

The carrying value of the Group's financial assets, including trade and other receivables and cash, and financial liabilities, including trade and other payables and borrowings, as disclosed in the balance sheet, are equivalent to their fair value at the balance sheet date.

## 20. Provisions

	Product warranties £m	Property & reorganisation £m	Other £m	Total £m
At 1st January 2009	3.3	1.3	8.4	13.0
Exchange adjustment	(0.2)	-	(0.3)	(0.5)
Charge in the year	1.5	0.9	0.2	2.6
Utilised in year	(1.8)	(1.7)	(0.9)	(4.4)
<b>At 31st December 2009</b>	<b>2.8</b>	<b>0.5</b>	<b>7.4</b>	<b>10.7</b>

Provisions have been allocated between current and non-current as follows

	2009 £m	2008 £m
Current	2.4	4.3
Non-current	8.3	8.7
<b>At 31st December</b>	<b>10.7</b>	<b>13.0</b>

### Product warranties

Provision is made for the estimated liability on all products still under warranty. Product warranties of between one and three years are given for the Group's main products.

# Notes to the accounts

## 20 Provisions (continued)

### Property and reorganisation

Following the disposal programme of previous years certain vacant property located in the UK remain with the Group. Full provision has been made for the residual lease commitments, together with other outgoings, for the remaining period of the leases. The timing of payments on vacant properties is £0.1m repayable in less than one year. The reorganisation provision includes costs associated with announced reorganisations within the Group which occurred during the year.

### Other

The Group's other provisions relate to the remaining costs in respect of the disposal of Pipe Systems in 2001 and Foodservice in 2007, including possible warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses. Although the majority of these provisions may be realised in the next accounting period, the exact timing is unclear.

## 21 Deferred tax

Deferred tax is calculated on temporary differences under the balance sheet liability method using a tax rate of 28% (2008: 28%). The movement on the deferred tax account is shown below.

	2009 £m	2008 £m
<b>Deferred tax - net</b>		
At 1st January	16.4	27.2
Exchange adjustment	0.2	(0.1)
Taken to equity - tax on actuarial loss	(29.3)	(7.9)
Credit to income statement (note 8)	(3.0)	(2.8)
Other	0.1	-
<b>At 31st December</b>	<b>(15.6)</b>	<b>16.4</b>

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The movement in deferred tax assets and liabilities, prior to offsetting the balances, during the year is shown below.

	Accelerated tax depreciation £m	Other £m	Pensions £m	Total £m
<b>Deferred tax liabilities</b>				
At 1st January 2009	3.2	4.8	13.9	21.9
Credited to income statement	(0.2)	(1.7)	-	(1.9)
Taken to equity - tax on actuarial loss	-	-	(13.9)	(13.9)
<b>At 31st December 2009</b>	<b>3.0</b>	<b>3.1</b>	<b>-</b>	<b>6.1</b>

	Pensions £m	Provisions £m	Tax losses £m	Total £m
<b>Deferred tax assets</b>				
At 1st January 2009	-	0.1	5.4	5.5
Exchange adjustment	-	-	(0.2)	(0.2)
(Charged) / credited to income statement	1.6	(0.1)	(0.4)	1.1
Taken to equity - tax on actuarial loss	15.4	-	-	15.4
Other	(0.1)	-	-	(0.1)
<b>At 31st December 2009</b>	<b>16.9</b>	<b>-</b>	<b>4.8</b>	<b>21.7</b>

The utilisation of the deferred tax asset is dependent on future taxable profits being in excess of the profits arising from the reversal of existing taxable temporary differences.

# Notes to the accounts

## 22. Share capital

### Authorised and issued share capital

	2009		2008	
	£m	£m	£m	£m
<b>Authorised</b>				
Ordinary shares of 46 <sup>7</sup> / <sub>8</sub> p each	174.4	81.8	174.4	81.8
<b>Allotted, called up and fully paid</b>				
At 1st January	69.2	32.5	115.2	32.4
Share consolidation	-	-	(46.1)	-
Issued on exercise of share options	-	-	0.1	0.1
<b>At 31st December</b>	<b>69.2</b>	<b>32.5</b>	<b>69.2</b>	<b>32.5</b>

During the year no ordinary shares were issued in connection with the Company's share option schemes (2008: 0.1m shares for £0.3m consideration)

On 9th May 2008, shareholders approved a share capital consolidation on the basis of 3 ordinary shares for every 5 existing ordinary shares. This provided for all of the authorised ordinary shares of 28<sup>1</sup>/<sub>8</sub> p each (whether issued or unissued) to be consolidated into new ordinary shares of 46<sup>7</sup>/<sub>8</sub> p each, which became effective on 12th May 2008.

