

Baxi Holdings Limited

Annual Report &  
Accounts 2008

Company no: 4921647

# Contents

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<b>02</b> Chief Executive's Review	<b>05</b> Directors' Report	<b>07</b> Independent Auditors' Report	<b>08</b> Group Profit and Loss Account	<b>09</b> Balance Sheets
<b>10</b> Group Statement of Cash Flows	<b>11</b> Group Statement of Total Recognised Gains and Losses	<b>11</b> Reconciliation of Movements in Group Shareholders' Funds	<b>12</b> Notes to the Financial Statements	<b>37</b> Notice of Meeting

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**Markets for heating products in Western Europe were generally weaker in 2008, with the notable exception of Germany where some recovery followed an exceptionally weak market in 2007. Markets in Eastern Europe, particularly Russia, were generally buoyant.**

**Against this background, I am pleased to be able to report that Baxi achieved total sales in 2008 of £939.3 million, an increase of 11%, or 1% at constant exchange rates, and an increase in operating profit (before exceptional reorganisation costs, asset impairment charges and goodwill amortisation) from £69.3 million to £89.9 million.**

**Group operating profit after exceptional reorganisation costs, asset impairment charges and goodwill amortisation was £45.2 million compared to £18.9 million in 2007.**

## Operating results for 2008 Financial Year

Group sales and operating profits (before exceptional reorganisation costs, asset impairment charges and goodwill amortisation) increased by 11% and 30% from 2007 levels notwithstanding the decline in European boiler markets during the year. For most of 2008, the cost of raw materials and components continued to increase as a result of increases in the prices of copper, aluminium and steel, so that on average these costs were higher than in

2007; the fall in commodity prices towards the end of the year will enable us to reduce these costs in 2009. The weakening of the Pound against the Euro during 2008 has had the effect of increasing the sterling value of our European profits, while increasing the cost of sales of the UK business which sources a significant portion of its materials and components in Euros. Total sales of boilers across the Group increased by 2% to 954,000 units in 2008.

Results by country were:

£m	Sales		Operating profit (note)	
	2008	2007	2008	2007
UK	334.7	331.8	52.8	40.8
Italy	221.5	197.5	13.2	18.9
Iberia	154.4	156.0	13.8	13.9
Germany	165.6	118.2	14.8	9.3
France	110.8	97.0	(7.2)	(15.5)
Others	49.6	41.1	2.5	1.9
Inter-regional turnover	(97.3)	(94.9)	-	-
	939.3	846.7	89.9	69.3
Exceptional reorganisation costs	-	-	(18.6)	(16.0)
Impairment of goodwill and fixed assets	-	-	(1.0)	(9.4)
Goodwill amortisation	-	-	(25.1)	(25.0)
	939.3	846.7	45.2	18.9
Share of operating profit of associated companies	-	-	4.0	4.2
	939.3	846.7	49.2	23.1

Note: country operating profits are stated before exceptional reorganisation costs, asset impairment charges and goodwill amortisation.

### Exceptional reorganisation costs

The Group incurred costs of £18.6 million in 2008 in relation to exceptional reorganisations; of this £11.7 million was expended in cash, there were £2.2 million of asset write offs, there was a pensions curtailment gain of £0.9 million, and £5.6 million will be expended in cash in 2009. These costs relate to reorganisations of the UK, French, Danish and Spanish businesses.

## Review by Division

### UK

The boiler market in the UK fell by 2% in 2008 to 1.586 million units; this relative resilience in the current economic environment reflects the importance of replacement demand in the boiler market, as compared to new house build demand. Baxi's volumes grew by 24,000 units to 310,000 units so that its market share increased by 1.8% to 19.6%. This growth was driven by an increase in sales of Band A boilers, which increased from 163,000 to 215,000 units, increasing our share of that segment from 13% to 16.5%. Notably, Baxi's Band A Duo-tec 28 HE boiler was voted Boiler of the Year by installers registered with Corgi, the national watchdog for gas safety in the United Kingdom, having been named Best Boiler for the second year running by consumer magazine Which?

The rationalisation of the Group's boiler production facilities in the North West of England in 2007 resulted in significant cost savings within this business. The UK's financial performance in 2008 was significantly impacted by the weakening of Sterling; this increased the cost of materials and components procured in Europe; the contracts segment within the market continued to be the predominant sector, maintaining pressure on unit margins.

