Company Registered Number 354715

AGA RANGEMASTER GROUP PLC ANNUAL REPORT & ACCOUNTS 2012

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A BRITISH STORY...

ANNUAL REPORT AND ACCOUNTS 2012

LOVED AROUND THE WORLD

AGA Rangemaster is an international leader in range cooking and has an exceptional portfolio of lifestyle brands that reinforce the attractions of having a range cooker at the heart of the home We have great, long established brands like AGA and La Cornue and younger more vibrant brands like Falcon and Rangemaster that are helping to develop our traditions We are setting out to connect with more international consumers, with our new product styles and features which build on our exceptional heritage

FINANCIAL HIGHLIGHTS

GROUP REVENUE

£244.6m -2.5%

EBITDA*

£17.5m +6.1%

OPERATING PROFIT

£6.5m +6.6%

PROFIT BEFORE TAX

£8.4m +12.0%

*Before non-recurring costs

PERFORMANCE HIGHLIGHTS

- Continued growth in profits
- Sales of AGA cookers, Fired Earth tiles and Marvel refrigerators in North America showing encouraging progress
- Cost and efficiency programmes remain pre-requisites to driving profitability in flat core markets
- New pension financing and banking agreements finalised in November provide clear, stable platform on which to build Net cash position maintained after one-off pension contribution made
- International investments and collaborations - such as that in China - provide a framework for more rapid expansion
- Current initiatives expected to build sales momentum after a slow January and with February more encouraging

AGA Total Control
The next chapter in the story of the iconic brand is the AGA Total Control cooker now available in a 3 or 5 oven format keeping the range at the heart of the contemporary kitchen

BUSINESS REVIEW

GOVERNANCE

FINANCIALS

MAJOR THEMES

OUR BRAND PORTFOLIO

GETTING THE INGREDIENTS RIGHT!

We believe that we have the right products and routes to market to achieve sustained growth and to take our story to wider geographic markets We have committed substantial resources over a long period of time to product development and this is reflected in the strong pipeline of exciting products we have been bringing to market We have the capacity to support our growth plans in both manufacturing and sourcing terms

COOKING

AGA is the iconic heritage brand, with a luxury pedigree, but adapted for 21st century living Electric models are now the biggest sellers and the modern technology has increased flexibility AGA Total Control in particular adds to the brand's international appeal Cast iron cookers with boilers are also made under the Rayburn, Redfyre and Stanley brands

Rangemaster is established as the No 1 range cooking brand for its quality, style and features in formats from 90cm to 120cm It has become a wider UK appliance brand with strong growth being achieved on the Continent The choice of the professional chef, Falcon and the strikingly designed Mercury are complementary brands

La Cornue is aspirational, with its patented vaulted oven design, it is a world expert in the domestic culinary art and provides a gastronomic experience like no other

REFRIGERATION

AGA Marvel manufactures and sells undercounter refrigeration for indoor, outdoor and professional style kitchens The new premium Professional Series leads the way with elegant styling, smart shelving and superior performance Our factory is in Greenville, Michigan We also have a range of premium refrigeration product available to complement our key cooker brands

LIFESTYLE

Fired Earth has for 30 years provided style and leadership in tiles for the home It has expanded into bathrooms – in which tiles are a key feature – and kitchen furniture which links perfectly with our range cookers and paint

For 100 years Grange craftsmen have built high quality cabinets and furniture It has a broad and more contemporary range and offers customers the capability through 'My Grange' technology to have more input into the design choice in terms of colour, finish, fabrics and fittings

Divertimenti and AGA Cookshop provide an impressive and comprehensive offering of cookware, kitchenware and tableware to complement our range cookers and appliance portfolio

BUSINESS MODEL & STRATEGY

THE RIGHT MOVE AT THE RIGHT TIME

AGA Rangemaster has positioned itself to take advantage of an upturn in the housing market by developing a 2013 strategy specifically targeting home movers

In the UK, industry predictions are that the housing market will be in recovery mode over the coming 12 months after a tough few years Leading estate agents Knight Frank suggest a rise of 2% in 2013, while Rightmove and Hamptons International both anticipate the outlook to be positive for both buyers and sellers, with the South East likely to be the strongest area In the US, industry predictions are more positive

OUR BUSINESS MODEL

AGA Rangemaster sets out to be an international leader in range cooking and to have a wider range of appliance and kitchen products to reinforce the attractions of having a range cooker at the heart of the home We have an embedded dealer structure and for more specialist lines we have some of our own retail showrooms We also have in place international structures with local production capabilities to complement our UK strengths

We believe that modern marketing techniques assist in the identification of niche customer bases and will help drive the volume growth and margin benefits from the sustained investment in and commitment to manufacturing of our anchor products

We have put in place a sound financial base providing a framework and a timeframe needed to realise the potential generated from the investments made in our products and international routes to market suited to the latest consumer trend lines

We use our position to sell a broader range of home and kitchen orientated products to a customer database comparable to that of our premium cooker brand consumers

Rangemaster Classic 90
The Rangemaster Classic 90 offers everything you would expect from a traditional range cooker Excellent build quality with colour options and available as dual fuel, all gas or with a ceramic or an induction hob

STRATEGIC OBJECTIVES	2012 PROGRESS	FUTURE PLANS
GROWTH To increase sales of AGA and Rangemaster branded range cookers	AGA Total Control having launched in 2011 now represents 22% of AGA cooker sales Rangemaster continued to invest in new product development and has grown international sales, offsetting slower UK markets	AGA Total Control now well established in the UK and its technology is designed to have international appeal Owners to be more directly involved in selling Rangemaster to sustain market leadership and with new contemporary models and sourced lines, to continue the international range extension
INTERNATIONAL SALES To grow international sales to 50% of revenue	Progress on the Continent and in the USA through AGA Marvel As North American markets are improving our Professional ranges of undercounter and cooker products are doing well	We have set up a reciprocal trading relationship with Vatti in China Such collaborations indicate a way ahead for the Group's impressive brand portfolio
PROFITABILITY To restore Fired Earth and Grange to profitability	Fired Earth profit recovery underway and strength of tile offering is providing renewed confidence within business 'My Grange technology implemented	Fired Earth to complete return to profit and to identify ways to valorise the business Further rationalisation at Grange and 'My Grange' design technology to deliver growth
SALES To improve our return on sales	Progress in 2012 at 2 7%, up from 1 6% in 2009	To continue to improve our return on sales with a medium term target of at least 10% as operational gearing impacts
EFFICIENCY To manage costs through efficiency improvements rationalisation and international sourcing	Despite revenues being flat since 2009, efficiencies and cost savings achieved have improved profitability by £8m	Further rationalisation plans in train at Waterford Stanley in Ireland and Grange in the US

BUSINESS MODEL & STRATEGY *continued*

DEVELOPING NEW MARKETS & MAKING NEW FRIENDS

Our great brands, tight cost control, product innovations and international market development programmes will continue to sustain us against the headwind of weak housing transaction levels We will be investing in our key brands to make sure 2013 is a more progressive year for the Group

INTERNATIONAL DEVELOPMENT

We believe that strong, long-term trading relationships can be a way to generate the revenues needed to make use of the operational gearing available Our business will be better balanced with increased sales outside the UK and we believe growing sales above 50% of the total remains a realistic objective

Our premise is that there is a universal appeal to have or aspire to have a range cooker at the heart of the family kitchen We can deliver that dream with our range of beautiful functional cookers backed with complementary appliances and with the style to the kitchen and home given by our inspiring collections of tiles, paints and furniture

A key development feature of 2012 was establishing the reciprocal trading relationship with the Chinese manufacturer Vatti, the market leader in gas burner technologies in China The objectives set for 2013 are to have all product approvals in place and AGA Rangemaster products being sold in China through the Vatti dealer structures We will also bring Vatti built-in products, complemented by other products from international sources, to Europe aimed at providing new options for our premium areas of the market and bringing together the most comprehensive package of products for the European market

In Greenville Michigan, AGA Marvel has a new factory which replaced three facilities and from here we now produce primarily our ranges of undercounter refrigeration, specialising in wine coolers and icemakers The factory also makes built-in refrigerators and our Heartland stove range AGA Marvel is also our distribution centre for premium brand range cookers supplied into American and Canadian homes We have a strong development team and are finalising a new generation of products to be compliant with new energy efficiency regulations being implemented in the US in autumn 2014

The Group has a well established position on the near Continent and is achieving good growth notably in France, Holland and Belgium for our range cookers We are also starting to make inroads into the German market Sales on the Continent are principally supported out of our La Cornue factory and business centre near Paris Waterford Stanley distributes the wider Group product range throughout Ireland We retain strong connections with the Commonwealth countries

We have a procurement team based in Hong Kong, which has successfully contributed for many years to the sourcing of quality components, materials and products which further strengthen our offering

88
AGA & Fired Earth Shops

60,000
Rangemaster units produced in 2012

William McGrath Chief Executive and Huang Qijun Chief Executive (Vatti) at the signing of the reciprocal distribution and product development partnership agreement in the presence of Chris White (MP – Warwick & Leamington Spa), Martin Cook (Regional Director UKTI), Baroness Wilcox (Parliamentary Under Secretary for Business Innovation and Skills), John Coleman (Chairman).

CHAIRMAN'S STATEMENT

A STRONG PLATFORM FOR GROWTH

'The strength of our product offering and the efficiencies of our operations increased further in 2012, but there was little respite to the long running weakness of the consumer markets in which we operate We are, therefore, pleased that we were able to increase profitability once again even though overall revenues fell by £6 million'

John Coleman
Chairman

At the same time we achieved significant progress in reaching an agreement with the trustee of the Group's main pension scheme on the funding needs of the scheme through to the end of 2021, and on the longer term plans for the scheme These steps enabled us to finalise a new financing structure, which should ensure that the exciting brands within the Group can now capitalise on development opportunities to show exactly what they can achieve in international markets

Key features of the year were

The rise in operating profit pre-amortisation from £8 0 million to £8 6 million and from £6 1 million to £6 5 million after amortisation These results were achieved on revenues which fell from £250 9 million to £244 6 million

We retained a good net cash position During the year we made contributions and deficit recovery payments into the Group's main pension scheme totalling nearly £20 million, and paid £5 2 million after a final German court judgement on the buyout value placed on minority shares in a German company acquired in 1998 At the year end the Group still had net cash of £5 5 million compared with £31 3 million a year before There are no deficit recovery payments due to the pension scheme in 2013 or 2014

Alongside our market-leading position in the UK, our products are finding new, fast-growing international markets Our reciprocal collaboration with the Chinese group Vatti shows a way forward as we look to leverage our brands, our excellent product development programmes and distribution structures more effectively

We continued to address parts of the business that have struggled during the recessionary period The sharp reduction in losses at Fired Earth and its continuing momentum highlight the benefits from such business turnarounds

'Indulge and live'
Daisy Lowe at home in her Fired Earth kitchen, made by Grange, with her 3 oven AGA Total Control cooker

Sales in our core markets are linked to the level of housing transactions, and those levels are beginning to edge up, helped by the onus the Government are placing on the housing and construction sectors to generate growth However, current trading conditions continue to be flat This means that our additional focus on strategic positioning in international markets is likely to prove crucial to delivering renewed momentum

We commented in November that with the pension scheme funding agreement, the board will only propose a dividend to be paid where specific agreement is reached with the trustee of the Group's main pension scheme There is no final dividend proposed for 2012

STRATEGIC PROGRESS

Our objective is to be a market leader internationally in the premium range cooker markets in which we operate, and capitalise on that position to sell a broader range of home and kitchen orientated products As these consumer markets have been quiet in recent years, we continue to concentrate on efficiency gains and cost control measures Thus while revenues have stagnated, we have seen profits stabilise and then edge forward without a recovery in activity levels to anywhere close to levels of five years ago

Of our cast iron cooker brands, AGA had an encouraging year while the cooker/boiler lines Rayburn and Stanley less so Total cast iron sales at 10,300 were down on the 11,000 units last year and well down on the peak years of 2006/2007 when sales were 19,600 units Electric models dominated for AGA, accounting for almost two thirds of sales and with AGA Total Control now available in 5 oven form as well as 3 ovens we expect the move to electric to continue The message is that the modern AGA cooker 'works for you', putting the owner in control of costs, cooking quality and the warmth of the home We are now looking to take the critical step of growing our export markets, offering a straightforward product proposition built around flexibility of operation and ease of installation and maintenance Rayburn and Stanley have also produced restated consumer propositions around their use of wood and its link to multi fuel energy management in the home – themes with great long-term potential

There has been some range rationalisation and a concentration on Coalbrookdale as the production source for cast iron range cookers, with wood burning cookers and stoves – a rapidly expanding category – produced at Waterford Stanley in Ireland

For Rangemaster, 2012 was a satisfactory year even though cooker volumes overall fell back to just below 60,000 units from 62,000 in a market in which the lower value segments did best Our volumes were significantly below the peak of 2007 of 76,000 We still saw our average unit selling price edge ahead even though average market prices fell and we retained a UK market share of over 50% by value 27% of Rangemaster revenue was outside the UK (2011 25%)

CHAIRMAN'S STATEMENT *continued*

Mary Berry reviewing her new book
Mary Berry has worked with the Group for nearly thirty years and is a strong believer in the AGA cooker lifestyle. She is preparing the next edition of the AGA cookbook to be launched in May 2013. Mary is pictured here with AGA home economist, Dawn Roads and cookery writer and demonstrator, Lucy Young.

In North America, we saw a modest pickup in volumes for our undercounter refrigerators – a noteworthy achievement as we had lost a major OEM account in the prior year. Our segmentation between Marvel and Marvel Professional Series worked well enabling us to compensate for this loss. We have an improved distribution base and a widened direct customer list. There is now quite a significant change in underlying sentiment in the premium appliance sector and an expectation of volume growth ahead.

Our home fashions businesses have for some years seen weak returns in slow markets. Fired Earth achieved a far better result in 2012 cutting operating losses substantially and the trend lines in the business are the best for some years led by the tremendous tile offering. For Grange, the advent of 'My Grange' is designed to be the trigger for a similar bounce back, although at present with the American operation still declining in revenue terms, the business position is particularly difficult and further cost reduction steps are being made.

What we are yet to see coming through in 2012 is the strategically important shift in the UK/international balance of business with 37% of the revenues still generated outside the UK – short of the targeted 50%. The longer term importance of the strategic links with groups like Vatti of China and with product supplied to and sourced from the Chinese markets are crucial in delivering on the plan. More immediately we also expect North America to be the fastest growing market for us in the year ahead.

The strength of the Group's heritage as an innovator and how that record can be relevant today was key in 2012. We have great stories from Britain to take to the world – a world enthusiastic for premium quality British made goods.

OUR PEOPLE

One of the great strengths of the Group is the experience and commitment of our people. We recognise long service and have dinners annually to celebrate those reaching over 25 years of service with the Group. By the end of 2012 a total of 178 current employees had reached this milestone. I would like to thank all our employees for their enthusiasm and commitment during the year.

We are pleased with the internal training we run and the new apprenticeship programmes as we continue to develop people throughout the business. At a senior level the board considers development needs and succession planning.

As chairman, I encourage all non-executive directors to be involved with the business and to take opportunities to visit sites and meet with management and employees to improve their understanding of the business. The non-executives are always willing to share their knowledge and experience to strengthen further our operations.

Paul Dermody as chair of the audit and risk committee has overseen a period where a number of legacy issues have been satisfactorily resolved. During the year, Paul has met with the auditor, head of internal audit and finance managers to review a number of changes including the integration of the IT platform. Jon Carling took the opportunity to visit the AGA Marvel plant in Greenville, Michigan and to share some of his experience in manufacturing and he has agreed to chair our health, safety and environmental sub-committee. Paul Jackson has encouraged the development of a number of the marketing staff and has contributed to the latest advertising campaigns for our key brands. I very much enjoyed my recent visit to Paris and a number of visits to review our retail estate in the United Kingdom. I am pleased with the progress being made at Fired Earth after a difficult few years and believe with its strong management, it is now on track to make a positive contribution to profit.

La Cornue
La Cornue can make bespoke kitchen islands to incorporate its cookers La Cornue has established an international network of dealers that now covers the Middle East and Far East as well as Europe and North America

CURRENT TRADING

The pressures on consumers have reduced the number of house moves and larger improvement initiatives These factors have impacted our operations for some years, and we have to prepare for a continuation of the flat markets we have been seeing That in turn is reflected in cost reduction measures already underway, most notably seen in further rationalisation programmes involving Waterford Stanley in Ireland and Grange in North America We are at the same time determined to allocate resources to obtain the best returns from the product innovations of recent years, through which we can establish positions in faster growing markets whereby we can make use of the operational gearing available within the businesses

So far this year we have seen a slow January and a positive February There is a notable pick up against last year for AGA Marvel in North America and for Fired Earth AGA orders are flat and Rangemaster orders have trended down pending the sales and marketing initiatives planned for this spring The cost and revenue initiatives we have taken suggest that 2013 will see more progress and we look forward with some confidence

John Coleman
Chairman
8th March 2013

'Divertimenti at 50'
In 2013 Divertimenti will celebrate fifty years of culinary genius with 'The World Cooks in one City campaign which will see us use recipes from restaurants in London and cook in styles from all around the world Food will be cooked on AGA and La Cornue cookers in store and the utensils needed will be on sale at the Divertimenti stores on Brompton Road and Marylebone High Street and online at www divertimenti co uk

CHIEF EXECUTIVE'S REVIEW

INNOVATION BY DESIGN

'2012 was a year which required the most determined efforts to achieve profit growth While a market upturn in the near future is unlikely our prospects are good We have heritage brands with contemporary relevance which creates tremendous opportunities in both established and new markets for us With major marketing initiatives imminent we expect to see greater impetus in the coming months'

William McGrath
Chief Executive

OUR BUSINESS MODEL

AGA Rangemaster sets out to be an international leader in range cooking and to have a wider range of appliance and kitchen products to reinforce the attractions of having a range cooker at the heart of the home We support this with a wider home fashions offering with Fired Earth and Grange We have great, long established brands like AGA and La Cornue and younger vibrant brands like Falcon and Rangemaster that are helping to develop our end markets We have an embedded dealer structure and for more specialist lines we add some owned retail outlets We also have in place some international structures with local production capabilities most notably with AGA Marvel in North America to complement our UK strengths We believe that modern marketing techniques assist in the identification of niche customer bases and will help drive the volume growth and margin benefits from the sustained investment and commitments to manufacturing of our anchor products

THE PRODUCT MIX

Cast iron cookers

The iconic AGA cooker is our best known product Today's AGA is able to provide flexibility in use while retaining the qualities for which it has been known for ninety years The AGA Total Control in 3 and 5 oven formats is now the flagship product providing more ways to manage cost and energy consumption in operation

In 2012 we responded to continuing tough market conditions by raising factory efficiencies further and by reducing the number of retail outlets This is possible as the AGA sales process is becoming simpler Today's electric AGA cooker is made and assembled in the factory It is easier and quicker to install and to move and it has the capability of being vented into the room in a central island These features assist the progress in international markets We are focusing now on the nature of the sales staff making the case for the AGA cooker The AGA needs to be sold by people who are also owners or fully

Technology advancement
The AGA Total Control cooker can now be turned on and off remotely from a smart phone or computer adding still further to its flexibility and showing how 'the AGA works for you' as a great facilitator for modern lifestyles

familiar with the product and who understand the lifestyle they are selling – hence the slow and crucial work to ensure that in overseas markets there are enough real users of the products involved in selling processes providing a personalised service We are providing an incentive package to create a network of AGA-owning ambassadors

With almost two thirds of AGA cooker sales being of electric models, the AGA is able to address new customer bases enthused to have a product at home working for them giving them control of running costs (from £5 a week) for the best cooked food on demand and control of the warmth of the home The AGA cooker is a great facilitator in contemporary lifestyles We believe this is the right approach to the sales proposition and will be a major driver of AGA cooker sales in the years ahead

These themes are not new In the 1930s a team led by W T Wren, the managing director of AGA Heat Limited changed the way the British thought of their home by putting the highly functional AGA cooker at its heart We have produced a booklet exploring the remarkable people and social changes that made the AGA brand such an icon We aim to recapture the entrepreneurial spirit of that time

Other range cookers / appliances

Rangemaster has a well established position at the premium end of the range cooker market – driven by product quality The new campaign for the brand emphasises that Rangemaster builds on experience – seen in the sturdy frame, meticulous assembly and the 'car' quality paint finishes of the products Year after year, through work on product development across our brands, which include Falcon, Mercury and Redfyre, we see feature and benefit enhancements as well as production efficiency gains

AGA Total Control continues to innovate
The AGA Total Control 3 oven model was launched in May 2011 at the Saatchi Gallery in London We continue the innovation trend with the development of the new 5 oven launched in September 2012 These models are all electric and are expected to have international appeal

CHIEF EXECUTIVE'S REVIEW *continued*

2012 saw a fall in the volume of sales in the UK as some consumers traded down to lower price point alternatives We have a strong new product launch programme focusing in on a contemporary range of cookers out this spring We saw the average consumer price paid increase reflective of the mix achieved We maintained our position as having close to half the range cooker market in the UK by value We saw growth on the near Continent where the tough economic backcloth for France did not prevent a sales increase Our wider range of appliances covering splash backs, cooker hoods, refrigeration, dishwashers and sinks kept the proportion of revenue for Rangemaster for lines beyond cookers at circa 30 pence for every 100 pence of cooker sales

Our largest appliance business outside the UK is AGA Marvel in North America Marvel was originally acquired in 2003 to provide a refrigeration platform on which to add cooker products Rationalisation plans were accelerated with two factories being moved to one new one and a further factory in Canada subsequently being merged into the Greenville facility We have a strong and continuing product development programme which has responded to regulatory changes which continue to raise efficiency requirements Our premium Marvel Professional Series has proved a particular success in the year since its launch We have strengthened our sales team and overhauled our dealer base notably on the West Coast We are offering a more comprehensive and cost effective suite of hot and cold products In a slowly improving market place we now expect an upturn in our business which, with the levels of operational gearing available in the business, should translate into a marked profit improvement

Case study

AGA Marvel's first appearance at the annual trade show of the Nationwide buying group in Las Vegas, in March 2013. There was much interest in both the cooking and refrigeration displays. The AGA Marvel team photographed here with the AGA Total Control display are from left to right, Phil Wilson, Jill Plate, Art Bochert, Micha Rains, Rick Jorgensen and Jonathan Mahrt.