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

### Options

Options outstanding at 31st December 2009 under the schemes were as follows:

Senior Executive Share Option Scheme				Long-Term Incentive Plan			
Grant date	Number of shares	Exercisable in 7 years to	Option price p per share	Grant date	Number of shares	Grant price p per share	Exercisable in 7 years to
June 2001	58,000	June 2011	236	October 2003	28,149	235	October 2013
May 2002	58,500	March 2012	261	May 2007	369,092	386	May 2017
October 2003	123,500	October 2013	235	May 2008	196,566	285	May 2018
<b>Total</b>	<b>240,000</b>			<b>Total</b>	<b>593,807</b>		

Under the Long-Term Incentive Plan a fee of £1 per award is payable and no further consideration is due. Further information is set out in note 23.

Under the Sharesave Plan, introduced in 2008, the following options were outstanding:

Sharesave Plan			
Grant date	Number of Shares	Exercisable to	Option price p per share
September 2008	133,338	May 2012	209
September 2008	269,399	May 2014	209
<b>Total</b>	<b>402,737</b>		

# Notes to the accounts

## 23 Share based payments

The Senior Executive Share Option Scheme was approved in 1994. Under the scheme the remuneration committee was able to grant options over shares in the Company to senior executives of the Group, although the scheme lapsed in May 2004. Options were granted with a fixed exercise price equal to the market price of the shares under the option at the date of grant. The contractual life of an option was ten years. Options granted under the scheme will become exercisable on the third anniversary of the date of grant, subject to the Group's earnings per share exceeding, by at least 3% per annum, the increase in the UK's retail price index over a period of three years beginning not earlier than the Company's last financial year before the date of an option grant. The exercise of an option is subject to continued employment or other circumstances in the scheme rules. Options granted since November 2002 were valued using Black-Scholes option model.

The Long-Term Incentive Plan ('LTIP') was introduced in 1999 as an appropriate method to incentivise executives and senior management. The LTIP consists of a right to acquire shares at a nominal price of £1 per award which will be exercisable after a period of three years at the earliest. For options granted before 2007 the actual percentage of shares that can be acquired depends on two performance criteria. The first of these is a comparison of the Company's total shareholder return ('TSR') with the TSR of companies in a comparator group approved by the remuneration committee at the date of grant and the second is that there has been a sustained improvement in the underlying financial performance of the Company as determined by the remuneration committee.

The FTSE 250 Index is used as the comparator group for LTIP options granted in 2006, 2007 and 2008.

If the Company's TSR places it in the top 25% (upper quartile) of the comparator companies, the participant may acquire all of the TSR linked shares. If the Company's TSR is at the mid-point, 25% of the shares may be acquired. There is a sliding scale on a straight line basis, if the Company's TSR is between the upper quartile position and the mid-point. If the Company's TSR is below the mid-point, none of the TSR linked shares may be acquired.

In 2007, the remuneration committee revised the performance criteria so that 50% of the award was based on the TSR of companies in a comparator group at the date of grant and 50% of the award is monitored against an EPS target, where growth of at least 3% compound in excess of RPI over the three year performance period is required for 25% of the award to vest. If growth exceeds 10% compound in excess of RPI then all will vest. None of the EPS monitored options will vest if compound growth is less than 3%.

In 2008, the remuneration committee revised the performance criteria to make the EPS performance condition more challenging. The EPS target now requires at least 5% compound growth in excess of RPI over the next three year performance period for 25% of the award to vest. If growth exceeds 12% in excess of RPI then all the options will vest. None of the EPS monitored options will vest if compound growth is less than 5%.

The fair value per option of the Sharesave Plan options and LTIPs granted in 2008 and the assumptions used in the calculation are as follows:

Grant date	Sharesave Plan 26th September 2008	Sharesave Plan 26th September 2008	LTIP 12th May 2008
Share price at grant date	209p	209p	285.4p
Exercise price	£2.09	£2.09	£1 in total
Number of employees	122	100	6
Shares under option	164,232	331,900	204,518
Vesting period (years)	3	5	3
Expected volatility	29.2%	35.1%	29.2%
Option life (years)	3	5	10
Expected life (years)	3	5	3
Expected dividend expressed as a dividend yield	6.0%	6.0%	5.0%
Expectations of meeting performance criteria	90%	90%	20%
Fair value per option TSR element / EPS element	21p	22p	£0.89 / £2.45

# Notes to the accounts

## 23 Share based payments (continued)

The expected volatility is based on historical volatility over ten years. The expected life is the average number of years to the date of expected exercise. A Monte-Carlo model was used to value TSR performance conditions for the LTIP.

The total charge for the year relating to employee share based payment plans was £0.2m (2008: £nil) before tax and £0.1m (2008: £nil) post tax.

A reconciliation of the movements in the Senior Executive Share Option Scheme is shown below.