The Group's principal water heater business, Heatrae Sadia, produced a creditable financial performance in 2008 against a background of the rapid decline in the new housebuild market in the UK, which accounts for a significant proportion of its sales.

### Italy

The Italian boiler market declined in 2008 by 10% following a similar decline the previous year, reflecting a decline in new dwelling construction and subdued consumer demand; high efficiency boilers continued to take share, increasing from 20% to 30% of the market as a whole. Baxi sales into the Italian market fell 16%, reflecting significant de-stocking by major distributors; we believe our share of sales to installers and consumers was broadly maintained. The sales from the Group's Italian factory to other Group companies in Europe and Turkey were maintained at 2008 levels, while sales into the emerging markets of Eastern Europe grew by 18%, with strong growth of sales into Russia in particular. The 2008 result has been impacted by the reduction in higher margin sales into the domestic market and higher raw material costs.

### Iberia

The boiler market in Spain declined by 17% in 2008, reflecting the continuing contraction of new dwelling construction there; Baxi's share declined from 19.6% to 18.1% as a result of its relatively stronger position in the new installation segment of the market. The Group's share of the radiator market in Spain showed some growth.

The Portuguese heating products market also continued to experience low levels of activity.

### Germany

The boiler market in Germany grew by 12% in 2008, partially recovering from its 28% decline in 2007. August Brötje, Baxi's boiler business in Germany, marginally increased its share of the market. Sales of SenerTec mini CHP products increased by 6%, reflecting the increased subsidies and support for low carbon equipment in Germany.

### France

The market for wall hung and floor standing boilers in France stabilised in 2008, with volumes comparable to the prior year. Baxi's market shares were broadly maintained, with sales into the domestic boiler market increased by 5%, although as a result of the absence of castings sales from the former foundry and lower inter-group sales, total sales fell by 1% at constant currency. As anticipated in last year's report, Baxi's foundry in France was disposed of in March 2008, and a social plan to further reduce the workforce there was implemented in the year. As a result of these actions, the loss in France was improved from £15.5 million in 2007 to £7.2 million in 2008.

### Other markets

Sales of boilers into other markets (predominantly from the Group's Italian factory) increased by 17% to 237,000 units in 2008, with the growth seen in 2007 in Russia and Ukraine continuing.

### Turkey

Baxi operates in Turkey through a 50% owned associated company. The Turkish market was subdued again in 2008 as dwelling construction slowed, and the effects of the wider financial problems impacted the Turkish currency and economy.

## Principal risks facing the Group

Risks which could have a material impact on performance of the Group include:

### Competition

Baxi is the third largest boiler manufacturer in Europe, with about 10% market share; the largest two, Bosch and Vaillant, each have approximately 17-18%. Competition within the boiler industry is based on the quality and functionality of products and services, together with price and range. As a consequence, the industry is characterised by new boiler product launches, together with promotional activity and aggressive pricing policies. Recently the growth in alternative technologies, such as heat pumps and solar panels, has been rapid. The Group therefore continually seeks to drive down its costs, develops new products and invests in new heating technologies.

There is also a risk that our main competitors may make strategic acquisitions of complimentary businesses ahead of us. The Group therefore continually monitors potential business acquisitions throughout Europe to ensure that it considers all relevant opportunities.

### Raw materials

Our business buys in raw material and components with a high metal content, particularly copper, aluminium, brass and stainless steel. Consequently a rapid change in these commodity prices can impact our operating profits and cash flows. Commodity prices are monitored to highlight trends when negotiating with suppliers.

### Technology

There is a drive in the heating industry to develop more efficient boilers and alternative heating technologies such as mCHP (micro and mini combined heat and power appliances), solar panel heating systems and heat pumps; the Group therefore invests significant resources in these areas to ensure it has the advanced products demanded by the market.

### Environmental

The European markets in which we operate are being affected by measures being taken to improve energy efficiency and reduce emissions of greenhouse gasses such as CO<sub>2</sub> following the adoption of the UN Framework Convention on Climate Change in May 1992 and the Kyoto Protocol in December 1997; the Energy Using Appliances Directive is expected to be introduced in 2010 and is likely to require newly installed appliances to be High Efficiency.

### Foreign currencies

We generate a significant proportion of our profits in Euros; however, the costs of boilers and components sourced from our Italian operations or European suppliers for sale in the United Kingdom exceed these Euro profits. As a result our operating profits and cash flows are negatively correlated with the strength of the Euro against the Pound Sterling.