Home fashions brands

Fired Earth saw a much improved performance in 2012 led by rigorous cost control and improved sales in the core tile category A new format of small high street stores is working well – seen in Dulwich, Blackheath and Winchester and most recently in Marlow and some of the larger out of town stores have been reassessed We have taken over Bristol and Harrogate stores from franchisees and relocated the Bath store

Fired Earth has a strong experienced management team targeted to return the business to profitability We continue to work towards a valorisation point when we expect that the improved performance and prospects will be reflected in the value to be placed on the operation Fired Earth's current tile offering with its particular American and North African influences has reasserted its position as the style and trend setter in the sector

Grange continues to operate in particularly challenging markets, most particularly in North America where a further rationalisation programme has been undertaken to cut the cost base With the 'My Grange' technology we have the ability to change the way purchasing furniture for the home is approached with the consumer having far greater direct involvement in the product finish, designing it to their individual taste We believe that this – with the direct factory link – can set Grange apart providing the stimulus to generate the additional revenue needed to provide the return to profitability we have been seeking 'My Grange' is now available in 16 Grange own stores and in 27 dealer stores across the world Grange make kitchens for Fired Earth and its wider offering is available online from Fired Earth

INTERNATIONAL EXPANSION

We have the target of moving from having 37% of our business being outside the UK to around 50% This is a position we have achieved before – prior to the foodservice disposal over 50% of the business was generated outside the UK This will now be achieved through the business and platforms we have and through creating strategic links

The Group has a well established position on the near Continent and is achieving good growth notably in France, Holland and Belgium for our range cookers Gross revenues were over £10 0 million in 2012 We are also starting to make inroads into the German market

A key development feature of 2012 was establishing the reciprocal trading relationship with the Chinese manufacturer Vatti The objectives set for 2013 are to have product approvals in place and AGA Rangemaster products being sold in China through the Vatti dealer structures and to bring Vatti-made products to Europe

Close working relationships with Vatti have been developed over the last two years and the plans are on track for product launches in the UK and in China Vatti is a fast growing twenty year old quoted group that has specialised in gas burner technology, they made the torches for the Beijing Olympic Games For range cookers to succeed in China we need to show that our cookers cook Chinese meals to the standard of the two burner cooktops typically found in China – as well as providing wider options for baking and roasting Success is also linked to an evolution in the floor plan of Chinese homes to create kitchen living space which puts the range at the heart of the home Vatti has a strong dealer structure through which familiarity with the range cooker concept can quickly emerge

PENSION SCHEME FUNDING

During 2012 the Group worked closely with the trustee of the Group's main pension scheme as the actuarial valuation as at 31st December 2011 was completed Agreement was reached under which the Group made total contributions into the scheme in 2012 of £19 5 million, including a £16 0 million deficit recovery payment, and no further deficit recovery contributions are to be made until a £4 0 million payment is due in the second half of 2015 Annual deficit recovery contributions would then run from 2016 to 2021 inclusive at £10 million to eliminate the appraised deficit by 2022, with an additional £30 million payable in 2020 As part of the agreement the level of bank guarantees of possible future contributions provided to the scheme by the Group was reset at £30 million, a reduction from £50 million The aim was to provide clarity and stability for the Group in the medium-term The agreement facilitated finalisation in November 2012 of £60 million of new bank lines with a strong banking group The facilities run through to the end of 2015 and replaced maturing lines dating from 2008

Actuarial valuations are heavily driven by prevailing gilt yields and these have generally been negative in real terms in the last three years taking inflation into account and consequently appraised liabilities have risen sharply – even though underlying liabilities in cash terms are largely known and fluctuate little Following the sharp fall in gilt yields over the second half of 2011, the actuarial deficit was appraised at £227 7 million at 31st December 2011 – the actuarial report a year earlier having shown a deficit of £62 million

Market conditions overall improved over 2012, and this should be reflected in a reduction in the actuarial deficit over the year ended 31st December 2012 Should market conditions permit, the Group will support further steps to reduce the level of contingent dependency of the scheme on the Group Meanwhile the agreement with the trustee means that the resources of the Group will be built up with payments to shareholders to be made only with trustee consent before the end of 2015

BUILDING ON OUR PROGRESS

The Group continues to face up to challenging market conditions The continuing systematic work to reduce the cost base will see major initiatives at Waterford Stanley and Grange where there are opportunities in both North America and in the French production facilities We are also looking at ways to focus resources on the areas of the business central to the investment success

2012 highlighted that we have brands with great heritage which have international reach We identified the original patent granted by Queen Anne to Abraham Darby to make cooking pots in Coalbrookdale – now a world heritage site – the rationale was that it would bring quality product to a domestic market at a good price, substitute for imports and bring export growth Still familiar themes We supported efforts to highlight that Abraham Darby helped trigger the tradition that has made the Midlands a hub of innovation and design We were delighted to be voted 'Midlands Best Brand' by the 'Birmingham Made Me' Design Expo in June 2012 We were enthusiastic supporters of the food and heritage components of the Government's 2012 'Great Campaign'

We have recently produced a publication about what made the AGA cooker an icon and changed the way we live The themes have continuing international resonance We are excited that Fired Earth is now working with Transport for London to produce tile ranges based on its formidable archive

The task for 2013 is to harness the heritage of the Group to move our current business model forward to provide the revenue growth that will show the benefits we have available through our supply chain and manufacturing capacities The effort of recent years to create and deliver on these themes should be demonstrable throughout 2013

'My Grange'
New technology can have a major impact on furniture retailing because less stock and space is required This means designers can focus resources on providing product that meets the particular needs of consumers Orders can be placed online reducing the lead times for bespoke furniture

Fired Earth
Fired Earth has updated its bathroom ranges and has seen a significant increase in the number of home design consultations The Versailles bath featured here is finished in charcoal paint from the Fired Earth collection and includes a Classic bath/shower mixer in polished nickel brassware and tiles from the Hampton collection

CHIEF EXECUTIVE'S REVIEW *continued*

Stanley stoves

The stove development programme particularly the Irish made boiler stoves, has proved a considerable success In Ireland consumers are looking to manage down their home energy costs Increasing sales in the UK and re entering the French market are key growth objectives

REVENUE

Group revenues decreased by 2 5% to £244 6 million from the £250 9 million reported in 2011 On a constant currency basis revenues were down 1 3% as the Euro weakened during the year Second half revenues of £125 4 million were 3 2% down (2011 £129 5 million) and compared with first half revenues of £119 2 million, down 1 8% on the £121 4 million reported in the first half of 2011 Of total revenues 37% were outside the UK (2011 37%)

OPERATING PROFIT

The operating profit for the year was £6 5 million, up from the operating profit of £6 1 million reported in 2011 The second half profit of £5 0 million followed on from a first half profit of £1 5 million as the Group benefitted more fully from the operational efficiencies implemented since 2008 In 2009 revenues were £245 0 million and the Group made an operating loss of £1 5 million – the 2012 results demonstrate the significant progress made in profitability terms on the same level of revenue

NON-RECURRING COSTS

The non-recurring costs amounted to £1 7 million and arise from the reorganisation of our AGA Rangemaster distribution operations and retail structures In 2011 non-recurring costs were £2 1 million, the benefits of which are now coming through

FINANCE COSTS

Net finance costs for the year were £0 2 million (2011 £0 4 million finance income) During the year the average interest rate on cash deposits was 0 4% and over 1% on borrowings, which was primarily the interest cost of currency loans held for hedging purposes

PROFIT BEFORE TAX

Profit before tax in the year was £8 4 million (2011 £7 5 million)

TAXATION

The Group had a tax charge of £1 6 million (2011 £5 4 million tax credit) on profits before tax of £8 4 million The additional deficit recovery contributions paid into the pension scheme made cash tax payable minimal

Moving forward the Group expects the tax rate to be slightly above the UK standard rate of 23% from 1st April 2013 and the impact of the deficit recovery contributions will significantly reduce cash tax payments

EARNINGS PER SHARE

Basic earnings per share on continuing operations is 10 0 pence (2011 18 8 pence) based on an average number of shares in issue of 69 3 million (2011 69 3 million) Adjusted underlying earnings per share (excluding pension credits and non-recurring costs and based on a standard UK tax rate) were 7 1 pence (2011 7 1 pence)

DIVIDENDS

The directors are not recommending a final dividend This follows the agreement with the trustee of the Group's main pension scheme on the funding of the scheme following the 2011 actuarial valuation This means no dividends are to be paid in relation to the 2012 results (2011 1 9 pence per share) The cash cost of the final 2011 dividend paid in June 2012 was £0 8 million (2011 £1 2 million)

DISCONTINUED OPERATIONS

The post tax profit from discontinued operations was £nil in 2012 In 2011 the post tax profit from discontinued operations of £2 7 million included a tax credit following the agreement on prior year tax returns of £5 7 million and a charge of £3 0 million to adjust continuing provision levels after a German appeal court provided a judgement on the value of the minority interest in a company acquired by the Group in 1998

CASH FLOW

The Group has continued with its disciplined approach to cash management Cash flow generated from operating activities of £2 1 million in the year was the same as the £2 1 million generated in 2011 and resulted from a determined effort to manage working capital while supporting the international development of the business

The net outflow from working capital in the year was £5 5 million (2011 £5 5 million outflow)

AGA Marvel premium appliances
AGA Marvel is now in a position to provide a strong premium suite of appliances covering cookers from the UK and the new generation of Marvel refrigeration and undercounter wine coolers and ice makers to customers across North America

Significant pension deficit recovery contributions totalling £16 0 million (2011 £2 0 million) consumed a large proportion of the Group's cash balances in the year No further deficit recovery payments are scheduled until the £4 0 million due in the second half of 2015

Cash flows relating to discontinued operations amounted to £6 0 million (2011 £1 2 million) primarily in respect of the supplemental payment set by a German appeal court to buy out the minority shareholders in a business acquired in 1998

Capital expenditure including intangibles in the year totalled £6 4 million compared to £8 4 million in 2011 The charge for depreciation and amortisation of intangibles in 2012 was £7 2 million (2011 £7 3 million)

Proceeds of £1 0 million were received from the disposal of assets held for sale and property, plant and equipment (2011 £7 5 million)

The resulting net cash position at 31st December 2012 was £5 5 million (2011 £31 3 million)

PENSIONS

The deficit in the Group's pension schemes at the end of 2012 included in the financial statements was £11 0 million on an accounting basis compared with a surplus of £5 3 million a year earlier The change over the year reflects the significant fall in corporate bonds yields which reduced the liability discount rate used at the year end

IN SUMMARY

We retain our confidence in our business model and a belief it will generate the expected returns given the tremendous affection and respect that our brands attract Our determination through the downturn to build product and distribution to make us the beneficiary in a recovery could pay off this year – a year we approach with confidence

Case study

In 2012, the 'Made in the Midlands Awards' were presented by Lord Digby Jones and recognise manufacturing firms in the region that have invested in their business, grown their workforce, diversified, won overseas business and made a difference to the region. AGA Rangemaster was presented with a Manufacturing Achievement Award for investment in business through two Knowledge Transfer Partnerships. Pictured from left to right, Professor Mary Carswell and Michele Mooney of Birmingham City University, Nigel Morrison of AGA Rangemaster and Lord Digby Jones.

KEY RISKS & UNCERTAINTIES

MANAGING RISK

The board regularly reviews the risks faced by the Group, including business and wider social, environmental and ethical issues Risk is an inherent part of doing business and the intention of the Group's risk management process is not to avoid all risk, but to identify, evaluate, mitigate and manage risks The Group's internal control and risk management policies and procedures are set out on pages 32 to 33

The board consider the following represent the principal risks and uncertainties that may impact on the Group's long-term performance and could cause actual results to differ materially from the expected and historical results The board recognises that the profile of the risks change constantly and additional risks not presently known, or that are currently deemed immaterial, may also impact on delivery of the Group's performance

RISK	MITIGATION
COMPETITION/MARKET EROSION Competitors could introduce upgraded products and increase their marketing expenditure which may impact on market share There could be downward pressure on pricing if the sector accepts lower margins Reduced demand for our products or being less price competitive could impact the Group's ability to deliver its strategy and business plans	• We seek to have differentiated products and emphasise the production superiority we have and actively invest in new product development and design • New products are extensively researched and market tested • Constant monitoring of our market position and competitor strategies • Value engineering programmes assist with the maintenance and enhancement of margin and pricing strategies
FINANCIAL COVENANTS & FUNDING The Group has bank facilities in place to support the Group's operations and to provide guarantees to cover future contributions to the pension scheme Breach of banking covenants could result in additional financial operating restrictions being placed on the business	• New bank facilities put in place during the year which mature at the end of 2015 • The Group keeps its bankers informed of the Group's progress against its strategy, business plans and financial covenants • The Group focuses closely on cash management At present no dividends are to be paid without agreement with the trustee of the Group's main pension scheme
FINANCIAL INSTRUMENTS The Group is exposed to foreign exchange and interest rate risks as it sells its products and sources components worldwide Significant movements could impact on future profitability and cash flow (For further details see note 19 to the accounts) Uncertainties in the Eurozone could lead to increased currency volatility	• The Group's treasury policy sets the framework for hedging foreign exchange and interest rate risks • The Group offsets currency flows internally where possible and puts in place foreign exchange contracts, where appropriate
GENERAL ECONOMIC CONDITIONS The Group's operations are sensitive to global economic conditions particularly the consumer and housing markets Levels of consumer confidence could impact on the Group's revenues and if the downturn persists or worsens this may impact on planned production levels and forecast profitability A global economic recovery would bring benefits given the operational gearing of the Group, but could also result in an increase in raw material prices or restrict the availability and quality of components	• The Group reviews financial forecasts and monitors economic conditions (in particular housing market trends in the UK and the US) to assess the impact on its budget and strategic plans • The Group seeks to increase international sales and to reduce individual market dependency Internal processes are in place to monitor continually progress and the availability of raw materials and components
HEALTH, SAFETY AND ENVIRONMENTAL A health and safety incident could result in serious injury to the Group's employees, visitors to our premises or customers An environmental incident could impact on the community in which we operate The environmental performance and reputation of our products may affect customer demand	• We are dedicated to achieve the highest standards and conduct regular audits to ensure compliance with relevant laws and regulations • Accreditation to ISO 9001 2008 ISO 14001 2004 and BS OHSAS 18001 2007 ensures a framework is in place with clear policies, procedures and audits Performance is regularly reviewed at operational and board level • Our product development and value engineering programmes help ensure product performance is continuously improved, taking advantage of new and emerging technologies.

RISK	MITIGATION
INTELLECTUAL PROPERTY The Group owns several well known brands and other intellectual property Failure to protect our rights in our existing and in potential new markets could lead to a reduction in their value	• Register trade marks, patents and designs in existing and new markets and take legal action as appropriate • Actively monitor the market to identify and address breaches of our rights
LEGAL, REGULATORY AND LITIGATION The Group's operations are subject to many different areas of regulation and greater government intervention may significantly affect our business operations There has been an increase in product regulations We may take legal action against third parties to enforce our rights or face litigation from third parties This may result in reputational damage and financial cost The Group also has a long and complex history and there may be legacy issues to be addressed	• We are committed to the highest standards and conduct regular audits covering business processes and behaviours to ensure compliance with relevant laws and regulations • We enter into dialogue with regulators regarding their proposed changes to product regulation with a view to being compliant, which can result in competitive advantages
OVER RELIANCE ON ANY INDIVIDUAL CUSTOMER OR SUPPLIER The Group's profitability could be impacted if any single customer became business critical or an individual supplier dominated our manufacturing process Approaches to distribution are changing, emanating from increased consumer use of the internet, which could alter dealer and distributor structures within the industry	• The Group sells its products through a wide range of channels and markets which helps to minimise single customer dependence • We monitor the supply chain to avoid over reliance on any single supplier
PENSION SCHEME FUNDING The Group is the sponsor of a large pension scheme and can be called on to meet funding deficits The valuations of the pension scheme could increase a deficit that may require the Company to provide additional cash contributions or guarantees Actuarial valuations are heavily driven by prevailing gilt yields which can be subjected to market distortions and government action This can lead to wide fluctuation in the appraised liabilities which could, as a consequence, severely constrain the finances of the Group Recovery plans need to be agreed with the trustee of the pension scheme who have to take the views and powers of The Pensions Regulator into account	• The Group works closely with the trustee of the main pension scheme and has in place a long-term funding strategy to manage closely assets and liabilities in relation to each other • Following the triennial actuarial valuation as at 31st December 2011 a new recovery plan was agreed and a £16 million contribution from cash held on deposit was made Further cash recovery contributions will not be made by the Company until 2015 • The defined benefit scheme is closed to new entrants and pensionable salaries were frozen in 2009/10 • The level of current pension provision will be subject to a consultation exercise in 2013 along with plans for auto-enrolment • Cash flows within the pension scheme are closely monitored to link the requirements to pay members with cash generated from the assets held • The Group also monitors market conditions and will discuss with the trustee further steps to reduce the level of contingent dependency of the pension scheme on the Group
PEOPLE Loss of key personnel or the failure to plan adequately for succession or to develop new talent could damage the future prospects of the Group Competition for quality personnel is intense and the Group may not be successful in attracting or retaining suitably qualified personnel Loss of key employees and delays in recruiting new personnel could harm the Group's business and in time our competitive advantages may erode	• The Group annually reviews its succession and development plans for key personnel and the board are kept updated • The Group HR director oversees personnel strategy • Remuneration packages including fixed, variable and long-term elements and compensation arrangements are regularly benchmarked to ensure the Group's remuneration policy remains in line with market practice

CORPORATE SOCIAL RESPONSIBILITY

RESPONSIBILITY BUILT-IN

We produced our first Corporate Social Responsibility ('CSR')report in 2002 and since then the shape of the Group has evolved considerably but we retain our commitment to the principles underpinning CSR and for communicating to our stakeholders what we are doing

We are pleased to present a summary of our eleventh CSR Report with the full report to be published on the corporate website (www agarangemaster com) before the annual general meeting in May

Our CSR programme includes responsible sourcing, our community activities, our environmental, health and safety ('EHS') programmes, our engagement with employees, customers and other stakeholders and our product stewardship

MANAGEMENT OF CSR

The board has overall responsibility for CSR and reviews and approves our policies and monitors performance The chief executive is responsible for ensuring the Group operates in accordance with these policies and procedures He is supported by the Group HR director and the senior management team The Group monitors its CSR-related performance through rigorous management systems and uses a set of key performance indicators ('KPIs') for benchmarking, leveraging and promoting best practice and sets objectives accordingly The chief executive reports to the board on all CSR-related matters

As a minimum standard, the Group seeks to comply with the laws, regulations and best practice guidelines governing its activities in each of the markets in which it operates In many areas we exceed the minimum compliance standards The Group's programme of internal CSR / compliance audits complements the implementation of ISO 9001 2008, ISO 14001 2004 and BS OHSAS 18001 2007 This internal audit process covers EHS issues and opportunities and assists with the benchmarking of best practice across the Group The system is also used to monitor other commercial, supplier and delivery related issues and to implement improvements These audits are undertaken by functional specialists with support from external advisers, where appropriate

Our policies are embedded in our culture and values Our CSR policies are available on the corporate website and apply globally to every director, manager and employee The policies also extend across our supply chain and we consider the commitment of each supplier to minimise the impact of their operations on the environment and, where possible, ensure that their commitment to CSR issues is consistent with our own

The Group participates in the Carbon Disclosure Project and is a member of the FTSE4Good Index and uses these, in conjunction with stakeholder consultations and other benchmarks, to help identify key priorities and to drive progress

ENVIRONMENTAL, HEALTH AND SAFETY

The Group is committed to the continuous improvement of its EHS performance and to enhancing the overall sustainability of its operations, products and services

In 2013 a separate EHS sub-committee of the board will be established to monitor the integrity of the systems used to carry out EHS responsibilities, to help ensure that the policies and related strategies are effective and to support the continual strive for improvement in these areas

There were no environmental or health and safety related fines, penalties or prosecutions reported during the year

CARBON DISCLOSURE PROJECT

Health and safety targets and performance
The Group uses a consistent set of 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 Eight of our fourteen office, warehouse and manufacturing locations are accredited to BS OHSAS 18001 2007, the occupational health and safety standard This includes all manufacturing sites in the UK, Ireland and North America

Across the Group the frequency of lost time accidents ('LTAs') was down by 5 6% in 2012 to 0 83 LTAs per 100,000 hours worked which is ahead of our target of a 5% reduction The lost time due to accidents as a proportion of working time was down by 14 3% to 0 12% The average lost time per LTA was reduced by 9 2% to 17 8 days which was ahead of the targeted 5% reduction, reflecting the impact of our return-to-work programmes and embedded risk management practices

The Group's long-term aim is to have no accidents We will maintain our target of reducing LTA frequency and the average lost time per LTA by 5% in 2013

Lost time accident (LTA) an accident which results in one or more days lost time

Case study

The second group of eleven process managers attended training sessions of the Process Management Training Programme in September 2012. The programme is aimed at encouraging process leaders to develop the skills necessary to optimise commercially the business process for which they are responsible and to manage change. The core of the programme centres on the role of the manager to drive continuous improvement, to optimise business activities and to look for innovative ways to generate savings for the whole business.