	2009		2008	
	Number '000	Weighted average exercise price (p)	Number '000	Weighted average exercise price (p)
Outstanding at 1st January	280	239	685	258
Lapsed expired	(40)	225	-	-
Lapsed forfeited	-	-	(306)	282
Exercised	-	-	(99)	239
Outstanding at 31st December	240	242	280	239
Exercisable at 31st December	240	242	280	239

2009					2008			
Range of exercise prices	Weighted average exercise price	Number of shares	Weighted average remaining life		Weighted average exercise price	Number of shares	Weighted average remaining life	
P	p	'000	Expected years	Contractual years	p	'000	Expected years	Contractual years
225-235	235	123	19	38	233	163	19	38
236-261	249	117	10	19	249	117	15	29
		240				280		

There were no options exercised in the year, the weighted average share price during the year for options exercised in 2008 was 317p.

A reconciliation of the movements in the Sharesave Plan and LTIP is shown below.

	Sharesave 2009		Sharesave 2008	
	2009 '000	LTIP 2009 '000	2008 '000	LTIP 2008 '000
Outstanding at 1st January	473	778	-	869
Exercised	-	-	-	(50)
Lapsed expired	-	-	-	(242)
Lapsed forfeited	(70)	(184)	(23)	(4)
Granted	-	-	496	205
Outstanding at 31st December	403	594	473	778
Exercisable at 31st December	-	28	-	28

Details of the Sharesave Plan are shown in the audited part of the remuneration report on pages 39 to 41.

# Notes to the accounts

## 24 Purchase of Mercury

On 25th August 2009 the Group acquired the Mercury and Thermastone cooker brands from Lincat Group plc for a consideration of £0.5m

The cost has been allocated between brands £0.2m and other intangibles £0.3m (note 13)

## 25 Other reserves

	Fair value revaluation reserve £m	Translation reserve £m	Capital redemption reserve £m	Revaluation reserve £m	Total £m
At 1st January 2009	15	16.9	75.0	21	95.5
Exchange differences on translation of foreign operations	-	(9.2)	-	-	(9.2)
Transfer to retained earnings	-	-	-	(21)	(21)
Exchange differences on hedge of net investments	-	16	-	-	16
At 31st December 2009	15	9.3	75.0	-	85.8

	Fair value revaluation reserve £m	Translation reserve £m	Capital redemption reserve £m	Revaluation reserve £m	Total £m
At 1st January 2008	15	(2.5)	36.0	21	37.1
Exchange differences on translation of foreign operations	-	22.6	-	-	22.6
Transfer between reserves	-	-	39.0	-	39.0
Exchange differences on hedge of net investments	-	(3.2)	-	-	(3.2)
At 31st December 2008	15	16.9	75.0	21	95.5

The fair value revaluation reserve relates to the 2005 acquisition of an additional stake in Grange which gave the Group a controlling interest. The translation reserve includes all exchange adjustments in respect of overseas operations. The capital redemption reserve has arisen through share buy-backs and the share consolidation in previous years. The revaluation reserve that had arisen through revaluation of property prior to the adoption of IFRS has now been transferred to retained earnings.

## 26. Commitments

	2009 £m	2008 £m
Capital commitments contracted for by the Group for property, plant and equipment but not provided for in the accounts	0.6	0.7

# Notes to the accounts

## 27. Operating lease commitments

	Land and buildings		Other operating leases	
	2009	2008	2009	2008
Future minimum lease payments under non-cancellable leases	£m	£m	£m	£m
- within 1 year	5.3	5.5	1.1	1.1
- between 1 and 5 years	15.4	15.0	2.2	1.9
- after more than 5 years	14.3	13.1	0.1	-
<b>Total operating lease commitments</b>	<b>35.0</b>	<b>33.6</b>	<b>3.4</b>	<b>3.0</b>

The operating lease commitments relate to properties, motor vehicles and plant and machinery. The leases have various terms, escalation clauses and renewal rights.

## 28. Contingent liabilities

The Group has no other material contingent liabilities arising in the normal course of business at 31st December 2009 (2008: nil). The Group has contingent liabilities for certain potential claims from third parties in relation to divested businesses. On the basis of information presently available to them, the directors believe that no material claims are likely to arise for which provision has not been made in these accounts.

The Group has arranged £50.0m of bank guarantees, to guarantee obligations of the Group to the AGA Rangemaster Group Pension Scheme which may arise in the period up to 2020, of which £22.5m is collateral as disclosed in note 18(a).

## 29. Related party transactions

The Group recharges the Group pension scheme with the cost of administration and independent advisers paid by the Group. The total amount recharged in the year to 31st December 2009 was £0.2m (2008: £0.2m). The amount outstanding at the year end was £nil (2008: £nil).

The Group paid £40,000 to Rise Rocks Limited, a company wholly owned by Peter Tom, a non-executive director. For further details see the remuneration report on page 38.