### Gas supplies

The majority of the Group's sales are accounted for by boilers or water heaters which are fuelled by natural gas in countries where there are no indigenous long-term sources of gas. Disruption to the sources of gas, or threatened disruption, might adversely impact the demand for our products in those countries and hence our sales.

### General economic conditions

We conduct our business internationally, including exporting our products to a number of emerging markets. As a result, our business is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions.

## Key Performance Indicators

The Group utilises the following indicators of performance to assess its development against its strategy and financial objectives:

	2008	2007	Growth
Sales (£ million)	939.3	846.7	+11%
Boiler Volumes sold (000's)	954	938	+2%
EBITDA <sup>1</sup> (£ million)	113.2	94.2	+20%
Net External Debt <sup>2</sup>	487.6	485.1	+1%
External Debt / EBITDA	4.3	5.1	-16%

<sup>1</sup> EBITDA is defined as Group operating profit, including share of associated companies operating profit, stated before depreciation, exceptional reorganisation costs, impairment charges and goodwill amortisation.

<sup>2</sup> Net External Debt is defined as borrowings gross of debt finance costs, excluding shareholder loan notes less cash in hand.

**Martyn Coffey**

Chief Executive  
5 March 2009

The directors present their report and the audited financial statements for the year ended 31 December 2008.

### Activity of the Group

The principal activity of the Group is the manufacture, marketing, selling and distribution of domestic and commercial heating products. Substantially all of the trading takes place from within the European Union.

### Business review and future developments

In its fifth year of operations the Group has recovered from weakness in most of its major markets last year to record an increase in profits.

The information that fulfils the requirements of the Business Review are given in the Chief Executive's Review on pages 2 to 3, Principal Risks facing the Group on page 4, and Key Performance Indicators on page 4, which are incorporated in this report by reference.

### Results

The Group's loss for the year is £41,313,000 (2007 loss £50,715,000).

The directors do not recommend the payment of a dividend (2007 £nil).

### Directors

The following were directors of the Company during the year and up to the date of this report:

Executive directors:

Mr M Coffey, Chief Executive  
(appointed 30 January 2008)

Mr M J Edwards, Chief Executive  
(resigned 16 January 2008)

Mr A E Darling, Group Finance Director

Mr M Kelly (appointed 19 May 2008)

Mr S E Basile (resigned 19 February 2009)

Non-executive directors:

Mr J D Burgess

Mr A J T Newington

Mr F Loredan (resigned 18 February 2008)

Mr H A L H Mumford

Mr J Bateman (resigned 2 March 2009)

Mr R Pisa

Mr J Rivers (appointed 2 March 2009)

### Directors' responsibility statement

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company or Group will continue in business.

Details of the Group's current debt facilities are set out in note 18 to the financial statements. The availability of these facilities is subject to continued compliance with financial covenants in respect of interest cover, leverage and cash flow.

The Group has prepared detailed budgets and forecasts which indicate that the Group expects to meet these covenant requirements for the foreseeable future. The forecasts reflect management's expectation that the results of the business will improve in future periods, partly as a consequence of the restructuring that has been undertaken in the UK, French, Spanish and Danish businesses.

As highlighted in the Chief Executive's Review the Group remains exposed to a number of risks relating to the markets in which it operates, including general economic conditions, competitor activity, raw material prices and currency movements which could adversely impact on the results in the future.

However the directors believe that given their current expectations of the forecast results of the business, they have a reasonable basis on which to continue to prepare the financial statements on a going concern basis.

The directors confirm that suitable accounting policies have been used and applied consistently, that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2008 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Baxi Group website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors cannot be held responsible 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.

### Substantial shareholdings

The following organisations have shareholdings which amounted, at the end of the period, to three per cent or more of the Company's issued ordinary share capital:

BC Partners (note 1)	81.2%
Kingsway Nominees Limited (note 2)	11.1%

Notes: (1) Includes funds managed by CIE Management II Limited advised by BC Partners

(2) Includes funds managed by Electra Fleming

### Research and development

The Group commits resources to research and development of new products to support the growth of its businesses and to maintain and improve upon market positions in environments of changing technologies.

During the year the Group charged £11,431,000 (2007 £9,668,000) in respect of research and development.