CORPORATE SOCIAL RESPONSIBILITY *continued*

The most common causes of accidents across the Group are cuts and abrasions We will continue to focus particularly on reducing accidents in these areas, specifically targeting locations with below average performance

Environmental targets and performance

The Group's environmental impacts include the climate change related emissions due to the use of energy in our manufacturing and other facilities and for transport, the 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 the Group's revenue

Case study

AGA Marvel was accredited to ISO 14001:2004 in 2011 and continues to implement best practice across the site. For example, during 2012, AGA Marvel reduced its energy footprint and cut costs by consolidating its full height refrigeration production line from a leased unit into the existing facility in Greenville. This follows two factories being incorporated into one in 2008 and the Canadian manufacturing facilities being consolidated into Greenville in 2011. New testing procedures have also been introduced on the full height refrigeration cell which will deliver further energy savings.

In 2012, AGA Marvel developed seven new "Energy Star" models which will deliver greater energy savings for consumers. AGA Marvel is on track for compliance with the new US 2014 Department of Energy refrigeration product standards which come into force in September 2014, requiring a 27% increase in product energy efficiency.

All our office, warehouse and manufacturing locations have environmental management systems in place and eight sites are accredited to ISO 14001 2004 The proportion of manufacturing sites revenue covered by ISO 14001 2004 was 86%

The Group's environmental KPIs relate environmental impacts to sales Although energy use, waste production and water consumption were all reduced in 2012, the decline in sales had an impact on the 2012 KPIs which are behind the annualised rate of improvement needed to achieve the targeted 5% reductions in CO_2 and waste intensity over the two years 2011-13

Total 2012 CO_2 emissions due to energy use and in-house transport were 26,995 tonnes, down 3 7% from 27,991 tonnes in 2011 The Group's 2012 CO_2 emissions intensity was reduced by 1 1% to 110 tonnes per £million revenue This was achieved despite the decline in sales and an increase in in-house component manufacturing but is behind the rate required to achieve our two year target

Total waste in 2012 was 8,683 tonnes, down 4 7% from 9,112 tonnes reported in 2011 Waste intensity decreased by 2 2% in 2012 to 35 5 tonnes per £million revenue which is behind the rate required to achieve our two year target The proportion of total waste which was recycled in 2012 was 64% We will look to make greater progress in the current year to achieve our target

Water use in 2012 was 53,653m³ down 5 2% from 56,603m³ in 2011 as reductions in water use continue be a major focus of attention Relative to sales, water intensity was reduced by 2 8% in 2012 to 219m³ per £million revenue This was marginally ahead of the rate required to achieve our target for a 5% reduction in water intensity over the two year period 2011-13

Includes CO_2 emissions due to energy use and in house transport operations

* Constant currency basis with prior years restated and updated to reflect changes in reporting methodology

~ Hazardous and non hazardous waste Includes recycled material

STAKEHOLDER ENGAGEMENT

The Group engages in proactive two way dialogue with stakeholders We have senior management representation on various trade associations and we actively engage in consultations regarding new regulations which impact on our business Engagement also includes customer feedback, hall testing of products, market research, meetings with shareholders, investor relations communications and website briefings We review the impact of our operations on local communities, especially where we directly engage with neighbours and through our charitable and community activities

Our people

Our Code of Conduct for employees was introduced in 2001 and is regularly updated, most recently in 2012 The Code outlines the standards of integrity and honest conduct expected, and explains that breaches of Company policy can result in disciplinary action and dismissal The Code includes the whistleblowing policy which enables employees and others to report any breaches of the Code, 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 also use the independent external services available in those areas All reports are logged and monitored by the audit and risk committee and appropriate investigations and action undertaken

The Group is committed to providing equality of opportunity to all employees without discrimination and applies fair and equitable employment policies throughout the recruitment process and during employment with the Group Appointments are determined by application of job criteria and competency

During the year, the Group employed an average of 2,497 people in seven countries Some 72% of our staff are located in the UK, 19% elsewhere in Europe and 9% in North America 97% are permanent employees 71% are male and 29% are female Of those in management roles, including retail managers, 60% are male and 40% are female Approximately 22% of staff work in our retail operations and with the balance at manufacturing sites and office locations

The Group encourages recruitment, training, career development and promotion on the basis of aptitude and ability, without regard to disability Where appropriate it is also committed to retaining and retraining of employees who become disabled during the course of their employment Some 2,400 days of 'off-the-job' training were recorded during the year

Voluntary staff turnover during the year was on average 10% across the Group Total staff turnover was 13% Lost time as a proportion of working time was 3 4%, including 0 12% of working time lost due to work-related health and safety accidents Some 73% of our employees are located at operations which have official union recognition

Customers

The Group's customer service strategy is to respond rapidly to evolving customer demand, to identify and anticipate emerging needs and to improve continuously product availability, quality and value Our quality management systems help ensure that our products meet or exceed customer requirements with 86% of the Group's manufacturing site revenues covered by ISO 9001 2008

Evolving technology makes it now far easier for customers – actual and potential – to communicate with the Group and with each other We have upgraded our transactional websites and we have established social media channels to which we actively respond In the coming year we will further engage with our customers to reinforce our product stewardship and other customer related initiatives

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 that have been sustainably sourced, are energy efficient and have a high degree of recyclability, which is an inherent benefit of the use of cast iron material

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_2 emissions

Supply chain – ethical trading policy

The Group first introduced an ethical trading policy in 2002 and it is regularly updated, most recently in 2012 This policy 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 the quality, design and availability of all sourced components and products, to ensure high standards are maintained

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 Total charitable donations during the year were £20,552 (2011 £40,427)

Birchfield Harrier wins gold

The Group has long been a supporter of Birchfield Harriers, most recently with the 12 for 12 initiative We are delighted that Mickey Bushell won a gold medal and became Paralympic champion in the T53 100m final in 2012 He is also the current world record holder in the same class and was awarded an MBE in the 2013 New Years Honours List Mickey was presented with a brand new AGA 4 2 cooker by the Group at a recent Birchfield Harriers fund raising event sponsored by AGA Rangemaster Mickey is pictured here with his gold medal and the gold post box to mark his achievement

Case study

In association with National Blood Pressure Testing Week, AGA Rangemaster launched a 'Know your Numbers' campaign. Participating employees had the opportunity to check their blood pressure, cholesterol, glucose, body mass index and heart rate. Advice and guidance was given on what the numbers mean and how to improve general health. We will continue the development of our welfare programmes around the Group.

BOARD OF DIRECTORS

MEET THE TEAM

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 a non-executive director of Travis Perkins plc He was chief executive of House of Fraser plc from 1996 to 2006 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 been group development director and prior to that finance director of Bardon Group plc He had previously worked in the investment banking and construction sectors He is a qualified accountant and a history graduate In 2013, he received an honorary doctorate from Birmingham City University

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 Governor of Birmingham City University He is a qualified treasurer and economics graduate

Jon Carling (B,A,N,R)
Non-executive director (independent)

Jon Carling was appointed an independent non-executive director in October 2010 Jon was appointed an executive vice president at Rolls Royce in February 2011 Prior to that he was chief operating officer at Aston Martin Lagonda and held a number of senior engineering positions with Jaguar Cars He is a graduate in mechanical engineering

Paul Dermody OBE (B,A*,N,R)
Non-executive director (senior independent director)

Paul Dermody joined the board in March 2004 and chairs the audit and risk committee Paul became the Company's senior independent director in November 2010 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 He is a chartered management accountant

Paul Jackson (B,A,N,R*)
Non-executive director (independent)

Paul Jackson joined the board in December 2005 and chairs the remuneration committee Paul has spent his career in advertising He started with Saatchi & Saatchi and later became executive managing partner and vice chairman of Ammirati Puris Lintas He joined Ogilvy & Mather, part of the WPP Group in 1999 He was a director at Ogilvy Group and Chief Executive of Ogilvy & Mather until 2007

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

Board of directors from left to right
Jon Carling, John Coleman, William McGrath, Paul Dermody OBE, Paul Jackson, Pam Sissons (Company Secretary), Shaun Smith

ADVISERS

FINANCIAL ADVISERS AND STOCKBROKERS
Espirito Santo Investment Bank
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The London Stock Exchange Building
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SOLICITORS
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DIRECTORS' REPORT

The directors present their report and audited financial statements of the Group for the year ended 31st December 2012

Principal activities
AGA Rangemaster Group plc is a public limited company incorporated in England, registered company number 00354715

The principal activities of the Group comprise the manufacture and sale of range cookers, kitchen and related home fashions products The principal trading subsidiaries and the countries in which they operate are shown on page 72

Business review
The business review on pages 2 to 23 provides detailed information relating to the Group, its business model and strategy, the operation of the business, future development plans and the results and the financial position for the year ended 31st December 2012 Details of the principal risks and uncertainties facing the Group are set out on pages 18 and 19 The information contained in those sections fulfils the requirements of the business review, as required by Section 417 of the Companies Act 2006 and should be treated as forming part of this report

This information is prepared solely to assist 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 Forward looking statements have been 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 economic and business risk factors

Results and dividends
The profit attributable to equity shareholders for the period was £6 9 million (2011 £15 7 million) and is shown in the consolidated income statement No interim dividend was paid during the year (2011 0 8 pence per share) The directors are not recommending the payment of a final dividend for the year ended 31st December 2012 (2011 1 1 pence per share)

Post balance sheet events
There have been no significant events since the balance sheet date which would have a material effect on the financial statements

Capital structure
At 8th March 2013, the issued share capital of the Company is £32,467,604 divided into 69,264,223 ordinary shares of 46⅞ pence each Details of the movements in the issued share capital and share-based payments can be found in note 22 to the accounts The Company has one class of ordinary shares which rank equally with respect to voting rights and rights to receive dividends On a show of hands at a general meeting every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote On a poll each share carries the right to one vote Deadlines on exercising voting rights are set out in the Notice of Annual General Meeting ('AGM') and in the Form of Proxy

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 Company's articles of association (the 'Articles') 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 No person has any special rights of control over the Company's share capital and all issued shares are fully paid

Under the Articles, the directors have authority to issue ordinary shares up to the aggregate amount set at the AGM

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

Articles of association
The board of directors may exercise all the powers of the Company, subject to the provisions of relevant statutes, the Articles and any directions given by special resolution

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 are subject to such authorities being approved annually by shareholders at the AGM, should the directors recommend that it remains appropriate to retain such flexibility The rules for the appointment and replacement of directors are set out in the Articles, The UK Corporate Governance Code, the Companies Act 2006 and related legislation The Articles can only be changed by a special resolution passed in a general meeting of shareholders

Substantial shareholdings
At 31st December 2012, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting interests There have been no changes notified to the Company up to the date of this report

Notifying person(s)	% of voting rights and issued share capital	Ordinary shares of 46⅞p each
J O Hambro Capital Management Group Ltd	11 03	7,639,309
Standard Life Investments Ltd	7 96	5,512,267
Hargreave Hale Limited	6 14	4,255,098
River & Mercantile Asset Management LLP	5 70	3,945,232
Legal & General Group Plc	3 81	2,644,302

Directors and their interests
Biographical details of the directors currently serving on the board are set out on page 24 All directors will retire and offer themselves for re-election at the 2013 AGM as set out in the corporate governance report on page 29 Details of directors' service agreements or letters of appointment are set out in the directors' remuneration report on page 38

The beneficial interests of the directors in shares of the Company and share options are set out in the directors' remuneration report in the tables on pages 37 and 40 respectively

Directors' indemnities
As permitted by the Articles, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006 The indemnity was in force throughout the financial year and remains in force The Company has also purchased and maintained throughout the same period appropriate directors' and officers' liability insurance coverage in respect of the Company, its subsidiaries, its directors and officers

The Trust Deeds to the Company's principal UK pension schemes include the provision of an indemnity from the Company to the scheme trustee's directors, to the extent permitted by the law

There are no indemnities in place for the benefit of the auditor

Employees
Details of the arrangements relating to employees are described in the corporate social responsibility report under the heading 'Our people' on page 22 The average number of employees within the Group is shown in note 5 to the accounts

Charitable and political donations
Charitable donations made during the year were £20,552 (2011 £40,427) These donations were made across the operations principally to local charities serving the communities in which the Group operates No political donations were made or political expenditure incurred during the year (2011 £nil)

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 work together to develop products to meet our strategy to internationalise Group revenues The Group capitalises certain development spend under IAS 38 During the year, the Group capitalised expenditure on development of £2 6 million (2011 £2 1 million) The aggregate expenditure in the last five years has been £10 6 million

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 Group trade payables at the year end equated to 74 days of related purchases (2011 76 days) The Company is a holding company and does not have trade creditors

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

Going concern
The directors have assessed the financial position and the future funding requirements of the Company and the Group 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 Company and Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review on pages 2 to 23 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 2012 Company and Group financial statements to be prepared on a going concern basis

Disclosure of audit information
Each of the directors at the date of approval of this annual report confirm that

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- they have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Auditor
Ernst & Young LLP have expressed their willingness to continue in office as independent auditor and their re-appointment has been approved by the audit and risk committee Resolutions to re-appoint the auditor and to authorise the directors to determine the auditor's remuneration will be proposed at the 2013 AGM

Annual General Meeting
The AGM of the Company will be held at Mallory Court Hotel, Harbury Lane, Leamington Spa, Warwickshire, CV33 9QB at 11 00 a m on 1st May 2013 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, where a copy can be viewed or downloaded

By order of the board,

P.M. Sissons

P M Sissons
Company Secretary
8th March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities
The directors are responsible for preparing the annual report, the remuneration report and the Group 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 remuneration report in accordance with the applicable law The Group financial statements are required by law to give a true and fair view of the state of affairs of the Group 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, 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 to enable them to ensure that the Group financial statements and the remuneration report comply with the Companies Act 2006 They are also responsible for safeguarding the assets of 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
The directors confirm that to the best of their knowledge

- the Group financial statements, prepared in accordance with IFRS as adopted by the EU, 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 business 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,

W. McGrath/. Shaun Smith

W B McGrath	**S M Smith**
Chief Executive	Finance Director
8th March 2013	

CORPORATE GOVERNANCE REPORT

The Company is committed to high standards of corporate governance and supports the principles laid down in The UK Corporate Governance Code ('the Code') adopted by the Financial Reporting Council ('FRC') in June 2010 This statement describes how the principles of the Code are applied and reports on the Company's compliance with the Code's provisions

The directors consider that the Company has been in compliance with the provisions of the Code throughout the year ended 31st December 2012

The board
The board of directors currently has six members, comprising the non-executive chairman, chief executive, finance director and three independent non-executive directors Biographical details of the directors are given on page 24 The board is of sufficient size and the directors have the balance of skills and experience to be appropriate for the requirements of the business All of the directors bring strong judgement to board deliberations The Company considers that, on appointment, the chairman was independent for the purposes of provision A 3 1 of the Code At all times there has been a majority of independent non-executive directors on the board, in compliance with provision B 1 2 of the Code

The chairman and chief executive
There is a clear division of responsibility between the roles of chairman and chief executive which are set out in writing and agreed by the board The chairman is responsible for the leadership and effectiveness of the board ensuring that each non-executive director makes an effective contribution through debate and discussion with the executive directors The chairman ensures that the board receives accurate, timely and clear information ahead of each board meeting and that adequate time is available at meetings to consider all agenda items, in particular strategic issues 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 meet during the year without the executive directors present

The chief executive is responsible for the day-to-day running of the business, carrying out agreed strategy and the delivery of performance in line with objectives The chief executive is supported by the finance director and senior management who meet regularly with the operational management to review performance and deal with the operational requirements of the business Senior management are regularly invited to attend and present at board meetings

Senior independent director
The senior independent director, Paul Dermody, served in this capacity throughout the year He is available to shareholders if they have any concerns which are not resolved through the normal channels of chairman, chief executive or finance director, or in circumstances where the normal channels are inappropriate

Re-election
In accordance with the Articles, each director stands for election by shareholders at the first AGM following their appointment and for re-election at least every three years 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, the 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 The board has resolved that all directors who are willing to continue in office will stand for re-election by shareholders at the 2013 AGM to comply with the best practice provision B 7 1 of the Code

The board is of the opinion, and the chairman has confirmed, that following a formal performance evaluation, each director continues to make an effective and valuable contribution and demonstrates commitment to their role The board is satisfied that each non-executive director remains independent in character and judgement and that there are no relationships or circumstances likely to affect their character or judgement Accordingly, the board unanimously recommends the re-election of all the directors

Diversity
The board has noted the changes to the Code announced by the FRC in October 2011 to strengthen the principle of boardroom diversity, which was first introduced into the Code in June 2010 The new provisions on diversity apply to reporting in financial years beginning on or after 1st October 2012 The Company supports the provision that boards should consider the benefits of diversity, including gender, when making appointments and is committed to ensuring diversity not just at board level, but also throughout the workforce The board believes that business benefits from the widest range of perspectives and backgrounds The Company's aim as regards composition of the board is that it should have a balance of experience, skills and knowledge to enable each director and the board as a whole to discharge their duties effectively Whilst the Company agrees that it is entirely appropriate that it should seek to have diversity on its board, it does not consider that this can be best achieved by establishing specific quotas and targets and appointments will continue to be made based on merit Further details on diversity of the workforce are set out on page 22 of the CSR report under 'Our people'

Role of the board
The board is collectively responsible to the shareholders for the long-term success of the Company The board meets regularly throughout the year and has a schedule of matters reserved for its decision making including responsibility for the proper management and overall performance of the Group, the approval of long-term objectives and commercial strategy, the approval of annual and interim results, annual budgets, changes to the capital structure, major capital projects and expenditure, including acquisitions and disposals, major changes to the rules and funding of the Company's pension schemes, the approval of treasury policies and assessment of the going concern position, corporate governance arrangements, social, environmental and ethical matters

Board members are given appropriate documentation in advance of each board or committee meeting This normally includes a detailed report on the Group's financial position, operational updates and comprehensive briefing papers on matters where the board will be required to reach a decision Senior management below board level attend board meetings to provide updates on business activities, performance and strategic progress A forward rolling business agenda is updated after each meeting of the board and committees to include specific topics to be reviewed at future meetings

CORPORATE GOVERNANCE REPORT *continued*

There is an established procedure for the preparation and review by the board, at least annually, of medium-term plans and the annual budget The business reports monthly on its performance against its agreed budget The board receives a monthly update on performance and reviews any significant variances at each of its meetings At least one meeting each year is devoted to reviewing and agreeing corporate strategy The basis on which the Group generates value and delivers its strategic objectives is described in the business model and strategy on pages 4 to 7

Commitment
Significant commitments of directors held outside the Company are disclosed prior to appointment and on an ongoing basis where there are actual changes to those commitments Actual and potential conflicts of interest are regularly reviewed The Articles allow the board to authorise potential conflicts of interest and to impose limits or conditions it sees fit All directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively and this is reviewed as part of the annual evaluation process

Training and development
The chairman has the responsibility for ensuring that directors continually update their skills, knowledge and familiarity with the Company This is specifically considered in the annual evaluation process Where necessary the Company provides resources to meet the development requirements of individual directors All directors receive tailored induction training on joining the board