## Key management's compensation

The compensation of the key management team at the balance sheet date is set out below.

	2009	Restated 2008
	£m	£m
Salaries and short-term benefits	1.8	1.7
Post employment benefits	0.1	0.2
Share based payments	0.1	-
Termination benefits	0.2	-
<b>Total emoluments to key management</b>	<b>2.2</b>	<b>1.9</b>

The 2008 figures have been restated to include the executive directors.

# Notes to the accounts

## 30. Trading subsidiaries

The following is a list of the Group's principal trading subsidiaries at 31st December 2009. A brief description of their activities is given in the chief executive's review on pages 4 to 10. The share capital in each case consists, unless otherwise stated, wholly of ordinary shares or common stock. All companies are held by subsidiary undertakings, except for those marked • in which case it is held directly by AGA Rangemaster Group plc.

Where subsidiaries are not wholly owned the percentage of owned capital is stated in brackets. Unless otherwise stated the companies are registered in England and operate in the United Kingdom. All subsidiaries included in the consolidation have coterminous year-ends.

AGA Rangemaster Limited (formerly AGA Consumer Products Limited) trades in the UK principally under the trade and business names of

AGA

Divertimenti

Falcon

Fired Earth

Leisure Sinks

Mercury

Rangemaster

### Website addresses

[www.aga-web.co.uk](http://www.aga-web.co.uk)

[www.agacookshop.co.uk](http://www.agacookshop.co.uk)

[www.rayburn-web.co.uk](http://www.rayburn-web.co.uk)

[www.divertimenti.co.uk](http://www.divertimenti.co.uk)

[www.falconappliances.co.uk](http://www.falconappliances.co.uk)

[www.firedearth.com](http://www.firedearth.com)

[www.leisuresinks.co.uk](http://www.leisuresinks.co.uk)

[www.mercury-appliances.co.uk](http://www.mercury-appliances.co.uk)

[www.rangemaster.co.uk](http://www.rangemaster.co.uk)

### Principal overseas trade and business names

AGA Marvel

[www.aga-marvel.com](http://www.aga-marvel.com)

Falcon France (branch)

[www.aga-ranges.com](http://www.aga-ranges.com)

Grange SA (France) 95% (2008: 75%)

[www.falconfrance.com](http://www.falconfrance.com)

Heartland Appliances Inc (Canada)

[www.grange.fr](http://www.grange.fr)

La Cornue SA (France)

[www.heartlandapp.com](http://www.heartlandapp.com)

Northland Corporation (USA)

[www.lacornue.com](http://www.lacornue.com)

Waterford Stanley Limited (EIRE)

[www.northlandnka.com](http://www.northlandnka.com)

[www.waterfordstanley.com](http://www.waterfordstanley.com)

[www.stanleystoves.com](http://www.stanleystoves.com)

### Central Services

ARG Corporate Services Limited •

AGA Rangemaster Properties Limited •

## 31. Post balance sheet event

A Deed of Amendment was signed on 12th January 2010 in respect of freezing pensionable salaries for those members whose salaries were not frozen in 2009. A curtailment gain to be calculated by Towers Watson, the actuary, in respect of liabilities accrued to date of around £15m is expected to arise in 2010.



# Independent auditor's report

## TO THE MEMBERS OF AGA RANGEMASTER GROUP PLC

We have audited the Group financial statements of AGA Rangemaster Group plc for the year ended 31st December 2009 which comprise consolidated income statement, the consolidated statement of comprehensive (losses) / income, consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 31. The financial framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31st December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and

- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements, and
- the information given in the corporate governance statement set out on pages 27 to 33 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review

- the directors' statement, set out on page 24, in relation to going concern, and
- the part of the corporate governance statement on pages 27 to 33 relating to the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review.

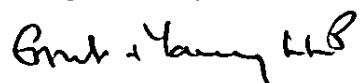
## Other matter

We have reported separately on the parent Company financial statements of AGA Rangemaster Group plc for the year ended 31st December 2009 and on the information in the directors' remuneration report that is described as having been audited.