### Donations

The Company and Group made no payments for political purposes and made charitable donations totalling £12,000 (2007 £7,000) in relation to local charities.

### Employees

The Group recognises the importance of good communications and relations with employees, and that its ability to meet the needs of its customers in a profitable and competitive manner depends on the contribution of employees throughout the Group.

Employees are encouraged to develop their contribution to the business wherever they work. In many areas ongoing programmes, focused on quality and customer service, provide an opportunity for everyone to be involved in making improvements. The Group provides updates to employees on development within the Group on a regular basis.

Financial participation is further encouraged through a variety of bonus schemes which provide employees with rewards linked to the growth and prosperity of the business.

Employee representatives are involved in the Group's retirement and death benefits schemes.

Group policy is to not discriminate against disabled persons for those vacancies they are able to fill. All necessary assistance with initial training is given. Where employees become disabled, the Group endeavours to continue to employ them provided there are duties they can perform given their disability.

### Group policy on payment of suppliers

Operating companies agree payment terms with each of their major suppliers and abide by these terms, subject to satisfactory performance by the supplier. At 31 December 2008, the Company had no outstanding trade creditors (2007 £nil).

### Financial instruments

The Group's financial risk management objectives in relation to interest rate, foreign exchange and price risk are disclosed in note 18.

### Own shares

Details of transactions in own shares are provided in note 21.

### Disclosure of information to auditors

Each of the directors at the date of approval of this report confirms that so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

A resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors and the determination of their remuneration will be proposed at the forthcoming Annual General Meeting.

### By order of the Board:

A E Darling  
Company Secretary  
5 March 2009

We have audited the Group and Parent Company financial statements (the "financial statements") of Baxi Holdings Limited for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Cash Flows, the Group Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Group Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chief Executive's Review and the Notice of Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 December 2008 and of the Group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

#### **PricewaterhouseCoopers LLP**

Chartered Accountants  
and Registered Auditors  
Birmingham  
9 March 2009

# Group Profit and Loss Account

for the year ended 31 December 2008

Baxi Holdings Limited  
Annual Report & Accounts 2008

	Notes	Year ended 31 December 2008 Continuing £ '000	Year ended 31 December 2007 Continuing £ '000
<b>Turnover</b>	2	939,316	846,733
Group operating profit before exceptional items, impairment charges and goodwill amortisation		89,945	69,330
Exceptional reorganisation costs	3	(18,628)	(16,071)
Impairment of goodwill and fixed assets	9, 10	(1,000)	(9,425)
Goodwill amortisation	9	(25,067)	(24,975)
<b>Group operating profit</b>	2, 3	45,250	18,859
Share of operating profit of associated companies before goodwill amortisation		4,688	4,894
Goodwill amortisation of associated companies		(726)	(701)
Share of operating profit of associated companies		3,962	4,193
<b>Total operating profit including share of associated companies</b>		49,212	23,052
Loss on disposal of business operation	23	(9,853)	-
<b>Profit on ordinary activities before interest</b>		39,359	23,052
Net interest payable and similar charges	5	(67,316)	(59,040)
<b>Loss on ordinary activities before taxation</b>	4	(27,957)	(35,988)
Tax on loss on ordinary activities	6	(13,078)	(14,586)
<b>Loss on ordinary activities after taxation</b>		(41,035)	(50,574)
Minority interest	21	(278)	(141)
<b>Loss for the year</b>	21	(41,313)	(50,715)

# Balance Sheets

at 31 December 2008

Baxi Holdings Limited  
Annual Report & Accounts 2008

	Notes	2008		2007	
		Group £ '000	Company £ '000	Group £ '000	Company £ '000
<b>Fixed assets</b>					
Intangible assets	9	402,377	-	404,578	-
Tangible assets	10	113,549	-	102,547	-
Investments	11	35,620	11,244	31,033	11,244
		551,546	11,244	538,158	11,244
<b>Current assets</b>					
Stocks	12	126,182	-	104,317	-
Debtors	13	336,071	194	277,768	182
Cash at bank and in hand		24,390	305	19,185	305
		486,643	499	401,270	487
<b>Creditors: amounts falling due within one year</b>					
Borrowings	14	(52,933)	-	(36,578)	-
Other	14	(327,118)	(221)	(249,275)	(209)
		(380,051)	(221)	(285,853)	(209)
<b>Net current assets</b>		106,592	278	115,417	278
<b>Total assets less current liabilities</b>		658,138	11,522	653,575	11,522
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings	15	(602,010)	-	(581,444)	-
<b>Provision for liabilities and charges</b>	17	(27,141)	-	(25,617)	-
<b>Net assets excluding pension liabilities</b>		28,987	11,522	46,514	11,522
Pension liabilities	19	(26,784)	-	(31,104)	-
<b>Net assets including pension liabilities</b>		2,203	11,522	15,410	11,522
<b>Capital and reserves</b>					
Called up share capital	20	117	117	117	117
Share premium account	21	11,387	11,387	11,387	11,387
Profit and loss account	21	(11,281)	18	2,553	18
<b>Total shareholders' funds</b>		223	11,522	14,057	11,522
Minority interest	21	1,980	-	1,353	-
<b>Capital employed</b>		2,203	11,522	15,410	11,522