During the year, board meetings were held at business sites and presentations received from senior management The non-executive directors are encouraged to visit the Group's manufacturing and retail locations to meet management and employees throughout the business to maintain and deepen their understanding of the business

Performance evaluation and independence
A formal evaluation of the performance of the board, its committees and the individual directors was undertaken during the year This consisted of an internally run exercise led by the chairman with the assistance of the company secretary The appraisal questionnaire used in connection with the process was wide-ranging and based on questions outlined in the Code, covering both board and committee performance The schedule of matters reserved for the board, 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 evaluation process The board considered that an internally run exercise was most appropriate in the current year but agreed to keep under review whether an externally facilitated evaluation may be appropriate All the board committees review annually their terms of reference and their effectiveness and recommend to the board any changes required as a result of such review

The process confirmed that the board and its committees were operating effectively The timetable of future meetings and agenda items has been updated to reflect the feedback received during the evaluation process Individual performance was also appraised, based on one-to-one interviews with the chairman and in the case of the chairman, with the senior independent director following consultation with each of the other directors The expected time commitments and independence criteria were reviewed for each non-executive director

Independent professional advice
A procedure is in place for directors to take independent professional advice at the Company's expense if necessary No such advice was sought by any director during the year In addition, the directors have direct access to the advice and services of the company secretary, who is responsible for ensuring that board procedures are followed and advises the board, through the chairman, on all governance matters

Attendance at meetings
The attendance of directors at board and committee meetings during the year ended 31st December 2012 was as follows

	Board	Audit and risk committee	Remuneration committee	Nomination committee
J Coleman	8	3	5	2
W B McGrath	8	–	–	–
S M Smith	8	–	–	–
J D Carling	8	3	5	2
P B Dermody	8	3	5	2
P E Jackson	8	3	5	2
Total number of meetings	**8**	**3**	**5**	**2**

Board committees
There are a number of committees appointed by the board to which various matters are delegated Each has formal terms of reference which have been approved by the board and comply with the Code The terms of reference are available for inspection on the Company's website (www agarangemaster com) Each committee has the authority to investigate any matters within its terms of reference, to access resources, to call for information and to obtain external professional advice at the cost of the Company Details of the committees and their activities are set out below

Nomination committee
The nomination committee is appointed by the board and membership comprises John Coleman (chairman), Jon Carling, Paul Dermody and Paul Jackson The nomination committee ensures there is a formal, rigorous and transparent procedure for the appointment of new directors, which are made on merit and against objective criteria, having due regard for the benefits of diversity The principal duties of the nomination committee are to

- keep under review the structure, size and composition of the board and its committees and to recommend changes deemed necessary,
- identify, evaluate and nominate candidates to fill executive and non-executive vacancies taking into account the balance of skills, knowledge and experience on the board, and
- make recommendations to the board regarding the continuation in office of a director upon the expiry of any specified term(s) of appointment

The nomination 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

The nomination committee met twice during the year and reviewed the size, structure and composition of the board and the membership of the committees Paul Dermody will have completed nine years as a non-executive director during 2013 In succession planning for the board, the nomination committee is currently seeking to appoint a further non-executive director with financial experience and has appointed MWM Consulting to assist with that search MWM Consulting do not provide any other services to the Company The chairman has asked Paul Dermody to continue in office for the time being to be available to conduct a suitable handover of the role and responsibilities of the chair of the audit and risk committee

Paul Dermody has expressed his willingness to continue in office and to assist with this process Following a rigorous review and taking into account the balance of skills, knowledge and experience on the board, and on agreeing that Paul Dermody remains independent in character and judgement, the nomination committee recommended the renewal of Paul Dermody's letter of appointment for a further year No director participates in discussions regarding his own re-appointment or renewal of his term of office

The nomination committee considered the performance evaluation process and reviewed the contributions and ongoing commitment of each director and recommended that each director be proposed by the board for re-appointment In accordance with the Code, all directors will retire from the board and offer themselves for re-election at the 2013 AGM

Remuneration committee
Details of the remuneration committee, its membership and activities are included in the remuneration report on pages 34 to 40 and are incorporated by reference into this report

Audit and risk committee
The audit and risk committee is appointed by the board and membership comprises Paul Dermody (chairman), Jon Carling, John Coleman and Paul Jackson The board has determined that Paul Dermody has recent and relevant financial experience The board believes that it is appropriate for John Coleman, the board's chairman, to serve as a member of the committee so long as he does not chair the committee in accordance with provision C 3 1 of the Code

The principal duties of the audit and risk committee are to

- monitor the integrity of the Company's interim and annual financial statements focusing on key judgemental areas and accounting policies,
- review the effectiveness of the internal controls and risk management system,
- review the Company's systems for detecting fraud, preventing bribery and allowing employees to raise concerns in a safe and confidential manner,
- review the effectiveness of the internal audit function, and
- oversee the relationship with the external auditor making recommendations to the board regarding their appointment and re-appointment, specifically reviewing and approving their remuneration, terms of engagement and their objectivity and independence on an annual basis

External auditor
Ernst & Young LLP were appointed on the recommendation of the audit and risk committee following a formal tender process in 2006 and the potential for re-tendering of the external audit services is kept under review The current audit partner has been in office since 2011 The audit and risk committee is responsible for ensuring that an appropriate relationship is maintained between the Group and its auditor and assesses its performance, cost-effectiveness, objectivity and independence It agrees the scope of the audit work and discusses the results of the full year audit and interim review each year

During the year, the audit and risk committee reviewed the Group's policy on the provision of non-audit services by the external auditor in order to maintain and ensure that their objectivity and independence was not compromised A breakdown of the audit and non-audit fees is set out in note 4 to the accounts The fees paid to the auditor for non-audit services were within the limits set in the Group's 2012 policy, which stated that non-audit fees paid to the principal auditor should not be more that 250% of the audit fee

The audit and risk committee revised the non-audit service pre-approval policy effective from 2013 so that the fees payable to the auditor for non-audit related work in any financial year should not normally be more than 100% of the total fees payable in respect of audit and compliance services In addition, where fees are expected to be in excess of a specified limit, this is subject to the prior approval of the chairman of the audit and risk committee In addition, any proposed spend over the limit set for each financial year must be approved by the audit and risk committee In each case, consideration is to be given to the need for value for money, experience and objectivity required in the particular circumstances

The external auditor conducts an annual review of its independence identifying all services provided to the Group and assessing whether the content and scale of such work is a threat to its independence Following this year's review the auditor concluded that there are no factors which would impair their objectivity and independence In assessing the work of the external auditor, the audit and risk committee found itself satisfied with the scope of the auditor's work, its effectiveness and fee proposal and recommended to the board the re-appointment of the auditor

Internal audit
The Group has an internal audit function which is fully independent of operations and has a Group-wide mandate Its work is driven by a risk-based methodology ensuring that the controls to mitigate the Group's key risks are audited on a regular basis Its plans are approved by the audit and risk committee, which also receives regular reports on its findings and progress on related actions Internal audit also work with the businesses to promote and further develop internal controls and effective risk management within their operations

Audit and risk committee activities
The audit and risk committee met three times during the year and has an agenda linked to the events in the Group's financial calendar On each occasion the chief executive, finance director, the head of internal audit and the Company's external auditor attended the meetings by invitation Other senior executives of the Company are invited to attend, as appropriate The external auditor met with the audit and risk committee without management being present and the chairman and members of the committee have direct contact with the audit partner and head of internal audit, as required

CORPORATE GOVERNANCE REPORT *continued*

The audit and risk committee discharged its responsibilities by reviewing

- the Group's annual financial statements and interim results statement prior to board approval and the external auditor's detailed reports thereon,
- the audit and non-audit fees payable to the external auditor and reviewing the Company's policy thereon,
- the external auditor's effectiveness and plan for the audit of the Group's 2012 accounts, which included approving the proposed fee, the terms of engagement for the audit and confirmation of auditor independence,
- the annual report on the Group's system of internal control and its effectiveness, reporting to the board on the results of the review and receiving regular updates on key risk areas of financial control,
- the processes for monitoring and evaluating risks facing the Group, and
- the internal audit function's terms of reference, its work programme and regular reports on the key issues arising from its work during the year

The audit and risk committee also received regular updates from the Group's taxation and treasury personnel, on financial and technical updates, and in relation to the Group's policies including the whistleblowing policy under which employees may raise concerns in confidence about possible improprieties

Financial reporting
The board is required to present a balanced and understandable assessment of the Company's position and prospects in the annual report, in interim and other price sensitive reports The board is satisfied that it has met this obligation A summary of the directors' responsibilities for the financial statements is set out on page 28 The Group going concern statement is set out on page 27

Internal control
The board has overall accountability for running the business effectively, which includes making sure risks are managed and that there is a sound system of internal control and risk management processes, including health and safety procedures and risk controls that are designed to reduce the chance of a failure to meet the Group's objectives

The board is responsible for the overall system of internal control for the Group and for reviewing its effectiveness It carries out such a review at least annually covering all material controls including financial, operational, compliance and risk management systems

Operating policies and controls are in place to cover a wide range of issues including financial reporting, capital expenditure, information technology, business continuity and management of employees Detailed policies ensure the accuracy and reliability of the Group's financial reporting process and the Group's process for preparing the consolidated accounts and financial statements

The key elements of the Group's processes for the provision of effective internal control and risk management systems include

- regular board meetings to consider a schedule of matters reserved for directors' consideration,
- an annual review of corporate strategy carried out by the board, which includes a review of risks and uncertainties facing the business, and how these risks and uncertainties are monitored and managed on an ongoing basis within the organisation,
- an established organisational structure with clearly defined lines of responsibility and delegation of authority,
- an internal audit function which implements the annual internal audit plan as agreed by the audit and risk committee,
- documented and enforced policies and procedures used by all finance teams across the Group,
- appointment of staff of the necessary calibre to fulfil their allotted responsibilities,
- comprehensive budgets and forecasts, approved by the board, reviewed and revised on a regular basis, with performance monitored against them and explanations obtained for material variances,
- a detailed investment approval process, requiring board approval for major capital expenditure projects, acquisitions and disposals of assets Post-investment appraisals are conducted from time to time, and
- the audit and risk committee of the board, comprising non-executive directors, considers significant financial control matters as appropriate

Management, with the assistance of the finance function, is responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately recorded in accordance with the applicable accounting standards, and these are circulated to members of the board and published, where appropriate All financial information published by the Group is subject to the approval of the board, on the recommendation of the audit and risk committee

During the year no change has occurred that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting

Risk management
There is in place an ongoing process of internal controls, reviewed by management and internal audit, which has been established for identifying, evaluating and managing the significant risks, both financial and non-financial, faced by the Group The adoption of these processes and controls throughout the Group enables a consistent approach to the management of risk at both Group and operational level The internal audit function meets regularly with operational management to monitor and ensure consistent deployment of internal control and risk management systems in compliance with the Group's policies

The process is reviewed regularly by the board and, with advice from the audit and risk committee, it is satisfied that this meets the requirements of the Turnbull Guidance The risk management process and system of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives The Company's system of internal control is designed to meet the Company's particular needs and the risks to which it is exposed and by their nature, can only provide reasonable, but not absolute assurance against material misstatement or loss In that context, the review, in the opinion of the board, did not indicate that the system was ineffective or unsatisfactory and the board is not aware of any change to this status The process has been in place since the start of the financial year and up to the date of approval of the annual accounts Further details of the material risks and uncertainties facing the business can be found at pages 18 and 19 of the business review

Shareholder relations
The board recognises that it is accountable to shareholders for the performance and activities of the Company The Company formally updates the market on its financial performance and developments in the business at least four times a year In 2012 it provided updates at the half-year and full-year results in March and August respectively, the interim management statements in May and November and pre-close trading updates in January and July The content of these updates and associated presentations made to analysts and investors are posted on the Company's website, together with general information about the Company, so as to be available to all shareholders The Company has a regular programme of meetings with its larger shareholders which provides an opportunity to discuss strategy, performance, management and governance, within the constraints of information already made publicly available The chairman, chief executive and finance director regularly report to the board the views of larger shareholders about the Company The senior independent director and non-executive directors are available to meet with shareholders on request

The AGM is attended by all members of the board and provides an opportunity to communicate with all its shareholders Recent trading performance and developments in the business are explained prior to the formal business of the meeting Shareholders are invited to ask questions during the meeting, which is followed by an opportunity to meet with the directors, senior managers and the Company's advisers on an informal basis The Company issues a market announcement setting out the results of voting, including proxy votes on each resolution and it is made available on the Company's website following the meeting

By order of the board,

P M. Sissons

P M Sissons
Company Secretary
8th March 2013

REMUNERATION REPORT

This report has been prepared by the remuneration committee ('the committee') and has been approved by the board The report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008 The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the committee has applied the principles of good governance relating to directors' remuneration set out in The UK Corporate Governance Code ('the Code')

In accordance with the Companies Act 2006, a resolution will be proposed at the AGM which invites members to approve the remuneration report for the financial year ended 31st December 2012

Remuneration committee
The committee is appointed by the board and membership comprises Paul Jackson (chairman), Jon Carling, John Coleman and Paul Dermody The board believes that it is appropriate for John Coleman, the board's chairman, to serve as a member of the committee so long as he does not chair the committee in accordance with provision D 2 1 of the Code 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

At the invitation of the committee, the chief executive attends some meetings No director participates in discussions when his own remuneration is under consideration

Role of the committee
The committee's terms of reference, which are available on the Company's website (www agarangemaster com), set out the responsibilities of the committee which include

- determining and agreeing with the board the broad policy for the remuneration of the chairman, executive directors and certain other senior executives,
- determining the fixed and variable components of the executive directors' and senior management's remuneration, their contractual terms and compensation arrangements,
- approving the design of, and determining targets for, any performance related pay schemes operated by the Company and approving the total annual payments made under such schemes,
- determining the policy for and scope of, pension arrangements for executive directors and senior management, and
- overseeing any major changes in employee benefit structures throughout the Group

The remuneration of the non-executive directors is decided by the board, within the limits set by the Articles, supported by externally benchmarked data and independent remuneration advice (as appropriate)

Advisers
The committee appointed MM&K Limited ('MM&K') in October 2011 as its independent remuneration adviser MM&K do not provide any other service to the Company MM&K undertook a full review of the Company's remuneration policy for the executive directors and senior management MM&K presented their findings to the committee in February 2012 and briefed the committee regarding the recommendations set out in their report

Remuneration policy
The Group's remuneration policy is designed to ensure that the remuneration of executive directors and senior management 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 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, complexity, size by turnover and geographical spread from within and outside the industry sector in which the Company operates,
- to position base salaries around the median level in the relevant pay peer group, taking into account each director's skills, knowledge, experience and financial complexity of the business,
- 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

Activities of the committee
The committee met five times during the year and details of attendance at committee meetings can be found in the table on page 30 During the year the committee met for the following reasons

- to receive the findings from the MM&K review of the Company's remuneration policy for the executive directors and senior management,
- to implement specific changes to the structure of elements of the packages for the executive directors and other senior managers in 2012, based on the advice received from MM&K and taking into account current investor guidelines on executive remuneration,
- to monitor market competitiveness of the Group's remuneration policy and arrangements for the executive directors and other senior executives taking into account market trends and publicly available benchmarked data,
- to agree the annual incentive payable for the year ended 31st December 2011,
- to review and approve awards under the Company Share Option Plan and agree the performance conditions,
- to review the salary levels for the executive directors and other senior management for 2013, and,
- to consider whether to take further external independent remuneration advice on any aspects of remuneration within the committee's remit

The board accepted all of the recommendations made by the committee during the year The chairman of the committee is available to discuss remuneration arrangements with shareholders as required

The committee also approved the annual incentive payment for the year ended 31st December 2012 based on the full-year results

Summary of remuneration
The remuneration policy has been designed to provide market competitive remuneration relative to appropriate peer groups for base salary and incentive opportunity The table on page 35 outlines the purpose for and performance measures attaching to each element of the package and how this supports the strategy It also provides forward looking information for 2013

Element	Purpose	Opportunity/Delivery 2012	Performance measure	Changes for 2013
Base salary	Provides a sound basis on which to attract and retain executives To reflect market values of the role and individual performance	No increase from 1st January 2012 Chief Executive £507k Finance Director £291k	Benchmarked against companies of a similar size and complexity, taking into account each director's specific professional skills Reviewed annually from 1st January	No increase from 1st January 2013
Annual incentive	Drives performance against annual financial, strategic and operational goals and delivers rewards which are consistent with the short to medium-term strategic needs of the business	Maximum 75% of salary Subject to performance conditions, paid in cash	Performance conditions revised so that 75% of the maximum potential was linked to the achievement of short-term strategic goals (these included operating profit and cash targets, and stretch targets relating to international growth and new product sales) and 25% of the maximum potential was linked to the achievement of short-term personal objectives	No change to the maximum award for 2013 Performance conditions revised so that 50% of the maximum potential is linked to the achievement of stretch profit targets and 50% linked to the achievement of short-term strategic goals and objectives
Deferral of annual incentive into shares	To align performance with shareholder value creation linked to the sustained improvement in longer-term performance of the Company	Deferral was introduced in 2012 with the executive directors reinvesting 50% of their net annual incentive payment into shares Minimum retention period of three years (subject to specific terms and conditions)	Not applicable	Unchanged
Company Share Option Plan	To reward growth in shareholder value over a three year period and linked to the sustained improvement in longer-term performance of the Company	Maximum grant up to 100% of salary Granted nil cost unapproved options to the executive directors and senior management the equivalent of 60% of base salary, subject to the achievement of performance conditions	Performance conditions revised so that 50% of the award is linked to TSR performance versus the FTSE Small Cap Index and 50% of the award linked to EPS + RPI plus growth targets The committee reserves the right to exclude items of a non-recurring nature from the EPS calculation	No change to maximum level of grant Consideration to be given to grants of approved and/or unapproved options to executive directors and key senior management during 2013

Base salary
Salaries for the executive directors are reviewed annually and are targeted broadly at the median position in the relevant pay peer group, taking into account independent research, which gives up-to-date information on a comparator group of companies The committee considers the size, complexity and responsibilities of the individual's role and experience and the balance between fixed and variable rewards and the total compensation achievable

In setting the remuneration of the directors and key senior management, the committee takes into account the economic environment and the financial performance of the Group, along with pay and employment terms and conditions of employees elsewhere in the Group

In 2012, MM&K presented their review of remuneration including a benchmarking study to the committee Given the fall in the market capitalisation of the Group and the benchmark comparisons, the recommendation was that no increase be made to base salaries in 2012 Base salaries were again reviewed by the committee in December 2012 and it was agreed that base salaries would be unchanged effective from 1st January 2013

Other benefits
The executive directors receive benefits in kind, which comprise a car or car benefit, fuel or equivalent cash allowance, private medical insurance and life assurance

Annual incentive
Following advice taken from MM&K, the committee maintained the maximum annual incentive potential at 75% of base salary for the executive directors for 2012 The committee establishes the objectives that must be met each financial year if an annual incentive award is to be made The performance conditions are aligned with the Group's stated strategic objectives and the long-term creation of shareholder value

In 2012, having considered the key performance indicators and other strategic issues, the committee agreed to revise the performance conditions so that 75% of the maximum potential was linked to the achievement of the Group's stated short-term strategic goals and 25% of the maximum potential linked to the achievement of short-term personal objectives The short-term strategic performance targets include a sliding scale operating to ensure the maximum award was only payable for the delivery of exceptional performance above budgeted profit and cash targets Specific targets were set for each of the short-term business objectives and personal objectives

REMUNERATION REPORT *continued*

Previously where any annual incentive award was made it was paid in cash On the advice of MM&K and in line with market practice, the committee introduced an element of bonus deferral into shares Executive directors are required to reinvest 50% of their net bonus, after taxes, into shares in the Company and retain these for a minimum of at least three years (subject to specific terms and conditions) Deferral into shares encourages greater equity ownership and introduces an element which takes into account the risks facing the business and will further align executive management's interests with those of shareholders and the sustained longer-term performance of the Company The executive directors agreed to reinvest all of the 2011 net bonus into shares

For 2012, an incentive of 18 75% was earned by each of the executive directors for performance achieved against the objectives set and the executive directors invested 50% of the net incentive paid in shares

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, limited to 5% of the issued share capital in any rolling ten year period in respect of discretionary schemes, and this limit may only be exceeded if vesting is dependent on significantly more stretching performance conditions

Company Share Option Plan ('CSOP')
The CSOP was approved by shareholders in 2010 and enables the committee to make grants of approved and unapproved share options to employees (subject to headroom limitations) Approved options are granted at the prevailing market price at the date of grant and unapproved options may be granted at nil cost, market value or at any other exercise price This will enable participants to benefit, subject to performance conditions, from an improvement in the Company's share price The committee is responsible for supervising the plan and the grant of options under its terms The committee will review the appropriateness of performance criteria and where necessary make changes to ensure the performance condition remains relevant and stretching for any new grants made A sliding scale operates from minimum to maximum vesting 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 of up to 100% of base salary (subject to available headroom) to the executive directors and other senior management at the discretion of the committee taking into account individual performance 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