Bruce Morton (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham

12th March 2010



## Five year financial history

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
<b>Trading results</b>					
Revenue	245.0	279.4	291.8	278.6	501.8
Operating profit before non-recurring cost	3.9	16.5	30.4	29.3	41.5
Non-recurring cost	(3.6)	(5.3)	-	(1.0)	-
Total operating profit	0.3	11.2	30.4	28.3	41.5
Net finance income/(cost)	0.2	3.2	(3.4)	(0.8)	1.2
Profit before income tax	0.5	14.4	27.0	27.5	42.7
Income tax expense	-	(2.7)	(4.2)	(6.2)	(8.6)
Profit before disposal of businesses/ discontinued	0.5	11.7	22.8	21.3	34.1
Disposal of businesses/discontinued	-	-	40.7	9.8	0.3
Profit for year	0.5	11.7	63.5	31.1	34.4

### Statistics

Operating profit before non-recurring costs to revenue	%	16	5.9	10.4	10.5	8.3
Dividend per ordinary share	p	-	4.0	11.5	10.5	9.2

### Earnings per share

Basic	p	2.5	14.4	18.9	16.5	26.4
Diluted	p	2.5	14.4	18.7	16.4	26.3

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
<b>Balance sheet summary</b>					
<b>Net operating assets</b>					
Property, plant and equipment	50.8	58.7	51.7	85.7	85.3
Inventories	46.0	63.5	54.9	94.8	89.4
Operating receivables less payables and provisions	(42.2)	(39.9)	(41.9)	(38.4)	(44.7)
Total net operating assets before intangibles	54.6	82.3	64.7	142.1	130.0
Assets held for sale	3.1	1.9	-	-	-
Net retirement benefit (obligation)/surplus	(40.5)	57.5	79.6	24.4	(18.2)
Intangibles	90.1	94.9	78.1	200.6	173.3
Total net operating assets	107.3	236.6	222.4	367.1	285.1
Investments	-	-	-	-	0.3
Tax	(1.0)	(25.9)	(34.4)	(20.8)	(4.8)
Total net cash/(borrowings)	28.0	5.8	169.1	(10.9)	20.4
Total net assets employed	134.3	216.5	357.1	335.4	301.0

### Financed by

Ordinary shares	32.5	32.5	32.4	32.3	32.1
Reserves	101.3	182.2	322.6	301.2	266.6
Total shareholders' equity	133.8	214.7	355.0	333.5	298.7
Minority interests	0.5	1.8	2.1	1.9	2.3
Total equity	134.3	216.5	357.1	335.4	301.0

The results for 2005 are not directly comparable as these have not been restated to reflect the operations discontinued in 2007

# Parent company accounts under UK GAAP

## Company balance sheet AS AT 31ST DECEMBER

As noted on page 26 the Company has elected to prepare its financial statements under UK GAAP

	Notes	2009 £m	2008 £m
<b>Fixed assets</b>			
Investments	5	468 0	457 2
<b>Total fixed assets</b>		<b>468 0</b>	<b>457 2</b>
<b>Current assets</b>			
Debtors – amounts falling due within one year	6	530 8	583 0
– amounts falling due after one year	6	377	43 7
Cash at bank and in hand	7	33 8	31 4
<b>Total current assets</b>		<b>602 3</b>	<b>658 1</b>
<b>Creditors – amounts falling due within one year</b>			
Creditors	8	(683 9)	(704 3)
Borrowings	7	(14)	(61)
<b>Total amounts falling due within one year</b>		<b>(685 3)</b>	<b>(710 4)</b>
<b>Net current liabilities</b>		<b>(83 0)</b>	<b>(52 3)</b>
<b>Total assets less current liabilities</b>		<b>385 0</b>	<b>404 9</b>
<b>Creditors – amounts falling due after more than one year</b>			
Borrowings	7	(151)	(26 6)
Provisions for liabilities and charges	9	(61)	(72)
<b>Total net assets employed</b>		<b>363 8</b>	<b>3711</b>
<b>Shareholders' equity</b>			
Share capital	10	32 5	32 5
Share premium account	11	29 6	29 6
Capital redemption reserve	11	75 0	75 0
Profit and loss account	11	226 7	234 0
<b>Total shareholders' funds</b>		<b>363 8</b>	<b>3711</b>

The accounts on pages 81 to 86 were approved by the board of directors on 12th March 2010 and were signed on its behalf by

W B McGrath      Chief Executive  
S M Smith      Finance Director

*W. McGrath*  
*Sham Smith*

Notes to the accounts are on pages 82 to 86

# Notes to the company accounts

The directors' report is on pages 22 to 25 of the Annual Report and Accounts

## 1. Accounting policies

### Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards and the Companies Act 2006

A consolidated Group cash flow statement has been included in the AGA Rangemaster Group plc consolidated accounts, the Company has therefore taken advantage of the exemption under FRS 1 not to produce a cash flow statement

The Company has taken advantage of the exemption under FRS 29 from financial instrument disclosures

### Cash

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less

### Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance revenue and finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at the balance sheet date.

### Foreign currencies

The Company's functional currency and the presentation currency is pounds sterling. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account, except when hedge accounting is applied. These are taken directly to reserves until the hedged transaction affects profit or loss, at which time they are recognised in the profit and loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Deferred tax

Deferred tax is provided in respect of all timing differences, using the balance sheet liability method. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the timing differences can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Income tax is provided for using current rates.