Following advice taken from MM&K in 2012, in order to create better balance between the fixed and variable elements of the remuneration package and to encourage management to build and hold an equity stake in the Company, the committee granted nil-cost unapproved options under the CSOP to executive directors and senior management equivalent of 60% of base salary at the prevailing market price at the date of grant

The performance conditions set when the CSOP was approved incorporated an absolute EPS scale, which was considered appropriate in the economic and trading conditions prevailing at that time However, based on the advice received from MM&K and from institutional shareholders generally, the committee revised the performance conditions attached to the 2012 grants as follows Half of the award is linked to comparative total shareholder return ('TSR') performance versus the FTSE Small Cap Index and half of the award linked to EPS growth above RPI targets The committee reserves the right to exclude items of a non-recurring nature from the EPS calculation The performance condition is tested at the end of the three year period on the scale set out below

Company's TSR ranking versus the FTSE Small Cap Index	% of total option exercisable	EPS Growth above RPI	% of total option exercisable
Below median	0%	Less than 3% compound p a	0%
Median	25%	3% compound p a	25%
Upper quartile	100%	10% compound p a or more	100%

Straight line vesting will occur if the Company's TSR is between the median and upper quartile and the EPS between 3% and 10% compound per annum

Details of the performance conditions attaching to the outstanding awards can be found in note 22 to the accounts

Sharesave Plan
The Group also operates an HMRC approved Sharesave Plan which is open to eligible employees who have completed a minimum period of service at the time of invitation The committee considers whether to offer invitations annually Savings contracts are of three or five year terms and subject to a maximum monthly savings limit of £250 per employee The committee has the discretion to grant options at a discount of up to 20% of the market value at the date of grant The 2008 options were granted at market value Their exercise is not subject to performance conditions

Directors' interests

The beneficial interests of the directors and their immediate families in the ordinary share capital of the Company at the year ended 31st December 2012 are set out below and there were no changes up to the date of the approval of this report Shares purchased on 8th March 2013 are also included below

	At 8th March 2013	At 31st December 2012	At 31st December 2011
W B McGrath	212,726	**186,456**	155,781
S M Smith	156,897	**141,477**	123,391
J D Carling	5,000	**5,000**	-
J Coleman	16,510	**5,000**	5,000
P B Dermody	25,591	**25,591**	25,591
P E Jackson	2,032	**2,032**	2,032

The executive directors are expected to build a significant holding in the Company The directors shareholdings primarily result from market purchases To date William McGrath has invested £340k and Shaun Smith has invested £360k in shares in the Company 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 The executive directors have agreed to invest at least 50% of their net annual incentive earned in shares

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

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 William McGrath's pension accrues annually at a rate of around one thirty-first of pensionable remuneration, while Shaun Smith's pension effectively accrues annually at a rate of around one forty-fifth of pensionable remuneration (compared with the predominant accrual rate of one sixtieth of pensionable salary under the current scheme)

William McGrath and Shaun Smith each commenced pensionable service with the Group at a time when higher earners' pensionable remuneration was subject to the statutory earnings cap Therefore only part of their remuneration is pensionable, the equivalent of the statutory cap projected forward to 2009 was £123,600, and as a consequence of an amendment made to the pension scheme at the end of 2009 for higher earners, their pensionable remuneration has now been frozen at this level 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 1 on page 39

The transfer values corresponding to the directors' accrued pensions at 31st December 2012 after deduction of contributions paid by them, are shown in table 2 on page 39 Executive directors receive life assurance cover equal to four times their base salary

In 1998, the Company closed the pre-existing Group UK pension scheme operated for executive directors and other senior employees, and thereafter such employees join the current Group UK pension scheme on the same basis as applies to all other new employees from time to time Subsequently, the Company closed the current Group 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 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

These arrangements will be reviewed during 2013 in light of the application of the pension auto-enrollment requirements of the Group

Performance graph

The committee considers the FTSE All Share Index is a relevant index for TSR and comparison disclosure as it represents a broad equity market index in which the Company is a constituent member

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 to shareholders by the Company in May 2008 of 121 pence per share

Directors' contracts

Chairman and non-executive directors

The chairman and the non-executive directors have letters of appointment for a three-year term, subject to election and re-election by the Company's shareholders in accordance with the Articles and the Code 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 D Carling	October 2010	3rd May 2012
J Coleman	March 2008	3rd May 2012
P B Dermody	March 2004	3rd May 2012
P E Jackson	December 2005	3rd May 2012

REMUNERATION REPORT *continued*

Copies of the letters of appointment 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 of the board is determined by the committee The chairman of the board does not participate in any discussion relating to his own remuneration The remuneration of the other 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 share option schemes, annual incentive 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 benchmarking exercise undertaken by MM&K in February 2012 also covered the chairman's and non-executive directors fees The committee agreed that no change should be made to the chairman's fees, and on consideration by the board in February and December 2012, it was determined that the level and structure of non-executive directors fees should not be changed The current fee structure is shown in the following table

Role	Last reviewed	Fee
Chairman	December 2012	£125,000
Non-executive director	December 2012	£35,000
Committee chairman	December 2012	£5,000

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 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 base 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

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 Shaun Smith has a voluntary role as a Governor of Birmingham City University

Audited information
Directors' emoluments
The remuneration of each director, excluding share options and pensions during the year ended 31st December 2012 is set out in table 1 on page 39 There were no taxable expenses in 2011 or 2012 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 2 on page 39 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
The interests of directors in options held under the CSOP and the Sharesave Plan at the beginning and end of the financial year are shown in table 3 on page 40

Table 1	Salary/ fees £000	Salary in lieu of pension above earnings cap £000	Benefits in kind and cash benefits £000	Annual incentive £000	2012 Total £000	2011 Total £000
W B McGrath	507	84	33	95	**719**	671
S M Smith	291	37	25	55	**408**	381
J D Carling	35	–	–	–	**35**	35
J Coleman	125	–	–	–	**125**	125
P B Dermody	40	–	–	–	**40**	40
P E Jackson	40	–	–	–	**40**	40
Total	**1,038**	**121**	**58**	**150**	**1,367**	1,292

Table 2	Accrued pension at 31st Dec 2012 £000 pa	Increase in accrued pension over the year £000 pa	Transfer value of accrued pension at 31st Dec 2011 £000	Transfer value of accrued pension at 31st Dec 2012 £000	Increase in transfer value over the year, net of director's contributions (note 1) £000	Increase in accrued pension over the year (net of inflation) (note 2) £000 pa	Transfer value of increase/decrease in accrued pension over the year, net of inflation and director's contributions (note 3) £000
W B McGrath	60	4	843	1,014	167	1	11
S M Smith	60	2	769	944	171	0	(13)

The transfer values calculated have been verified by a consulting actuary

1 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

2 In assessing the increase in the accrued pension over the year the accrued pension at the start of the year has been adjusted in line with inflation over 2012 The calculation reflects the increase of 5 2% in the Consumer Prices Index (CPI) between September 2010 and September 2011 (which is the year used statutorily for deriving the rate of revaluation to be applied to deferred pensions during 2012) This compares to the 3 1% used in 2011 which reflected the increase in CPI between September 2009 and September 2010

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 (net of inflation) over the year only After allowing for the effect of inflation and prior to the rounding of the change in accrued pension Shaun Smith has had a reduction in accrued pension of £280 p a which corresponds to a reduction in transfer value (net of director s contributions) of £12 925

REMUNERATION REPORT *continued*

Table 3	Sharesave Plan approved in 2008	Company Share Option Plan approved in 2010	Company Share Option Plan approved in 2010
W B McGrath			
At 1st January 2012	8,014	24,390	–
Granted 16th April 2012	–	–	362,566
At 31st December 2012	**8,014**	**24,390**	**362,566**
S M Smith			
At 1st January 2012	8,014	24,390	–
Granted 16th April 2012	–	–	208,269
At 31st December 2012	**8,014**	**24,390**	**208,269**
Option grant date	26th September 2008	18th April 2011	16th April 2012
Exercisable period	1st December 2013 to 31st May 2014	18th April 2014 to 17th April 2021	16th April 2015 to 15th April 2022

The exercise price per share in respect of options granted under the Sharesave Plan in 2008 is 209 pence per share

Options granted under the Company Share Option Plan in 2011 were approved options at a market value of 123 pence per share Options granted under the Company Share Option Plan in 2012 were nil cost unapproved options Qualifying performance conditions for the Company Share Option Plan are shown in note 22 to the accounts

No options were exercised by the directors during the year and therefore no gains were made during 2012 (2011 £36,734)

The mid-market price of ordinary shares on 31st December 2012 was 72 0 pence and the highest and lowest mid-market prices during the financial year were 92 0 pence and 54 25 pence respectively

On behalf of the board,

P E Jackson
Chairman of the remuneration committee
8th March 2013

CONSOLIDATED INCOME STATEMENT
for the year ended 31st December

	Notes	2012 £m	2011 £m
Continuing operations			
Revenue	3	**244 6**	250 9
Net operating costs	4	**(238 1)**	(244 8)
Group operating profit	4	**6.5**	6 1
Net pension credit	6	**3.8**	3 1
Non-recurring costs	4	**(1 7)**	(2 1)
Profit before finance income / (costs) and tax		**8 6**	7 1
Finance income	7	**0 4**	1 0
Finance costs	7	**(0 6)**	(0 6)
Profit before tax		**8 4**	7 5
Tax (expense) / credit	8	**(1 6)**	5 4
Profit for the year from continuing operations		**6.8**	12 9
Discontinued operations			
Profit for the year from discontinued operations	9	**-**	2 7
Profit for the year		**6 8**	15 6
Profit attributable to			
Equity holders of the parent		**6 9**	15 7
Non-controlling interests		**(0 1)**	(0 1)
Profit for the year		**6 8**	15 6
Earnings per share attributable to equity holders of the parent – continuing operations	11	**p**	p
Basic		**10 0**	18 8
Diluted		**10 0**	18 8
Earnings per share attributable to equity holders of the parent – total operations	11	**p**	p
Basic		**10 0**	22 7
Diluted		**10 0**	22 7

Notes to the accounts are on pages 46 to 72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31st December

	Notes	2012 £m	2011 £m
Profit for the year		**6.8**	15 6
Exchange adjustments on hedge of net investments	19	**0.6**	–
Exchange differences on translation of foreign operations		**(2.8)**	(0 8)
Actuarial losses on defined benefit pension schemes	6	**(39.6)**	(10 5)
Tax on defined benefit pension schemes and tax losses	8	**9.1**	2 3
Other comprehensive losses for the year		**(32 7)**	(9 0)
Total comprehensive (losses) / income for the year		**(25 9)**	6 6

Attributable to:		
Equity holders of the parent	**(25 8)**	6 8
Non-controlling interests	**(0 1)**	(0 2)
Total comprehensive (losses) / income for the year	**(25 9)**	6 6

Notes to the accounts are on pages 46 to 72

CONSOLIDATED BALANCE SHEET
as at 31st December

	Notes	2012 £m	2011 £m
Non-current assets			
Goodwill	12	**65.3**	66 7
Intangible assets	13	**24.5**	23 9
Property, plant and equipment	14	**38.3**	40 8
Retirement benefit surplus	6	**-**	6 8
Other receivables	16	**0.6**	0 7
Deferred tax assets	21	**8.1**	4 1
		136 8	143 0
Current assets			
Inventories	15	**45 9**	45 5
Trade and other receivables	16	**30.9**	30 8
Current tax assets		**1.1**	1 0
Cash and cash equivalents	18a	**21.0**	48 1
		98.9	125 4
Assets held for sale	14	**2.2**	2 6
Total assets		**237.9**	271 0
Current liabilities			
Borrowings	18b	**(1 3)**	(1 4)
Trade and other payables	17	**(61 0)**	(65 4)
Current tax liabilities		**(3 0)**	(2 9)
Provisions	20	**(3 9)**	(10 2)
		(69 2)	(79 9)
Net current assets		**29 7**	45 5
Non-current liabilities			
Borrowings	18b	**(14 2)**	(15 4)
Retirement benefit obligation	6	**(11 0)**	(1 5)
Deferred tax liabilities	21	**(1 2)**	(5 0)
Provisions	20	**(1 1)**	(1 5)
		(27 5)	(23 4)
Total liabilities		**(96 7)**	(103 3)
Net assets		**141.2**	167 7
Equity			
Share capital	22	**32.5**	32 5
Share premium account		**29.6**	29 6
Other reserves	24	**81.8**	84 0
Retained (losses) / earnings		**(2.8)**	21 4
Equity attributable to equity holders of the parent		**141.1**	167 5
Non-controlling interests		**0.1**	0 2
Total equity		**141.2**	167 7

The accounts were approved by the board of directors on 8th March 2013 and were signed on its behalf by

W B McGrath
Chief Executive

S M Smith
Finance Director

Notes to the accounts are on pages 46 to 72

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31st December

	Notes	2012 £m	2011 £m
Operating activities			
Profit / (loss) before tax			
Continuing operations		**8.4**	7 5
Discontinued operations		**-**	(3 0)
Reconciliation of profit before tax to net cash flows			
Net finance costs / (income)		**0 2**	(0 4)
Depreciation of property, plant and equipment	14	**5 1**	5 4
Impairment of assets held for sale		**-**	0 9
Amortisation of intangible assets	13	**2 1**	1 9
Profit on disposal of property, plant and equipment, intangibles and assets held for sale		**(0 5)**	(0 6)
Share based payments expense		**0 2**	-
Increase in inventories		**(1 0)**	(2 8)
Increase in receivables		**(0 3)**	(0 8)
Decrease in payables		**(4 2)**	(1 9)
(Decrease) / increase in provisions		**(0 6)**	2 6
Pension credit and normal contributions		**(7 3)**	(6 7)
Cash generated from operating activities		**2.1**	2 1
Deficit recovery pension contributions	6	**(16 0)**	(2 0)
Cash flows related to discontinued operations	9	**(6.0)**	(1 2)
Finance income		**0 4**	0 7
Finance costs		**(0 5)**	(0 6)
Tax (payment) / receipt		**(0.3)**	0 6
Net cash flows used in operating activities		**(20.3)**	(0 4)
Investing activities			
Acquisition of business	23	**-**	(0 7)
Purchase of property, plant and equipment	14	**(3.7)**	(5 5)
Expenditure on intangibles	13	**(2.7)**	(2 9)
Proceeds from disposal of assets held for sale and property, plant and equipment		**1 0**	7 5
Net cash used in investing activities		**(5 4)**	(1 6)
Financing activities			
Dividends paid	10	**(0 8)**	(1 2)
Borrowing costs		**(0 2)**	-
Repayment of borrowings		**(0 3)**	(0 3)
Net cash used in financing activities		**(1 3)**	(1 5)
Effects of exchange rate changes		**(0 1)**	(0 1)
Net decrease in cash and cash equivalents		**(27 1)**	(3 6)
Cash and cash equivalents at beginning of year		**48 1**	51 7
Cash and cash equivalents at end of year	18a	**21 0**	48 1

Notes to the accounts are on pages 46 to 72

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the parent						
	Share capital (note 22) £m	Share premium £m	Other reserves (note 24) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1st January 2011	32 5	29 6	84 7	15 1	161 9	0 4	162 3
Comprehensive income							
Profit / (loss) for the year	–	–	–	15 7	15 7	(0 1)	15 6
Other comprehensive income / (losses)							
Exchange differences on translation of foreign operations	–	–	(0 7)	–	(0 7)	(0 1)	(0 8)
Actuarial losses on defined benefit pension schemes	–	–	–	(10 5)	(10 5)	–	(10 5)
Tax on defined benefit pension schemes	–	–	–	2 3	2 3	–	2 3
Total comprehensive income / (losses) for the year to 31st December 2011	–	–	(0 7)	7 5	6 8	(0 2)	6 6
Dividends paid	–	–	–	(1 2)	(1 2)	–	(1 2)
At 1st January 2012	32 5	29 6	84 0	21 4	167 5	0 2	167 7
Comprehensive income							
Profit / (loss) for the year	–	–	–	6 9	6 9	(0 1)	6 8
Other comprehensive (losses) / income							
Exchange adjustments on hedge of net investments	–	–	0 6	–	0 6	–	0 6
Exchange differences on translation of foreign operations	–	–	(2 8)	–	(2 8)	–	(2 8)
Actuarial losses on defined benefit pension schemes	–	–	–	(39 6)	(39 6)	–	(39 6)
Tax on defined benefit pension schemes and tax losses	–	–	–	9 1	9 1	–	9 1
Total comprehensive losses for the year to 31st December 2012	–	–	(2 2)	(23 6)	(25 8)	(0 1)	(25 9)
Share based payments	–	–	–	0 2	0 2	–	0 2
Dividends paid	–	–	–	(0 8)	(0 8)	–	(0 8)
At 31st December 2012	**32.5**	**29 6**	**81 8**	**(2 8)**	**141 1**	**0 1**	**141.2**

The cumulative amount of goodwill taken direct to reserves since 1985 in respect of businesses that were members of the Group at 31st December 2012 is £6 3m (2011 £6 3m)

Notes to the accounts are on pages 46 to 72

NOTES TO THE ACCOUNTS

1 Corporate information

The consolidated financial statements of the Group for the year ended 31st December 2012 were authorised for issue in accordance with a resolution of the directors on 8th March 2013

The Company 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 kitchen and related home fashions products

2 Accounting policies

Basis of accounting
The Group financial statements presented in this document have been prepared on the basis of applicable International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations 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

Critical accounting estimates and judgements
The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Actual results may differ from these estimates under different assumptions and conditions Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances It also requires management to exercise its judgement in the process of applying the Group's accounting policies

Impairment – the Group determines whether goodwill and intangible assets are impaired on an annual basis or more frequently if there are indicators of impairment Other non-current assets, including property, plant and equipment, are tested for impairment if there are indicators of impairment Impairment testing requires an estimate of future cash flows and the choice of a suitable discount rate (note 13)

Retirement benefits and other post-employment benefits – the costs of the defined benefit pension plans and other post-employment benefits are determined using actuarial valuations The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty (note 6)

Tax – provisions for tax accruals require judgements on the interpretation of tax legislation, developments in tax case law and the potential outcomes of tax audits and appeals In addition, deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which they can be utilised Judgement is required as to the amount that can be recognised based on the likely amount and timing of future taxable profits together with future tax planning strategies Deferred tax balances are dependent on management's expectations regarding the manner and timing of recovery of the related assets (note 21)

Accounting changes in the year
The following standards, amendments and interpretations to existing standards have been adopted for the first time in the Group's annual report and the adoption of these did not have any material impact on the financial position or performance of the Group

- IFRS 7 Financial Instruments Disclosures (amendment)
  This amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets when they are derecognised in their entirety, but the entity has a continuing involvement in them or when they are not derecognised in their entirety
- IAS 12 Income Tax – Deferred Taxes Recovery of Underlying Assets (amendment)
  This amendment introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's future accounting periods which the Group has not early adopted The relevant ones are set out below These are effective for the first time in the year ending 31st December 2013

- IFRS 10 Consolidated Financial Statements
  This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company The standard provides additional guidance to assist in the determination of control where this is difficult to assess
- IFRS 11 Joint Arrangements
  This standard defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control

- IFRS 12 Disclosure of Interests in Other Entities
  This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles
- IFRS 13 Fair Value Measurement
  This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value measurement and a single source of fair value measurement and disclosure requirements for use across IFRSs
- IAS 1 Presentation of Items of Other Comprehensive Income
  The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they would be reclassified to profit or loss at a future point in time It does not change the nature of items that are currently recognised in other comprehensive income
- IAS 19 Employee Benefits (revised)
  The revised standard includes a number of fundamental changes, the most significant one for the Group is that the expected return on scheme's assets will be calculated using the same interest rate as applied for the purpose of discounting the pension scheme liabilities
- IAS 27 Separate Financial Statements
  The revised standard is limited to the accounting for investments in subsidiaries, joint ventures and associates in separate financial statements
- IAS 28 Investments in Associates and Joint Ventures
  The standard was amended to include the application of the equity method to investments in joint ventures

The Group has considered the above standards, interpretations and amendments The Group will comply with these from the respective effective dates The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements except for the adoption of IAS 19 'Employee Benefits', which is expected to reduce the net pension credit in the income statement by circa £7m The 2012 figures will be restated in the 2013 report and accounts

Principal accounting policies
A summary of the Group's principal 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

Non-controlling 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 equity attributable to equity holders of the parent

Business combinations and goodwill
Business combinations are accounted for using the acquisition method The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis

Acquisition costs incurred are expensed and are included within administrative expenses