### Investments

Investments in subsidiaries are held at cost and reviewed for impairment annually where there are indicators that suggest the amount might not be recoverable.

### Provisions

The Company's other provisions relate to the remaining costs in respect of the disposal of the Pipe Systems and Foodservice operations, including probable warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses.

# Notes to the company accounts

## 1 Accounting policies (continued)

### Employee share options

The expenses for equity instruments granted are recognised in the financial statements based on their fair value at the date of grant. This expense, which is primarily in relation to employee share options and LTIP schemes, is recognised over the vesting period of the schemes - the Company has principally adopted the Black Scholes model and a TSR pricing model, respectively, for the purposes of computing fair value. The measurement of this expense is only calculated on options granted after 7th November 2002.

For LTIP options granted in 2008 and 2007 the performance criteria is now 50% based on a TSR pricing model and 50% on EPS growth against RPI. The Sharesave Plan was approved in 2008.

The estimation of share based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market performance conditions and the continuing participation of employees. Any awards that do not ultimately vest are lapsed. Where employees exit the Sharesave Plan this is treated as a cancellation with immediate recognition of any expense for the award not previously recognised.

## 2. Company profit and loss account

AGA Rangemaster Group plc has taken advantage of section 408(4) of the Companies Act 2006 and has not included its own profit and loss account in these accounts. The Company's loss after tax was £7.5m (2008 profit £53.9m).

The profit and loss account includes £40,500 (2008 £39,000) for audit fees.

## 3. Dividends and cash return

	2009 £m	2008 £m
Nil final dividend paid for the year ended 31st December 2008 (2007 7.65 pence per share)	-	8.7
Nil interim dividend paid (2008 4.0 pence per share)	-	2.8
Nil return of cash (2008 £1.21 per share)	-	139.7
<b>Amounts recognised as distributions to equity shareholders in the year</b>	<b>-</b>	<b>151.2</b>

The directors are not recommending a final dividend in respect of the financial year ended 31st December 2009 (2008 nil).

There was no actual dividend (ordinary or special) paid or cash returned in the year (2008 132.65 pence per share).

## 4. Directors' compensation

The compensation, share options, Long-Term Incentive Plans and pensions of the directors are disclosed in the audited part of the remuneration committee report on pages 39 to 41 of the Consolidated Annual Report and Accounts.

## 5. Investments

	Cost of shares £m	Provisions £m	Net book value £m
<b>Interest in subsidiaries</b>			
At 1st January	457.2	-	457.2
Additions	16.2	(2.9)	13.3
Dormant companies struck off	(2.5)	-	(2.5)
<b>At 31st December</b>	<b>470.9</b>	<b>(2.9)</b>	<b>468.0</b>

The additions in the year relate to the capitalisation of a £2.8m inter-company loan at AGA Marvel and the setting up of a new UK holding company ARG Solutions Limited for £13.4m.

# Notes to the company accounts

## 6 Trade and other debtors

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts owed by Group undertakings	530.0	581.1
Prepayments and accrued income	0.6	0.5
Other receivables	0.2	1.4
<b>Debtors falling due within one year</b>	<b>530.8</b>	<b>583.0</b>
Deferred tax	0.5	-
Corporation tax recoverable falling due after one year	37.2	43.7
<b>Debtors falling due after one year</b>	<b>37.7</b>	<b>43.7</b>

## 7. Cash and borrowings

### a) Cash

	2009 £m	2008 £m
Cash at bank and in hand	33.8	31.4
<b>Cash</b>	<b>33.8</b>	<b>31.4</b>

The Company's cash balance of £33.8m includes £22.5m, which is collateralised against a bank guarantee that the Company has provided to the AGA Rangemaster Group Pension Scheme

Included in cash and cash equivalents was cash held for unclaimed dividends of £0.5m (2008: £0.5m)

### b) Financial liabilities - net borrowings

	2009 £m	2008 £m
Bank borrowings	1.4	6.1
<b>Amounts falling due within one year</b>	<b>1.4</b>	<b>6.1</b>
Bank borrowings	15.1	26.6
<b>Amounts falling due after one year</b>	<b>15.1</b>	<b>26.6</b>
<b>Total borrowings</b>	<b>16.5</b>	<b>32.7</b>
Cash and cash equivalents	(33.8)	(31.4)
<b>Total net (cash)/borrowings</b>	<b>(17.3)</b>	<b>1.3</b>

The Company's borrowings are primarily loan advances denominated in a number of currencies and interest is based on LIBOR or foreign equivalents. The amounts falling due within one year have a maturity of under one month.

The loans are unsecured. The amounts falling due after one year are due for repayment in 2013.

# Notes to the company accounts

## 8 Creditors

	2009	2008
	£m	£m
Amounts falling due within one year		
Amounts owed to Group undertakings	681.8	702.2
Accruals and deferred income	12	18
Other payables	0.9	0.3
<b>Total creditors falling due within one year</b>	<b>683.9</b>	<b>704.3</b>

## 9. Provisions

	Deferred tax £m	Other £m	Total £m
At 1st January 2009	0.6	6.6	7.2
Utilised in year	-	(0.5)	(0.5)
Transfer to assets	0.5	-	0.5
Credit in the year	(11)	-	(11)
<b>At 31st December 2009</b>	<b>-</b>	<b>6.1</b>	<b>6.1</b>

The Company's other provisions relate to the remaining costs in respect of the disposal of Pipe Systems in 2001 and Foodservice in 2007, including possible warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses. Although the majority of these provisions may be realised in the next accounting period, the exact timing is unclear.

## 10. Share capital

### Authorised and issued share capital

	2009		2008	
	£m	£m	£m	£m
Authorised				
Ordinary shares of 46 <sup>7</sup> / <sub>8</sub> p each	174.4	81.8	174.4	81.8
Allotted, called up and fully paid				
At 1st January	69.2	32.5	115.2	32.4
Share consolidation	-	-	(46.1)	-
Issued on exercise of share options	-	-	0.1	0.1
<b>At 31st December</b>	<b>69.2</b>	<b>32.5</b>	<b>69.2</b>	<b>32.5</b>

During the year no ordinary shares were issued in connection with the Company's share option schemes (2008: 0.1m shares for £0.3m consideration).

On 9th May 2008, shareholders approved a share capital consolidation on the basis of 3 ordinary shares for every 5 existing ordinary shares. This provided for all of the authorised ordinary shares of 28<sup>1</sup>/<sub>8</sub> p each (whether issued or unissued) to be consolidated into new ordinary shares of 46<sup>7</sup>/<sub>8</sub> p each, which became effective on 12th May 2008.

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

### Share based payments

Options outstanding at 31st December 2009 and share based payments disclosures are shown in notes 22 and 23 of the Consolidated Annual Report and Accounts.

# Notes to the company accounts

## 11 Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	Total equity £m
At 1st January 2009	32.5	29.6	75.0	234.0	371.1
Loss for year	-	-	-	(7.5)	(7.5)
Share based payments	-	-	-	0.2	0.2
At 31st December 2009	32.5	29.6	75.0	226.7	363.8

The Company's profit and loss account reserves of £226.7m (2008: £234.0m) include approximately £168.9m (2008: £168.7m) which is unavailable for distribution, leaving £57.8m available for distribution.

## 12 Commitments

The Company had no capital commitments (2008: nil).

## 13 Contingent liabilities

The Company has no other material contingent liabilities arising in the normal course of business at 31st December 2009 (2008: nil). The Company has contingent liabilities for certain potential claims from third parties in relation to divested businesses. On the basis of information presently available to them, the directors believe that no material claims are likely to arise for which provision has not been made in these accounts. The Company has given a number of financial and performance guarantees on behalf of subsidiaries; the relevant liabilities are included in the balance sheet.

The Group has arranged £50.0m of bank guarantees, to guarantee obligations of the Company to the AGA Rangemaster Group Pension Scheme which may arise in the period up to 2020, of which £22.5m of cash is collateral as disclosed in note 7(a).

## 14. Related party transactions

The Company has taken advantage of the exemption permitted by FRS 8 not to disclose any transactions or balances with entities that are 100% controlled by the AGA Rangemaster Group plc.

The Company was owed an amount by its indirectly owned 95% subsidiary, Grange SA. The balance at 31st December 2009 was £1.8m (2008: £5.2m). The maximum balance during the year was £6.3m of this £6.2m was capitalised.

The Company paid £40,000 to Rise Rocks Limited, a company wholly owned by Peter Tom, a non-executive director, for further details see the remuneration report on page 38.

## 15. Trading subsidiaries

The Company's principal trading subsidiaries at 31st December 2009 are listed in note 30 of the Consolidated Annual Report and Accounts.



## Statement of directors' responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out on page 88, is made with a view to distinguishing the respective responsibilities of the directors and of the auditors in relation to the accounts

The directors are required to prepare financial statements for each financial year which comply with the provisions of the Companies Act 2006 and give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year

The directors consider that in preparing the financial statements on a going-concern basis, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed

The directors are responsible for ensuring that the Company maintains accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 2006

The directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

# Independent auditor's report

## TO THE MEMBERS OF AGA RANGEMASTER GROUP PLC

We have audited the parent Company financial statements of AGA Rangemaster Group plc for the year ended 31st December 2009 which comprise Company balance sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 87, the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31st December 2009,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

### Other matter

We have reported separately on the Group financial statements of AGA Rangemaster Group plc for the year ended 31st December 2009.