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date This includes the separation of embedded derivatives in host contracts by the acquiree

Any contingent consideration to be transferred by the acquirer will be recognised at its fair value at the acquisition date Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 3 either as a profit or loss or a change to other comprehensive income If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the net assets acquired and the liabilities assumed in exchange for the business combination Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs Identifiable intangible assets, meeting either the contractual legal or separability criterion are recognised separately from goodwill Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably

NOTES TO THE ACCOUNTS *continued*

2 Accounting policies *continued*

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in the consolidated income statement

Goodwill arising on acquisitions prior to 1998 was written off to reserves

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 and can be readily measured This is deemed to be when the goods have been dispatched or are available for delivery and the title has passed to the customer

Revenue from services rendered is recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction and are assessed on the basis of the fair value of the actual service provided as a proportion of the fair value of the total services to be provided

Post retirement benefits
The Group operates both defined benefit and defined contribution pension schemes

Defined benefit pension schemes – the employer's portion of the current service costs, settlement gains and curtailment gains are charged to the consolidated income statement for these schemes, with the interest cost net of the expected return on assets in the schemes also being credited to the consolidated income statement When a settlement or a curtailment occurs the obligation and scheme assets are re-measured using current actuarial assumptions and the resultant gain or loss is recognised in the consolidated income statement during the year in which the settlement or curtailment occurs Actuarial gains and losses are recognised in the consolidated statement of comprehensive income, and the consolidated balance sheet reflects the schemes' surplus or deficit at the balance sheet date The determination of the present value of obligations and the fair value of scheme assets is carried out with sufficient regularity that the amounts recognised in the financial statements can be determined at the end of the reporting period A full valuation on an actuarial basis 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 consolidated 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 an estimation of future changes in salaries and inflation, as well as mortality rates, and the selection of a suitable discount rate

An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the scheme or on its winding up To the extent that future funding commitments payable will not be available after they are paid into the scheme the Group recognises a liability when the obligation arises

Defined contribution schemes - payments to defined contribution schemes are charged to the consolidated income statement as they become payable

Intangible assets
Research costs are expensed as incurred Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete and its ability to use or sell the asset,
- how the asset will generate future economic benefits,
- the availability of resources to complete the asset, and
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses Amortisation of the asset begins when development is complete and the asset is available for use It is amortised over the period of expected future benefit subject to a maximum of seven and a half years During the period of development, the asset is tested for impairment annually

Computer software licences acquired, costs associated with the development 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 Brands have been acquired separately

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 consolidated income statement for the amount by which the assets 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 inflows 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

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 and they 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 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 The assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification

Property, plant and equipment
Property, plant and equipment is held at cost less accumulated depreciation 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 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 the consolidated income statement

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 consolidated 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

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 any obsolete or 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 *continued*

2 Accounting policies *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 bank and in hand and short-term deposits with a maturity of three months or less 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 consolidated 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 differences are taken directly to the consolidated statement of comprehensive income until the disposal of the net investment when the deferred cumulative amount recognised in the consolidated statement of comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement

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

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 1 23 (2011 1 20) and for the US Dollar was 1 63 (2011 1 55) and the average rates were 1 23 (2011 1 15) and 1 59 (2011 1 60), respectively The resulting exchange differences are taken directly to the consolidated statement of comprehensive income

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 include cash and short-term deposits, trade and other receivables, loan notes, quoted and unquoted financial instruments and derivative financial instruments

Financial assets within the scope of IAS 39 'Financial Instruments' are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate The Group determines the classification of its financial assets at initial recognition

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount A provision is made when there is objective evidence that the Group will not be able to recover balances in full

Dividends
Final dividends are only recognised at the point when they are declared and approved by the shareholders at the AGM Interim dividends are recognised on payment

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

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 consolidated 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 the 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 Changes in the fair value of derivative instruments that are designated and qualify as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk,
- 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 Changes in the fair value of derivative instruments designated as cash flow hedges such as forward foreign exchange contracts are recognised as other comprehensive income to the extent that the hedges are effective Any ineffective portion is recognised in the consolidated income statement Amounts deferred in equity are released when the forecast hedged transaction impacts the consolidated income statement, and
- a hedge of a net investment in a foreign entity The Group hedges net investments in foreign entities primarily through currency borrowings Any gains or losses on the translation of the borrowings are recognised as other comprehensive income 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 relevant 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 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 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 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 tax asset is realised or the deferred tax liability is settled

Deferred 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 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

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 external valuation 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 Market performance conditions and non-vesting conditions are taken into account in determining the grant date fair value Further details are given in note 22

NOTES TO THE ACCOUNTS *continued*

2 Accounting policies *continued*

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 recognised in the consolidated 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 consolidated income statement

Provisions
A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain The expense relating to any provision is recognised in the consolidated income statement net of any reimbursement

Non-recurring costs
The Group presents as non-recurring items on the face of the consolidated 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 better assess trends in financial performance

3 Segmental analysis

An operating segment is described in IFRS 8 'Operating Segments' 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 operating decision maker ('CODM') to make decisions about the resources to be allocated to the segment and assess its performance and for which discrete financial information is available The directors consider that there are two operating segments, namely AGA (which comprises the brands and operations of AGA Rayburn, Fired Earth, Grange, Redfyre and Waterford Stanley) and Rangemaster (which comprises the brands and operations of AGA Marvel, Divertimenti, Heartland, La Cornue and Rangemaster) Two areas of the business were identified over which the directors allocate resource, plan purchasing and manufacturing, have combined sales targets, incentives and marketing programmes These areas were determined to be the level at which the CODM makes decisions and were deemed to be the operating segments of 'AGA' and 'Rangemaster' The strategy as set by the board is for the Group to be seen as a global consumer brand which sells range cookers, kitchen and related home fashions products internationally with cross selling opportunities creating appreciable competitive advantage for all our individual brands

The operating results of the operating segments, for which discrete information is available, are regularly reviewed by the CODM, which consists of the chief executive and his senior management team, to make decisions about the resources to be allocated to the segments and assess their performance Management's focus is on the cross selling of all consumer products to our customer database – e g AGA Marvel is responsible for distributing product manufactured in the UK at our Leamington Spa (range cookers) and Telford (cast iron cookers) factories, which are then sold in North America under the AGA brand Waterford Stanley is the distributor for Rangemaster and Rayburn products into Ireland and Grange has developed products that are sold under its own brand and the Fired Earth brand

Our customers are substantially of the same demographic At the heart of our sales strategy we look to sell packages of products to our customer base which, for example, may include AGA, Fired Earth, Rangemaster or AGA Marvel branded products and, in addition, this is how our senior management are now incentivised to achieve Group targets

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 as the two segments have similar economic characteristics, products and services, production processes, types and classes of customer and methods of distribution The directors consider the aggregated reportable segment to be the manufacture and sale of range cookers, kitchen and related home fashions product, from which the Group derives most of its revenue All Group companies are subject to similar economic forces and comparable regulatory environments

Disclosures in respect of revenues from external customers and non-current assets are provided below

	2012		2011	
	Revenue £m	**Non-current assets £m**	Revenue £m	Non current assets £m
United Kingdom	**155 2**	**59 6**	157 7	67 9
North America	**29 4**	**29 1**	29 5	30 8
Europe	**53 2**	**40.0**	57 7	40 2
Rest of World	**6 8**	**–**	6 0	–
Total operations	**244 6**	**128 7**	250 9	138 9
Tax	**–**	**8 1**	–	4 1
Total	**244 6**	**136 8**	250 9	143 0

4. Net operating costs

	2012 £m	2011 £m
Raw materials, consumables and changes in inventories of finished goods and work in progress	**97 9**	99 2
Staff costs (note 5)	**75 1**	75 5
Other operating charges	**58 5**	64 1
Other operating income (includes profit on sale of assets held for sale)	**(0 6)**	(1 3)
Amortisation of intangibles (note 13)	**2 1**	1 9
Depreciation of property, plant and equipment (note 14)	**5 1**	5 4
Total net operating costs	**238 1**	244 8

	2012 £m	2011 £m
Group operating profit for the year is stated after charging / (crediting)		
Profit on disposal of property, plant and equipment and assets held for sale	**(0 5)**	(0 6)
Trade receivables impairment (note 16)	**0 5**	–
Raw materials, consumables and changes in inventories of finished goods and work in progress include		
– Inventory provision credited in the year (note 15)	**(0 4)**	(0 2)
Research and development expenditure	**0 8**	1 0
Depreciation of property, plant and equipment (note 14)	**5 1**	5 4
Amortisation of intangibles (note 13)	**2 1**	1 9
Operating lease rentals payable		
– Plant and machinery	**2 2**	2 8
– Property	**7 4**	7 3
Net exchange differences	**(0 3)**	(0 1)
Auditor's remuneration		
– Fees payable to Company's auditor for the audit of the Company's annual accounts	**0 1**	0 1
– The audit of the Company's subsidiaries	**0 2**	0 2
Other fees to auditor		
– Taxation advisory services	**0 1**	0 2
– Taxation compliance services	**0 1**	–
– Other services	**0.1**	–

Non-recurring costs

The non-recurring costs amounted to £1 7m and related to the reorganisation of our AGA Rangemaster distribution operations and retail structures

In 2011 non-recurring costs amounted to £2 1m of which £0 4m related to the reorganisation of our AGA Marvel US and Canadian manufacturing and distribution operations, £0 9m related to the impairment of assets held for sale, £0 3m related to costs of finalising prior period tax returns and £0 5m related to the cost of redundancies and employee matters arising from the introduction of new systems and new products

NOTES TO THE ACCOUNTS *continued*

5. Employee information

Average number of employees (including directors)	2012	2011
Production	**1,302**	1,302
Selling and distribution	**723**	734
Administration and support services	**472**	496
Total average number of employees	**2,497**	2,532

Total staff costs (including directors)	2012 £m	2011 £m
Wages and salaries	**65 1**	65 9
Social security costs	**8 9**	8 7
Share based payments	**0 2**	–
Other pensions costs (note 6)	**0 9**	0 9
Staff costs (note 4)	**75 1**	75 5
Net pension credit (note 6)	**(3 8)**	(3 1)
Total staff costs	**71 3**	72 4

Other pensions costs relate to contributions under defined contribution schemes and are included within Group operating profit The net pension credit relates to defined benefit schemes and is separately presented on the face of the consolidated income statement

Directors' emoluments	2012 £m	2011 £m
Salaries and short-term benefits	**1 4**	1 2
Post employment benefits	**0 1**	0 1
Share based payments	**0 1**	–
Total directors' emoluments	**1 6**	1 3

There are two directors who accrued benefits under the defined benefit pension scheme (2011 two)

6 Pensions

The Group operates several pension schemes, the main one is the AGA Rangemaster Group Pension Scheme, which covers the majority of UK employees Membership on a defined benefit basis was closed to new entrants in 2001 but the scheme remains open to new entrants on a defined contribution basis The other defined benefit schemes operating within the Group are the Amari plc Pension and Life Assurance Plan in the UK, the Northland Corporation U A W Retirement Income Plan in the US, the Grange Pension Scheme in France and the Waterford Stanley Limited Retirement Benefits Scheme in Ireland The assets are held in trust funds separate from the Group's assets although they are included in the Group's consolidated balance sheet Various defined contribution schemes exist across the Group and the total contributions in the year were £0 9m (2011 £0 9m) which are included under staff costs in note 5

The latest full triennial actuarial valuation of the main UK scheme was carried out by Towers Watson Limited, independent consulting actuaries, as at 31st December 2011 using the projected unit credit method which showed an actuarial deficit of £228m The actuarial valuation as at 31st December 2008 showed an actuarial deficit of £161m, reducing to £76m as at 31st December 2009 and an actuarial report as at 31st December 2010 showed an actuarial deficit of £62m

Defined benefit scheme contributions of £2 7m (2011 £2 8m) based on pensionable salaries, an additional contribution of £16 0m (2011 £2 0m) and other payments of £0 8m (2011 £0 8m) were made by the Group during the year ended 31st December 2012 Contributions of £0 2m (2011 £0 2m) were owed to the scheme at 31st December 2012

Contributions for 2013 under the main UK scheme will be 18 1% (2012 15 4%) for all members accruing benefits on a final salary basis with the exception of five members of the former 1970 scheme who will accrue benefits at 38 2% (2012 30 5%) of capped basic salaries Normal contributions of around £3 0m and other payments of around £0 8m are set out to be paid by the Group during 2013 Under the deficit recovery plan put in place, on completion of the last full triennial actuarial valuation as at 31st December 2011, the following amounts are payable into the scheme £4 0m in 2015, £10 0m a year from 2016 to 2021 inclusive and a bullet payment of £30 0m on 31st December 2020, see note 27 These arrangements may be reviewed with the completion of the next full triennial actuarial valuation to be undertaken as at 31st December 2014

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

	2012		2011	
	UK schemes %	**Waterford Stanley scheme %**	UK schemes %	Waterford Stanley scheme %
Rate of increase in pensionable salaries	**0 0**	**2 4**	0 0	2 5
Rate of increase of pensions in payment	**1 9-3 0**	**2 0**	2 3-3 1	2 0
Discount rate	**4 3**	**3 8**	4 8	4 5
Inflation rate – in payment	**2.7**	**1.9**	2 9	2 0
Inflation rate – in deferment	**1.7**	**1.9**	1 9	2 0
Expected rate of return on schemes' assets	**5.5**	**5 0**	5 7	5 1

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 major asset classes consisting of equities and bonds have an expected long-term rate of return of 8 0% (2011 8 0%) and 3 7% (2011 4 3%) respectively

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least an 'AA' rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation Future salary increases and pension increases are based on expected future inflation rates for the respective country The mortality rate is based on publicly available mortality tables for the specific country

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 19 3 (2011 19 2) years for male members and 21 5 (2011 21 4) years for female members currently aged 65 and of 20 8 (2011 20 7) years from age 65 for male members and 23 0 (2011 22 9) years from age 65 for female members currently aged 50 This data has been provided by Towers Watson Limited

Sensitivities

The value of scheme assets is sensitive to market conditions Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the consolidated income statement and the consolidated 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

		Increase / (decrease) in liabilities	
		2012 £m	2011 £m
Discount rate	– 0 1% decrease	**12 7**	12 1
	– 0 1% increase	**(12 4)**	(11 9)
Inflation rate	– 0 1% decrease	**(2 5)**	(10 0)
	– 0 1% increase	**10 3**	10 1
Mortality rate	– one year increase in life expectancy	**43 7**	40 0

	2012		2011	
The assets and obligations of the aggregated schemes:	**%**	**£m**	%	£m
Equity securities and other return-seeking assets including targeted absolute return funds	**44 0**	**355 5**	31 4	243 3
Bonds	**43 1**	**349 0**	54 2	419 4
Property	**10 0**	**81 1**	10 9	84 3
Other	**2 9**	**23 5**	3 5	27 2
Fair value of schemes' assets	**100 0**	**809 1**	100 0	774 2
Present value of funded obligation		**(820 1)**		(768 9)
Net (deficit) / surplus in the schemes		**(11 0)**		5 3

NOTES TO THE ACCOUNTS *continued*

6 Pensions *continued*

Investments of the defined benefit schemes are diversified, such that the failure of any single investment would not have a material impact on the overall level of assets The largest proportion of assets are invested in bonds, although the schemes also invest in equity securities and other return-seeking assets including targeted absolute return funds, and in property and cash

Balance sheet presentation:	**2012 £m**	2011 £m
Retirement benefit surplus	–	6 8
Retirement benefit obligation	**(11 0)**	(1 5)
Net (deficit) / surplus in the schemes	**(11 0)**	5 3

Included above are assets with a market value of £3 2m (2011 £5 5m) and a deficit of £1 4m (2011 £1 5m) in respect of overseas schemes The foreign exchange impact on the overseas schemes is £nil

The amounts recognised in the consolidated income statement are as follows	**2012 £m**	2011 £m
Current service cost – defined benefit	**(3.5)**	(3 3)
Expected return on pension schemes' assets	**43.1**	45 9
Interest cost on pension schemes' liabilities	**(35 8)**	(39 5)
Net pension credit included in the consolidated income statement	**3 8**	3 1

History of experience gains and losses	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of schemes' assets	**809 1**	774 2	759 5	716 0	655 0
Present value of funded obligation	**(820 1)**	(768 9)	(752 4)	(756 5)	(597 5)
Net (deficit) / surplus in the schemes	**(11 0)**	5 3	7 1	(40 5)	57 5
Experience (loss) / gain on schemes' liabilities	**(0 1)**	3 1	3 0	(5 1)	2 0
Experience gain / (loss) on schemes' assets	**15 2**	2 8	33 6	57 3	(137 0)

Movement in net surplus / (deficit) of the aggregated schemes during the year	**2012 £m**	2011 £m
Net surplus of the schemes at 1st January	**5.3**	7 1
Net pension credit	**3 8**	3 1
Company contributions	**19 5**	5 6
Actuarial loss	**(39 6)**	(10 5)
Net (deficit) / surplus of the schemes at 31st December	**(11 0)**	5 3

The cumulative amount recognised in the consolidated statement of comprehensive income since 1st January 2004 is £95 3m loss (2011 £55 7m loss)

Changes in the present value of the defined benefit obligation are as follows	**2012 £m**	2011 £m
Present value of obligation at 1st January	**768 9**	752 4
Interest costs	**35 8**	39 5
Current service cost	**3 5**	3 3
Member contributions	**0 6**	0 6
Benefit payments (including lump sums on retirement)	**(41.2)**	(39 8)
Increase on change of actuarial assumptions	**54.7**	13 3
Other adjustments	**(2.2)**	(0 4)
Present value of obligation at 31st December	**820 1**	768 9

Changes in the fair value of the schemes' assets are as follows·	2012 £m	2011 £m
Fair value of schemes' assets at 1st January	**774.2**	759 5
Benefit payments (including lump sums on retirement)	**(41.2)**	(39 8)
Company contributions	**19.5**	5 6
Member contributions	**0.6**	0 6
Expected return on schemes' assets	**43.1**	45 9
Actuarial gains	**15.1**	2 8
Other adjustments	**(2.2)**	(0 4)
Fair value of schemes' assets at 31st December	**809.1**	774 2

The actual gain on the schemes' assets was £58 2m (2011 gain £48 7m)

7 Net finance (costs) / income

Finance income:	2012 £m	2011 £m
Bank interest	**0 2**	0 2
Interest on repayment from tax authorities	**0 2**	0 8
Total finance income	**0 4**	1 0
Finance costs		
Borrowings	**(0 4)**	(0 4)
Other borrowings	**(0 2)**	(0 2)
Total finance costs	**(0 6)**	(0 6)
Net finance (costs) / income	**(0 2)**	0 4

NOTES TO THE ACCOUNTS *continued*

8 Tax on profit for the year

	2012 £m	2011 £m
Current tax on income for year	**2.1**	0.3
Adjustments in respect of prior years	**(0.2)**	(11.2)
United Kingdom corporation tax	**1.9**	(10.9)
Overseas current tax on income for year	**0.2**	(0.6)
Adjustments in respect of prior years	**0.2**	–
Overseas corporation tax	**0.4**	(0.6)
Total current tax charge / (credit)	**2.3**	(11.5)

United Kingdom deferred tax charge		
– change in rate of corporation tax	**(0.2)**	0.2
– current year	**1.1**	2.3
– adjustments in respect of prior years	**(0.3)**	3.6
Overseas deferred tax credit in year	**(0.9)**	–
Overseas deferred tax credit in respect of prior years	**(0.4)**	–
Total deferred tax (credit) / charge	**(0.7)**	6.1
Total United Kingdom tax	**2.5**	(4.8)
Total overseas tax	**(0.9)**	(0.6)
Tax charge / (credit) – continuing operations	**1.6**	(5.4)
Total tax charge / (credit) in the consolidated income statement is as follows		
Tax charge / (credit) – continuing operations	**1.6**	(5.4)
Tax credit – discontinued operations (note 9)	**–**	(5.7)
Total tax charge / (credit)	**1.6**	(11.1)

Other comprehensive income.	2012 £m	2011 £m
Corporation tax credit on defined benefit pension schemes	**(1.9)**	–
Deferred tax credit on defined benefit pension schemes and losses (note 21)	**(7.2)**	(2.3)
Total tax on defined benefit pension schemes and losses	**(9.1)**	(2.3)

Tax on comprehensive income	2012 £m	2011 £m
Current tax charge / (credit)	**0.4**	(11.5)
Deferred tax (credit) / charge	**(7.9)**	3.8
Total credit	**(7.5)**	(7.7)

In 2011 the tax credit relating to continuing operations included a non-recurring £6.1m credit being a release of the provisions made for tax in respect of prior year tax returns now agreed, split between a £11.0m credit in respect of corporation tax and a charge of £4.9m in respect of deferred tax. The tax credit of £5.7m, included in discontinued operations, relates to adjustments in respect of prior years for previously discontinued operations.