Bruce Morton (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham

12th March 2010

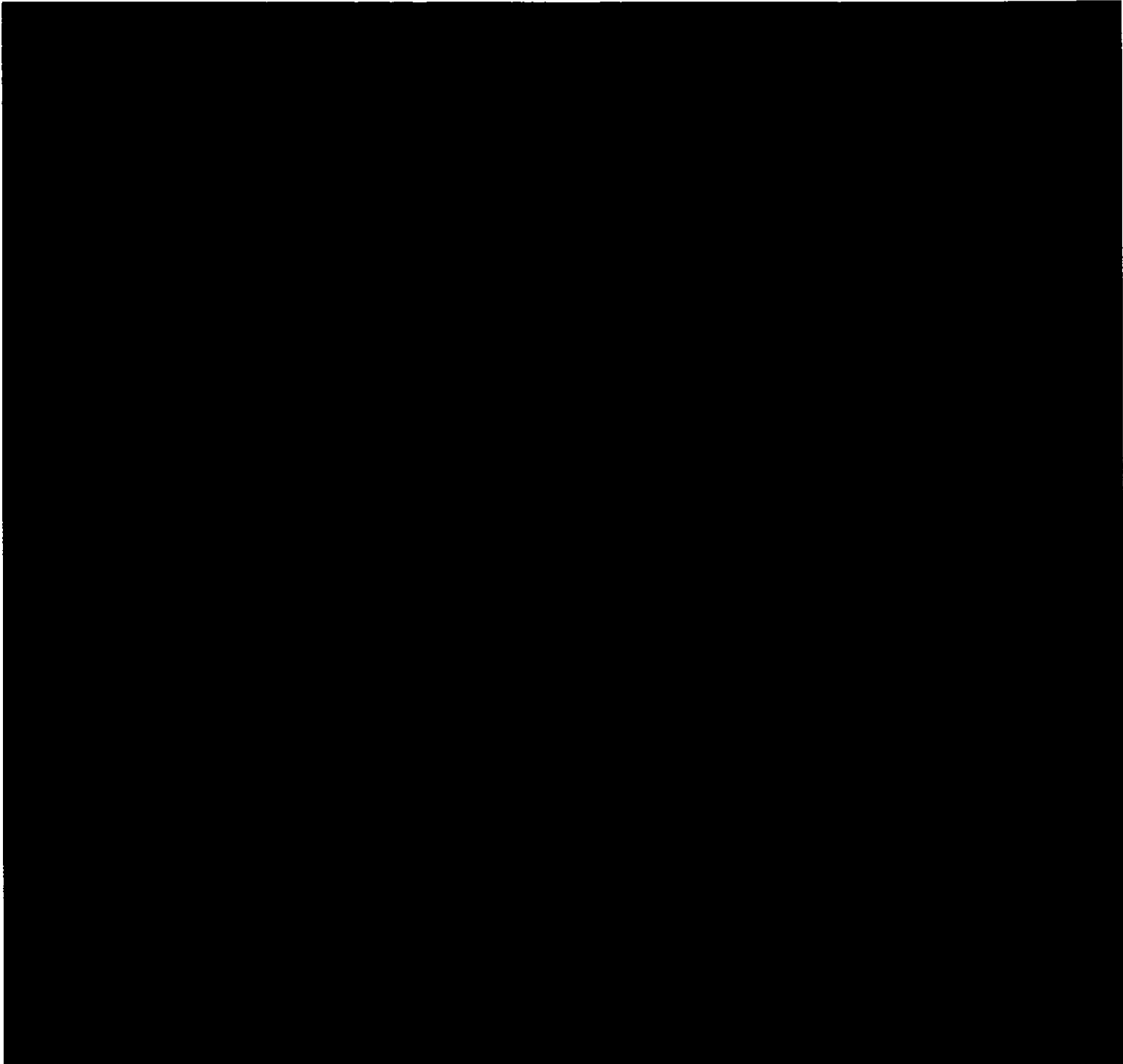
*Bruce + Young H&B*



## Supplementary Note

Regarding the disclosure on page 23 of the 2009 Annual Report and Accounts, under the heading "Share capital" Paragraph five is deleted and replaced with the following

"At the 2009 AGM, shareholders approved a resolution to permit directors to allot ordinary shares of 467/8p each up to an aggregate nominal value of £10,818,136 (being approximately one third of the nominal value of the Company's issued ordinary share capital) No shares have been allotted during the year This authority will expire at the forthcoming AGM and, in accordance with current best practice, the Company will seek to renew it Since the 2009 AGM, the Company has not had the authority to undertake market purchases of its own shares No shares have been purchased during the year and the Company does not hold any shares in treasury In accordance with current best practice, the Company will seek authority from shareholders to undertake market purchases of its own shares at the forthcoming AGM"



# **AGA RANGEmaster**

Group plc

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