Factors affecting the future tax charge - a reduction in the UK corporation tax rate from 26% to 24% was substantively enacted in March 2012 and was effective from 1st April 2012. A further reduction from 24% to 23% was substantively enacted in July 2012 and will be effective from 1st April 2013. Accordingly, the substantively enacted rates have been applied in the measurement of the Group's deferred tax assets and liabilities as at 31st December 2012.

In addition, the Government announced its intention to reduce further the UK corporation tax rate to 21% from 1st April 2014. The aggregate impact of the proposed reductions from 23% to 21% would reduce the deferred tax assets by approximately £0.4m.

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

	2012 £m	2011 £m
Profit before tax	**8 4**	7 5
Profit multiplied by the standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	**2.1**	2 0
Effects of		
– lower rate of future tax	**(0.2)**	0 2
– non-allowable expenditure	**0 1**	0 2
– reduction in deferred tax in respect of intangibles	**(0 7)**	–
– losses not recognised	**1 1**	–
– non-taxable income	**(0 1)**	(0 2)
– adjustment to tax charge in respect of prior years	**(0 7)**	(7 6)
Total tax charge / (credit) – continuing operations	**1 6**	(5 4)

9. Discontinued operations

The profit for the year from discontinued operations was £nil (2011 £2 7m which included a tax credit of £5 7m (note 8) and charges of £3 0m in respect of adjustments to provision levels in light of the judgement relating to the German minority interest)

The cashflow related to discontinued operations was £6 0m (2011 £1 2m)

10 Dividends

	2012 £m	2011 £m
Final dividend paid of 1 1 pence per share for the year ended 31st December 2011 (2010 1 0 pence)	**0 8**	0 7
Interim dividend of nil for the year ended 31st December 2012 (2011 0 8 pence)	**–**	0 5
Amounts recognised as distributions to equity shareholders in the year	**0 8**	1 2

The directors are not recommending a final dividend in respect of the financial year ended 31st December 2012 (2011 1 1 pence per share)

11 Earnings per share

The basic earnings per share ('EPS') 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 EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares Share options granted to employees represent the potential dilutive shares Share options which are either contingently issuable and for which performance criteria have not been met, or options which are anti-dilutive have been excluded from the calculation of the diluted EPS

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

Earnings for the purpose of the basic and diluted EPS	2012 £m	2011 £m
Profit after tax	**6 8**	12 9
Non-controlling interests	**0 1**	0 1
Profit attributable to equity holders of the parent – continuing operations	**6 9**	13 0
Profit after tax – discontinued operations	**–**	2 7
Profit attributable to equity holders of the parent – total operations	**6 9**	15 7

NOTES TO THE ACCOUNTS *continued*

11 Earnings per share *continued*

Weighted average number of shares in issue	2012 m	2011 m
For basic EPS calculation	**69 3**	69 3
Dilutive effect of share options	**–**	–
For diluted EPS calculation	**69 3**	69 3

EPS attributable to equity holders of the parent

Continuing operations	p	p
Basic	**10 0**	18 8
Diluted	**10 0**	18 8

Discontinued operations	p	p
Basic	**–**	3 9
Diluted	**–**	3 9

Total operations	p	p
Basic	**10 0**	22 7
Diluted	**10 0**	22 7

12 Goodwill

	2012 £m	2011 £m
Cost		
At 1st January	**66.7**	66 7
Acquired in the year (note 23)	**–**	0 2
Exchange adjustment	**(1 4)**	(0 2)
At 31st December	**65 3**	66 7

Impairment testing
The recoverable amount of goodwill allocated to the cash-generating units ('CGUs') has been determined based on a value in use calculation

Cash generating units
AGA, Fired Earth, Grange, Redfyre and Waterford Stanley form the AGA CGU with AGA Marvel, Divertimenti, Heartland, La Cornue and Rangemaster forming the Rangemaster 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 2012 is allocated over the two CGUs as follows AGA £37 9m (2011 £38 5m) and Rangemaster £27 4m (2011 £28 2m)

Key assumptions used in value in use calculation
Cash flows – for goodwill impairment testing, future cash flows are based on the board approved, budgeted cash flows for both of the relevant CGUs for 2013 The operating cash flows 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 Management's expectations are also formed in line with performance to date and experience, as well as available external market data

Growth rates – a 2% (2011 2%) growth rate in cash flows is assumed for the four years following the budget year A terminal value is then calculated using this rate The growth rate is based on the current external inflation forecasts for the medium-term

Discount rate – the future cash flows are discounted, at the pre tax cost of capital applicable to that particular CGU The pre tax discount rate for both CGUs is 9 3% (2011 9 0%) The post tax discount rate is 7 4% The discount rate has been risk adjusted by utilising an equity risk premium and a company specific beta Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated into the cash flow estimates The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital ('WACC') The WACC takes into account both debt and equity

Sensitivities – 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
Cost					
At 1st January 2012	5 6	13 2	16 7	0 5	**36 0**
Exchange adjustment	(0 1)	(0 2)	(0 2)	–	**(0.5)**
Additions – internally generated	0 1	–	2 4	–	**2.5**
Additions – externally acquired	–	–	0 2	–	**0.2**
Reclassification from property, plant and equipment	0 4	–	–	–	**0.4**
Disposals	(0 2)	–	–	–	**(0.2)**
At 31st December 2012	5 8	13 0	19 1	0 5	**38 4**
Amortisation					
At 1st January 2012	4 1	–	8 0	–	**12 1**
Exchange adjustment	–	–	(0 1)	–	**(0 1)**
Disposals	(0 2)	–	–	–	**(0 2)**
Charge for the year	0 4	–	1 7	–	**2 1**
At 31st December 2012	4 3	–	9 6	–	**13 9**
Net book value at 31st December 2012	**1 5**	**13 0**	**9 5**	**0 5**	**24 5**

	Computer software £m	Brands £m	Development costs £m	Other £m	Total £m
Cost					
At 1st January 2011	4 9	13 1	14 7	0 7	33 4
Exchange adjustment	–	(0 3)	–	–	(0 3)
Acquired in the year (note 23)	–	0 4	–	–	0 4
Additions – internally generated	–	–	1 9	–	1 9
Additions – externally acquired	0 8	–	0 2	–	1 0
Reclassification	–	–	0 2	(0 2)	–
Disposals	(0 1)	–	(0 3)	–	(0 4)
At 31st December 2011	5 6	13 2	16 7	0 5	36 0
Amortisation					
At 1st January 2011	3 8	–	6 6	0 1	10 5
Reclassification	–	–	0 1	(0 1)	–
Disposals	(0 1)	–	(0 2)	–	(0 3)
Charge for the year	0 4	–	1 5	–	1 9
At 31st December 2011	4 1	–	8 0	–	12 1
Net book value at 31st December 2011	1 5	13 2	8 7	0 5	23 9

Computer software and development costs

Computer software and development costs are amortised and the amortisation is charged directly to the consolidated income statement Development costs are tested for impairment annually using future cash flows for each project and an appropriate discount rate

Brands

Brands are considered to have an indefinite life and are subject to impairment testing

Brands impairment testing

To test the impairment of brands the Royalty Relief Methodology is used to forecast future cash flows Cash flows are estimated using an imputed royalty rate applied to board approved, budgeted revenues for 2013

Growth rate – a revenue growth rate of 2% (2011 2%) is assumed for the four years following the budget year A terminal value is then calculated This growth rate is based on the current external inflation forecasts for the medium-term

Discount rates – future cash flows are discounted at the pre tax discount rate applicable to that particular brand The appropriate discount rate for each brand has been adjusted to reflect an independent capital structure The Group has risk adjusted the discount rates by utilising a company specific beta and equity risk premium For 2012 testing a pre tax rate of 8 8% was used for the Grange brand and a pre tax rate of 9 3% for the Group's other significant brands (2011 8 5% and 9 0%, respectively) The post tax discount rate is 7 4% for the Group

NOTES TO THE ACCOUNTS *continued*

13 Intangible assets *continued*

Royalty rates – imputed royalty rates used in the cash flow forecasts for the brands are in the range 2 9% to 3 5% Management considers the appropriateness of the royalty rates used on an annual basis

Sensitivities – for most of the brands 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 their recoverable amounts In the case of £0 8m of the brands a 1% increase in the discount rate may lead to an impairment of less than £0 1m, if the other variables remained unchanged

Other
Items included in the 'other' category include patents and customer lists acquired Other intangibles are considered to have an indefinite life and are subject to impairment testing No indicators of impairment have been identified

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
Cost				
At 1st January 2012	21 5	92 3	0 4	**114 2**
Exchange adjustment	(0 5)	(0 6)	–	**(1 1)**
Capital expenditure	–	2 8	0 9	**3 7**
Disposals	–	(1 8)	–	**(1 8)**
Reclassification	1 5	(1 0)	(0 9)	**(0 4)**
At 31st December 2012	22 5	91 7	0 4	**114 6**
Depreciation				
At 1st January 2012	7 4	66 0	–	**73 4**
Exchange adjustment	(0 2)	(0 4)	–	**(0 6)**
Charge for the year	0 5	4 6	–	**5 1**
Disposals	(0 1)	(1 5)	–	**(1 6)**
Reclassification	1 3	(1 3)	–	**–**
At 31st December 2012	8 9	67 4	–	**76.3**
Net book value at 31st December 2012	**13 6**	**24 3**	**0 4**	**38.3**

The cost of property, plant and equipment includes £0 2m (2011 £0 1m) of assets held under finance leases The net book value of these assets was £0 1m (2011 £nil) All leases are reviewed and are capitalised where appropriate

Assets held for sale
The total assets held for sale amounted to £2 2m (2011 £2 6m) One of the three properties which were held for sale in 2011 were sold in 2012 The other two properties continue to be actively marketed The directors are committed to achieving their sale and believe this can be achieved at their fair value in 2013

	Freehold and long leasehold land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 1st January 2011	21 8	89 8	0 6	112 2
Exchange adjustment	–	(0 3)	–	(0 3)
Capital expenditure	0 3	5 1	0 1	5 5
Disposals	(0 6)	(2 6)	–	(3 2)
Reclassification	–	0 3	(0 3)	–
At 31st December 2011	21 5	92 3	0 4	114 2
Depreciation				
At 1st January 2011	7 7	63 7	–	71 4
Exchange adjustment	(0 1)	(0 2)	–	(0 3)
Charge for the year	0 4	5 0	–	5 4
Disposals	(0 6)	(2 5)	–	(3 1)
At 31st December 2011	7 4	66 0	–	73 4
Net book value at 31st December 2011	14 1	26 3	0 4	40 8

15 Inventories

	2012 £m	2011 £m
Raw materials and consumables	**10 2**	9 2
Work in progress	**4 9**	6 5
Finished goods	**30 8**	29 8
Total inventories at the lower of cost and net realisable value	**45 9**	45 5

The Group expensed £97 9m of inventories during the year (2011 £99 2m) The Group credited £0 4m to inventory provisions in the year (2011 £0 2m) The Group did not hold any inventories pledged as security for liabilities (2011 £nil)

16 Trade and other receivables

Amounts falling due within one year	2012 £m	2011 £m
Trade receivables	**23 3**	23 6
Less provision for impairment of receivables	**(0 9)**	(0 4)
Net trade receivables	**22 4**	23 2
Other receivables	**2 7**	2 4
Prepayments and accrued income	**5 8**	5 2
Total receivables falling due within one year	**30 9**	30 8
Amounts falling due after one year		
Other receivables	**0 6**	0 7
Total receivables	**31.5**	31 5

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 the UK 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 £1 2m (2011 £1 4m) of trade receivables are factored The Group retains the risks and rewards of these amounts, therefore, these are not derecognised

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 £3 9m (2011 £5 2m) which are past due at the reporting date for which the Group has not provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable

Ageing of past due but not impaired receivables	2012 £m	2011 £m
30-60 days	**1 9**	2 0
60-90 days	**1 1**	2 4
90-120 days	**0.3**	0 2
120+ days	**0 6**	0 6
Total receivables past due but not impaired	**3.9**	5 2

Movement in the provision for impairment of receivables	2012 £m	2011 £m
At 1st January	**0.4**	0 4
Impairment losses recognised	**0.5**	0 1
Amounts previously impaired recovered	**–**	(0 1)
At 31st December	**0 9**	0 4

NOTES TO THE ACCOUNTS *continued*

17. Trade and other payables

Current trade and other payables	2012 £m	2011 £m
Trade payables	**36.0**	40 0
Payments on account	**0 6**	0 9
Social security	**4 1**	3 8
Accruals and deferred income	**11 8**	11 1
Other payables	**8 5**	9 6
Total current trade and other payables	**61 0**	65 4

18 Cash and borrowings

a) Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	**–**	0 1
Short-term bank deposits	**21 0**	48 0
Cash and cash equivalents	**21.0**	48 1

The short-term bank deposits have a weighted average maturity of under one month (2011 under one month) with an effective interest rate of 0 4% (2011 0 3%) The fair value of cash and short-term deposits is £21 0m (2011 £48 1m)

b) Financial liabilities – borrowings

Borrowings	2012 £m	2011 £m
Current obligations under finance leases	**0 1**	–
Current borrowings	**1.2**	1 4
Non-current borrowings	**14.2**	15 4
Total borrowings	**15 5**	16 8

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

Bank borrowings comprise the following	Interest rate basis	2012 £m	2011 £m
Bank factoring of trade receivables – current (note 16)	Floating	**1 2**	1 4
Unsecured bank loans – non-current	Floating	**13 9**	15 1
Other secured loans 2018	Floating	**0.3**	0 3
Total bank borrowings		**15 4**	16 8

The £13 9m non-current unsecured bank loans are currency denominated loan advances from committed revolving credit facilities, which bear interest rates based on LIBOR and margins with a weighted average of circa 175 basis points

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 nature and spread of its shareholders 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 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

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 and equity There were no interest rate swap agreements in place throughout 2012 (2011 nil)

		Increase / (decrease) in basis points	Effect on profit before tax / equity £m
2012	**Cash**	**+50 / (50)**	**0 1 / (0 1)**
	Borrowings	**+50 / (50)**	**(0.1) / 0 1**
2011	Cash	+50 / (50)	0 2 / (0 2)
	Borrowings	+50 / (50)	(0 1) / 0 1

Credit and price risk
The Group monitors closely the availability of trade finance to its customers and suppliers 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 their 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

The Group is exposed to risk in the price movement of key raw materials and energy The Group manages these risks and has a combination of a two year fixed price gas contract and a one year fixed electricity contract together with 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 used

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 2012, the notional amounts of outstanding forward foreign exchange contracts that the Group was committed to were GBP 0 2m (2011 GBP 1 0m), CHF 0 3m (2011 CHF 0 7m) and USD nil (2011 USD 0 4m) The fair value of these open forward foreign exchange contracts is not material 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 (2011 nil)

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 2012 was £6 1m (2011 £6 3m) and the carrying value of the US Dollar borrowings was £8 4m (2011 £8 8m) The exchange differences on the translation of these borrowings into sterling have been recognised in translation reserves, in 2012 these amounted to £0 6m gain (2011 £nil)

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 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 New committed facilities totalling £60 0m were put in place towards the end of 2012 with a maturity date of 31st December 2015 The Group maintains relationships with several large financial institutions The Group's committed loan facilities have three principal financial covenants interest cover, net debt / earnings before interest, tax, depreciation and amortisation and a minimum level of earnings before interest, tax, depreciation and amortisation excluding pension costs The Group complied with all covenants at the year end

NOTES TO THE ACCOUNTS *continued*

19. Financial instruments *continued*

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 £60 0m committed facilities have been arranged to help finance 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

	2012 £m	2011 £m
Expiring within 1 year	–	12 5
Expiring between 1 and 2 years	–	19 9
Expiring between 2 and 5 years	**16 0**	–
Total undrawn committed facilities	**16 0**	32 4
Non-current borrowings used to hedge investments in foreign operations	**14 0**	15 1
Guarantees provided (note 27)	**30 0**	27 5
Total committed facilities	**60.0**	75 0

In addition to the committed facilities detailed above, the Group also has uncommitted facilities totalling £20 5m (2011 £18 8m)

Maturity profile of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2012 and 2011 based on contractual undiscounted payments Floating rate borrowings are re-priced within six months from the balance sheet date

2012	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
Borrowings	Floating	1 6	0 4	0 4	14 3	–	–	**16 7**
Trade payables		36 0	–	–	–	–	–	**36 0**
Other payables, accruals & social security		25 0	–	–	–	–	–	**25 0**
Total		**62 6**	**0 4**	**0 4**	**14 3**	–	–	**77.7**

2011	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
Borrowings	Floating	1 4	15 2	–	0 1	0 1	0 1	16 9
Trade payables		40 0	–	–	–	–	–	40 0
Other payables, accruals & social security		24 5	–	–	–	–	–	24 5
Total		65 9	15 2	–	0 1	0 1	0 1	81 4

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 consolidated balance sheet, are equivalent to their fair value at the balance sheet date

20 Provisions

	Product warranties £m	Reorganisation £m	Discontinued & other £m	Total £m
At 1st January 2012	3 0	0 1	8 6	**11 7**
Exchange adjustment	–	–	(0 1)	**(0 1)**
Charged / (credited) in the year	1 0	–	(0 1)	**0 9**
Utilised in year	(1 4)	(0 1)	(6 0)	**(7 5)**
At 31st December 2012	**2 6**	–	**2 4**	**5 0**

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

	2012 £m	2011 £m
Current	**3.9**	10 2
Non-current	**1 1**	1 5
At 31st December	**5.0**	11 7

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

Reorganisation

The reorganisation provision included the remaining costs associated with previously announced reorganisations within the Group which were fully utilised during the year

Discontinued and other

These provisions mainly 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 these divested businesses Although the majority of these provisions may be realised in the next accounting period, the exact timing is unclear During 2012 the Group received a judgement from a German appeal court relating to the valuation of a minority shareholding in a business which the Group acquired in 1998 and sold in 2001 as part of the Pipe Systems disposal and various settlement payments have consequently been made during the year The provision held reflects the remaining settlements and claims in relation to divested businesses

21 Deferred tax

Deferred tax is calculated on temporary differences under the balance sheet liability method using the substantively enacted rates The movement on the deferred tax account is shown below

Net deferred tax	2012 £m	2011 £m
At 1st January	**(0 9)**	3 0
Exchange adjustment	**(0.1)**	(0 1)
Taken to other comprehensive income (note 8)	**7.2**	2 3
Credited / (charged) to consolidated income statement (note 8)	**0 7**	(6 1)
At 31st December	**6 9**	(0 9)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where 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

Deferred tax assets	Intangibles £m	Accelerated tax depreciation £m	Pensions £m	Tax losses £m	Other £m	Total £m
At 1st January 2012	–	–	0 4	3 7	–	**4 1**
Exchange adjustment	–	–	–	–	(0 1)	**(0 1)**
Taken to other comprehensive income (note 8)	–	–	6 9	0 3	–	**7 2**
(Charged) / credited to consolidated income statement	(0 7)	(1 0)	(2 1)	(0 6)	1 3	**(3 1)**
At 31st December 2012	**(0 7)**	**(1.0)**	**5 2**	**3 4**	**1 2**	**8.1**

Deferred tax liabilities	Intangibles £m	Accelerated tax depreciation £m	Pensions £m	Other £m	Total £m
At 1st January 2012	–	0 5	1 7	2 8	**5.0**
Reclassification	2 7	–	–	(2 7)	**–**
Charged / (credited) to consolidated income statement	(1 4)	(0 5)	(1 7)	(0 2)	**(3.8)**
At 31st December 2012	**1.3**	**–**	**–**	**(0.1)**	**1 2**

The Group has unprovided deferred tax assets of £5 3m (2011 £3 8m) relating to losses and other temporary differences A deferred tax asset has not been recognised where the future recovery of the assets is uncertain

NOTES TO THE ACCOUNTS *continued*

22. Share capital and share based payments

	2012		2011	
Allotted, called up and fully paid	m	£m	m	£m
Ordinary shares of $46^{7}/_{8}$p each as at 31st December	**69 3**	**32 5**	69 3	32 5

During the year no ordinary shares were issued in connection with the Company's share option schemes (2011 28,149 ordinary shares for an aggregate consideration of £13,195)

Share options

The Group has the following share option schemes in place

The Senior Executive Share Option Scheme

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 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 became 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 ('RPI') 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 are valued using the Black-Scholes option model During the year, the 51,500 Senior Executive Share Options granted in March 2002 lapsed

The Company Share Option Plan ('CSOP')

The CSOP was introduced during 2011 The vesting of the 2011 CSOP is subject to the achievement of an EPS performance condition Performance is measured at the end of three consecutive financial years after the option is granted 100% of an award vests if an EPS target of 20p is achieved and none of the award vests if the EPS is below 13p There is a stepped vesting for an EPS between 13p and 20p The remuneration committee reserves the right to exclude items of a non-recurring nature from the EPS calculation The performance conditions were amended so the CSOP options granted in April 2012 will only become exercisable on the achievement of EPS growth above RPI and Total Shareholder Return ('TSR') targets Half of the options granted are linked to TSR performance compared to the performance of the FTSE Small Cap Index ('comparator group') The options subject to the TSR condition shall only vest if the Company's TSR shall place it at least at the median of the constituents of the comparator group ranked in descending order by TSR for the performance period Half of the options granted are linked to EPS performance The options subject to the EPS condition shall only vest if the Company's EPS growth above RPI is at least 3% compound per annum The performance condition is tested at the end of the performance period on the scale set out below

Company's TSR ranking versus the FTSE Small Cap	% of total option exercisable	EPS Growth above RPI	% of total option exercisable
Below median	0%	Less than 3% compound p a	0%
Median	25%	3% compound p a	25%
Upper quartile	100%	10% compound p a or more	100%

Straight line vesting will occur if the Company's TSR is between the median and upper quartile and the EPS between 3% and 10% compound per annum The performance period is three years from 31st December 2011 to 31st December 2014 Subject to the performance condition being achieved in whole or in part, the option holder will only be able to exercise the option from 16th April 2015 to 15th April 2022 The binomial model was used for the valuations

The Sharesave Plan

The Sharesave Plan was introduced in 2008 to encourage eligible UK employees to have an involvement in the Group's performance Savings contracts are of three or five year terms The vesting period is 38 months or 62 months and options may be exercised up to six months after the vesting date During the year 95,962 Sharesave Plan options granted in September 2008 under the three year contract expired

Fired Earth Incentive Scheme

The management of Fired Earth have an option to acquire up to 25 5% of the equity of Fired Earth Limited The transaction has been treated as an employee share option and the charge for the year was not material

Share options outstanding

Options outstanding at 31st December 2012 under the Group schemes were as follows

Senior Executive Share Option Scheme

Grant date	Number of shares	Exercisable in 7 years to	Exercise price p per share
October 2003	105,500	October 2013	235
Total	**105,500**		

Company Share Option Plan

Grant date	Number of shares	Exercisable in 7 years to	Exercise price p per share
April 2011	191,055	April 2021	123
April 2012	826,077	April 2022	Nil
Total	**1,017,132**		

Sharesave Plan

Grant date	Number of shares	Exercisable in 6 months to	Exercise price p per share
September 2008	207,382	May 2014	209
Total	**207,382**		

The total charge for the year relating to employee share based payment plans was £0 2m (2011 £nil) before tax and £0 2m (2011 £nil) post tax

The fair value per option of the CSOP granted in 2012 and 2011 and the assumptions used in the calculation are as follows

	2012	2011
Grant date	**16th April**	18th April
Closing share price at valuation date	**85p**	122p
Exercise price	**Nil**	123p
Number of employees	**4**	19
Shares under option	**826,077**	199,185
Vesting period (years)	**3**	3
Expected volatility	**53 0%**	46 7%
Option life (years)	**10**	10
Expected life (years)	**3**	6½
Risk-free rate	**0 476%**	2 78%
Expected dividend yield	**2.0%**	3 3%
Fair value per option (EPS/TSR)	**80p/55p**	46p/-

There are no options exercisable under the CSOP as at 31st December 2012 The weighted average remaining contractual life is nine years

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

	2012		2011	
	Number '000	Weighted average exercise price (p)	Number 000	Weighted average exercise price (p)
Outstanding at 1st January	**160**	**243**	210	242
Lapsed – expired	**(53)**	**260**	(30)	237
Lapsed – forfeited	**(1)**	**235**	(20)	236
Outstanding at 31st December	**106**	**235**	160	243
Exercisable at 31st December	**106**	**235**	160	243

NOTES TO THE ACCOUNTS *continued*

22 Share capital and share based payments *continued*

Under the Senior Executive Share Option Scheme the share options outstanding as at 31st December 2012 are as follows

2012				2011			
Exercise price p	**Number of shares '000**	**Expected remaining life years**	**Contractual remaining life years**	Exercise price p	Number of shares 000	Expected remaining life years	Contractual remaining life years
261	**–**	**–**	**–**	261	52	0 2	0 4
235	**106**	**0 4**	**0 8**	235	108	0 9	1 8
	106				160		

A reconciliation of the movements in the CSOP and Sharesave Plan are shown below

	CSOP		Sharesave	
	2012	2011	**2012**	2011
	Number of shares '000	Number of shares 000	**Number of shares '000**	Number of shares 000
Outstanding at 1st January	**199**	–	**311**	345
Granted	**826**	199	**–**	–
Lapsed – expired	**–**	–	**(96)**	–
Lapsed – forfeited	**(8)**	–	**(8)**	(34)
Outstanding at 31st December	**1,017**	199	**207**	311
Exercisable at 31st December	**–**	–	**–**	96

The weighted average remaining contractual life of options under the Sharesave Plan is 1 4 years

Further details of the directors' Sharesave Plan and CSOP are shown in the audited section of the remuneration report on page 36

23 Business combinations

On 1st April 2011 AGA Rangemaster Limited acquired the business and principal assets of Redfyre Cookers and Don Heating Products for a total consideration of £0 7m

24 Other reserves

	Fair value revaluation reserve £m	Translation reserve £m	Capital redemption reserve £m	Total £m
At 1st January 2012	1 5	7 5	75 0	**84 0**
Exchange adjustments on hedge of net investments	–	0 6	–	**0 6**
Exchange differences on translation of foreign operations	–	(2 8)	–	**(2 8)**
At 31st December 2012	**1 5**	**5 3**	**75 0**	**81.8**

	Fair value revaluation reserve £m	Translation reserve £m	Capital redemption reserve £m	Total £m
At 1st January 2011	1 5	8 2	75 0	84 7
Exchange differences on translation of foreign operations	–	(0 7)	–	(0 7)
At 31st December 2011	1 5	7 5	75 0	84 0

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 share consolidations in previous years

25 Commitments

	2012 £m	2011 £m
Capital commitments contracted for by the Group for property, plant and equipment but not provided for in the accounts	**0 3**	0 1

26 Operating lease commitments

	Land and buildings		Other operating leases	
Future minimum lease payments under non-cancellable leases	**2012 £m**	2011 £m	**2012 £m**	2011 £m
– within 1 year	**6 7**	6 6	**1.1**	1 4
– between 1 and 5 years	**18.6**	18 1	**1 5**	1 7
– after more than 5 years	**13.1**	13 5	**0 2**	0 2
Total operating lease commitments	**38 4**	38 2	**2 8**	3 3

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

27 Contingent liabilities

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 £30 0m (2011 £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 2021

The Group has no other material contingent liabilities arising in the normal course of business at 31st December 2012 (2011 £nil)

28. Related party transactions

The Group recharges the Group pension scheme with part of the cost of administration The total amount recharged in the year to 31st December 2012 was £0 1m (2011 £0 1m) The amount outstanding at the year end was £nil (2011 £nil)

Key management's compensation

The compensation of the key management team, including executive and non-executive directors, at the balance sheet date is set out below

	2012 £m	2011 £m
Salaries and short-term benefits	**1 7**	1 7
Post employment benefits	**0 1**	0 1
Share based payments	**0 1**	–
Total emoluments to key management	**1 9**	1 8

NOTES TO THE ACCOUNTS *continued*

29 Trading subsidiaries

The following is a list of the Group's principal trading subsidiaries at 31st December 2012 A description of their activities is given in the business review The share capital in each case consists, unless otherwise stated, wholly of ordinary shares, preference 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 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 trades in the UK principally under the trade and business names of	***Website addresses:***
AGA	www agaliving com
AGA Cookshop	www agacookshop co uk
Divertimenti	www divertimenti co uk
Falcon	www falconappliances com
Leisure Sinks	www leisuresinks co uk
Mercury	www mercuryappliances co uk
Rangemaster	www rangemaster co uk
Rayburn	www rayburn-web co uk
Redfyre	www redfyrecookers co uk
Principal overseas trade and business names	
AGA Marvel (USA)	www aga-marvel com
	www aga-ranges com
AGA Rangemaster France (branch)	www falconfrance com
Grange SA (France) 98 5%	www grange fr
Heartland Appliances Inc (Canada)	www heartlandapp com
La Cornue SAS (France)	www lacornue com
Northland Corporation (USA)	www northlandnka com
Waterford Stanley Limited (Ireland)	www waterfordstanley com
	www waterfordcookers com
Other UK:	
ARG Corporate Services Limited •	
AGA Rangemaster Properties Limited •	
Fired Earth Limited 80 1% •	www firedearth com

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 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 29 The financial reporting 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 auditor
As explained more fully in the directors' responsibilities statement set out on page 28, 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 and express an opinion on 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 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 In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012 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 matters 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 financial statements, and
- the information given in the corporate governance statement set out on pages 29 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, or
- a corporate governance statement has not been prepared by the Company

Under the Listing Rules we are required to review
- the directors' statement in relation to going concern, and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

Other matters
We have reported separately on the parent Company financial statements of AGA Rangemaster Group plc for the year ended 31st December 2012 and on the information in the directors' remuneration report that is described as having been audited

Simon O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
8th March 2013

FIVE YEAR FINANCIAL HISTORY

Trading results		2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Revenue		**244.6**	250 9	259 1	245 0	279 4
Operating profit before non-recurring costs		**10 3**	9 2	21 5	3 9	16 5
Non-recurring costs		**(1 7)**	(2 1)	(1 4)	(3 6)	(5 3)
Total operating profit		**8 6**	7 1	20 1	0 3	11 2
Net finance (cost) / income		**(0 2)**	0 4	(0 2)	0 2	3 2
Profit before income tax		**8 4**	7 5	19 9	0 5	14 4
Tax (expense) / credit		**(1 6)**	5 4	(5 8)	–	(2 7)
Profit for the year – continuing operations		**6 8**	12 9	14 1	0 5	11 7
Post tax profit from discontinued operations		–	2 7	–	–	–
Profit for the year		**6.8**	15 6	14 1	0 5	11 7
Statistics						
Operating profit before non-recurring costs to revenue	%	**4 2**	3 7	8 3	1 6	5 9
Dividend per ordinary share	p	–	1 9	1 7	–	4 0
Earnings per share – continuing						
Basic	p	**10 0**	18 8	20 5	2 5	14 4
Diluted	p	**10 0**	18 8	20 5	2 5	14 4

Balance sheet summary	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Net operating assets					
Property, plant and equipment	**38 3**	40 8	40 8	50 8	58 7
Inventories	**45 9**	45 5	42 8	46 0	63 5
Operating receivables less payables and provisions	**(34 5)**	(45 6)	(47 2)	(42 2)	(39 9)
Total net operating assets before intangibles	**49.7**	40 7	36 4	54 6	82 3
Assets held for sale	**2.2**	2 6	10 2	3 1	1 9
Net retirement benefit (obligation) / surplus	**(11.0)**	5 3	7 1	(40 5)	57 5
Goodwill and intangible assets	**89 8**	90 6	89 6	90 1	94 9
Total net operating assets	**130 7**	139 2	143 3	107 3	236 6
Tax	**5 0**	(2 8)	(15 6)	(5 0)	(25 9)
Total net cash	**5 5**	31 3	34 6	28 0	5 8
Total net assets	**141 2**	167 7	162 3	130 3	216 5
Financed by					
Ordinary shares	**32 5**	32 5	32 5	32 5	32 5
Reserves	**108 6**	135 0	129 4	97 3	182 2
Equity attributable to equity holders of the parent	**141 1**	167 5	161 9	129 8	214 7
Non-controlling interests	**0 1**	0 2	0 4	0 5	1 8
Total equity	**141 2**	167 7	162 3	130 3	216 5

PARENT COMPANY ACCOUNTS UNDER UK GAAP
Company Balance Sheet as at 31st December

The Company has elected to prepare its financial statements under UK GAAP

	Notes	2012 £m	2011 £m
Fixed assets			
Investments	5	**489.5**	433 3
Total fixed assets		**489 5**	433 3
Current assets			
Debtors – amounts falling due within one year	6	**537 4**	562 5
Cash at bank and in hand	7	**5 0**	35 3
Total current assets		**542 4**	597 8
Creditors – amounts falling due within one year			
Creditors	8	**(716.6)**	(694 0)
Borrowings	7	**–**	(2 8)
Provision for liabilities and charges	9	**(1 8)**	(7 8)
Total amounts falling due within one year		**(718 4)**	(704 6)
Net current liabilities		**(176 0)**	(106 8)
Total assets less current liabilities		**313 5**	326 5
Creditors – amounts falling due after more than one year			
Borrowings	7	**(13.9)**	(15 1)
Total net assets employed		**299.6**	311 4
Shareholders' equity			
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	**162 5**	174 3
Total shareholders' funds		**299 6**	311 4

The accounts were approved by the board of directors on 8th March 2013 and were signed on its behalf by

W. McGrath/. Shaun Smith

W B McGrath
Chief Executive

S M Smith
Finance Director

Notes to the accounts are on pages 76 to 79

NOTES TO THE PARENT COMPANY ACCOUNTS

The directors' report is on pages 26 to 27 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 interest receivable and payable

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 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 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
A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain

Employee share options
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 external valuation 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 Market performance conditions and 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 recognised in the profit and loss account 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 profit and loss account

The measurement of this expense is calculated only on options granted after 7th November 2002

The majority of share options are granted to directors of the Company When the Company awards share options to subsidiary companies an addition to their cost of investment is made in order to recognise the capital contribution

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 £11 2m (2011 £45 8m)

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of AGA Rangemaster Group plc because Group financial statements are prepared which are required to disclose such fees on a consolidated basis

3. Dividends

	2012 £m	2011 £m
Final dividend paid of 1 1 pence per share for the year ended 31st December 2011 (2010 1 0 pence)	**0 8**	0 7
Interim dividend paid of nil for the year ended 31st December 2012 (2011 0 8 pence)	**–**	0 5
Total dividends paid in the year	**0 8**	1 2

The directors are not recommending a final dividend in respect of the financial year ended 31st December 2012 (2011 1 1 pence per share)

4. Directors' compensation

The compensation of the directors is disclosed in note 5 of the Consolidated Annual Report and Accounts

5 Investments

Interest in subsidiaries	Cost of shares £m	Provisions £m	Net book value £m
At 1st January 2012	458 7	(25 4)	**433.3**
Movement in year	67 7	(9 2)	**58 5**
Companies struck off	(2 3)	–	**(2 3)**
At 31st December 2012	**524 1**	**(34 6)**	**489 5**

The movement in the year related to a capital contribution in exchange for an intercompany loan for AGA Home Inc and AGA Home SAS

6 Trade and other debtors

Amounts falling due within one year	2012 £m	2011 £m
Amounts owed by Group undertakings	**535 5**	561 2
Deferred tax asset	**0 3**	–
Corporation tax recoverable	**1 5**	0 8
Prepayments and accrued income	**–**	0 1
Other receivables	**0 1**	0 4
Debtors falling due within one year	**537 4**	562 5

NOTES TO THE PARENT COMPANY ACCOUNTS *continued*

7. Cash and borrowings

a) Cash

	2012 £m	2011 £m
Cash at bank and in hand	**5 0**	35 3
Cash	**5 0**	35 3

b) Financial liabilities – net borrowings / (cash)

	2012 £m	2011 £m
Bank borrowings	–	2 8
Amounts falling due within one year	–	2 8
Bank borrowings	**13 9**	15 1
Amounts falling due after one year	**13 9**	15 1
Total borrowings	**13 9**	17 9
Cash and cash equivalents	**(5 0)**	(35 3)
Total net borrowings / (cash)	**8 9**	(17 4)

The Company's borrowings are primarily loan advances denominated in a number of currencies and interest is based on LIBOR or foreign equivalents

The loans are unsecured The amounts falling due after one year are due for repayment in 2015

8 Creditors

Amounts falling due within one year	2012 £m	2011 £m
Amounts owed to Group undertakings	**714 4**	693 0
Accruals and deferred income	**0 9**	0 5
Other payables	**1.3**	0 5
Total creditors falling due within one year	**716 6**	694 0

9 Provisions

	£m
At 1st January 2012	**7 8**
Charge in the year	**-**
Utilised in the year	**(6 0)**
At 31st December 2012	**1 8**

These provisions mainly 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 these divested businesses Although the majority of these provisions may be realised in the next accounting period, the exact timing is unclear During 2012 the Group received a judgement from a German court relating to the valuation of a minority shareholding in a business which the Group acquired in 1998 and sold in 2001 as part of the Pipe Systems disposal and various settlement payments have consequently been made during the year The provision held reflects the remaining settlements and claims in relation to divested businesses

10. Share capital

Allotted, called up and fully paid	2012 m	2012 £m	2011 m	2011 £m
Ordinary shares of 46⁷⁄₉p each as at 31st December	**69 3**	**32 5**	69 3	32 5

During the year no ordinary shares were issued in connection with the Company's share option schemes (2011 28,149 ordinary shares for an aggregate consideration of £13,195)

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 2012 and share based payments disclosures are shown in note 22 of the Consolidated Annual Report and Accounts

11. Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	Total equity £m
At 1st January 2012	32 5	29 6	75 0	174 3	**311.4**
Share based payments	–	–	–	0 2	**0.2**
Dividends paid	–	–	–	(0 8)	**(0 8)**
Loss for the year	–	–	–	(11 2)	**(11 2)**
At 31st December 2012	**32 5**	**29.6**	**75 0**	**162 5**	**299 6**

12. Commitments

The Company had no capital commitments (2011 nil)

13 Contingent liabilities

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 £30 0m (2011 £50 0m) of bank guarantees, to guarantee obligations of the Company to the AGA Rangemaster Group Pension Scheme

The Company has no other material contingent liabilities arising in the normal course of business at 31st December 2012 (2011 nil)

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 98 5% subsidiary, Grange SA The balance at 31st December 2012 was £5 5m (2011 £3 8m) and is repayable on demand The maximum balance during the year was £5 5m

15. Trading subsidiaries

The Company's principal trading subsidiaries at 31st December 2012 are listed in note 29 of the Consolidated Annual Report and Accounts

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 2012 which comprise the 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 auditor

As explained more fully in the directors' responsibilities statement set out on page 81 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 and express an opinion on 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 In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012,
- 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 matters

We have reported separately on the Group financial statements of AGA Rangemaster Group plc for the year ended 31st December 2012

Simon O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
8th March 2013

SHAREHOLDER INFORMATION

Head office and registered office

AGA Rangemaster Group plc
Juno Drive, Leamington Spa,
Warwickshire, CV31 3RG
Telephone 0044 (0) 1926 455755 \ Fax 0044 (0) 1926 455749
E-mail info@agarangemaster.com \ Website www.agarangemaster.com
Registered in England company registered number 00354715

2013 Financial calendar

Annual General Meeting	1st May 2013
2013 half year close	30th June 2013

At 31st December 2012, the Company had 5,461 ordinary shareholders (2011 5,772). Their holdings are analysed as follows

Number of $46\frac{7}{8}$p ordinary shares	Number of holders	% of total shareholders	Number of shares held	% of total shares held
Up to 5,000	5,073	5.0	3,488,376	92.9
5,001–50,000	280	6.0	4,201,773	5.1
50,001–500,000	78	17.5	12,084,776	1.4
Over 500,000	30	71.5	49,489,298	0.6
	5,461	**100.0**	**69,264,223**	**100.0**

Share fraud warning

AGA Rangemaster Group plc has become aware that a small number of shareholders have recently received unsolicited telephone calls concerning their investment in the company. These calls are from overseas based organisations who offer to buy AGA Rangemaster Group plc shares for considerably more than the current market price. In some cases the caller has suggested that there is currently a takeover offer for AGA Rangemaster Group plc. There is no such offer and we suspect that the calls are bogus.

Shareholders are advised to be very wary of any unsolicited investment advice, offers to buy shares or offers of free company reports. These operations are commonly known as 'boiler rooms'. Callers can be very persistent and extremely persuasive. We are aware that they attempt to persuade shareholders to provide email addresses or other personal information. Shareholders should not provide any such details.

The Financial Services Authority ('FSA') provides the following guidance should you be contacted in this manner

- obtain the name of the person calling and the organisation they represent,
- check that they are properly authorised by the FSA by checking the FSA register of regulated firms and individuals at www.fsa.gov.uk/register/home.do,
- call the organisation back to verify their identity using the telephone number listed for them on the FSA register. If you deal with an unauthorised firm you will not have access to the Financial Ombudsman Service and will not be eligible to receive payment under the Financial Services Compensation Scheme,
- report any suspicions to the FSA either by calling 0845 606 1234 or by completing the online form at www.fsa.gov.uk/Pages/Doing/Regulated/Law/Alerts/form.shtml,
- report the matter to the National Fraud Authority on 0300 123 2040 or visit www.actionfraud.police.uk,
- if the calls persist, hang up.

Please also inform our registrars, Equiniti, by calling 0871 384 2355.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

"I LOVE MY AGA"

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