The financial statements on pages 8 to 36 were approved by the Board of Directors on 5 March 2009 and signed on its behalf by:

M Coffey  
Director

A E Darling  
Director

# Group Statement of Cash Flows

for the year ended 31 December 2008

Baxi Holdings Limited  
Annual Report & Accounts 2008

	Notes	2008 £ '000	2007 £ '000
<b>Net cash inflow from operating activities</b>	24	102,098	62,952
<b>Dividends from associated companies</b>	11	1,299	1,808
<b>Returns on investments and servicing of finance</b>			
Interest paid		(44,404)	(42,765)
Debt issue costs		-	(3,357)
Dividend to minority		(112)	-
<b>Net cash outflow from returns on investments and servicing of finance</b>		(44,516)	(46,122)
<b>Taxation</b>		(8,117)	(15,515)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(17,763)	(16,579)
Sale of tangible fixed assets		2,120	3,121
<b>Net cash outflow for capital expenditure and financial investment</b>		(15,643)	(13,458)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	23	-	(590)
Realisation of assets		-	485
Cost of disposal of business operation	23	(8,381)	-
<b>Net cash outflow for acquisitions and disposals</b>		(8,381)	(105)
<b>Net cash inflow/(outflow) before financing</b>		26,740	(10,440)
<b>Financing</b>			
Issue of ordinary share capital (net of costs)	20	-	17
Purchase of own shares	21	-	(175)
Sale of own shares	21	-	10
Loans issued	26	8,000	40,391
Loans repaid	26	(39,261)	(36,060)
<b>Net cash (outflow)/inflow from financing</b>		(31,261)	4,183
<b>Decrease in net cash</b>	25	(4,521)	(6,257)

## Group Statement of Total Recognised Gains and Losses

for the year ended 31 December 2008

Baxi Holdings Limited  
Annual Report & Accounts 2008

	2008 £ '000	2007 £ '000
<b>Loss for the year</b>	(41,313)	(50,715)
Exchange adjustments on foreign currency net assets	28,199	8,858
Actuarial (loss)/gain on pension liabilities (note 19)	(1,000)	16,820
Deferred taxation on actuarial (loss)/gain	280	(5,046)
Impact of change in UK tax rate on deferred tax	-	(1,208)
<b>Total recognised losses for the year</b>	<b>(13,834)</b>	<b>(31,291)</b>

## Reconciliation of Movements in Group Shareholders' Funds

for the year ended 31 December 2008

	2008 £ '000	2007 £ '000
<b>Loss for the year</b>	(41,313)	(50,715)
Issue of own shares	-	17
Purchase of own shares	-	(175)
Sale of own shares	-	10
Exchange adjustments on foreign currency net assets	28,199	8,858
Actuarial (loss)/gain on pension liabilities (note 19)	(1,000)	16,820
Deferred taxation on actuarial (loss)/gain	280	(5,046)
Impact of change in UK tax rate on deferred tax	-	(1,208)
Net change in shareholders' funds	(13,834)	(31,439)
Opening shareholders' funds	14,057	45,496
<b>Closing shareholders' funds</b>	<b>223</b>	<b>14,057</b>

## 1 Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

### Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom, using the historical cost convention.

Details of the Group's current debt facilities are set out in note 18 to the financial statements. The availability of these facilities is subject to continued compliance with financial covenants in respect of interest cover, leverage and cash flow.

The Group has prepared detailed budgets and forecasts which indicate that the Group expects to meet these covenant requirements for the foreseeable future. The forecasts reflect management's expectation that the results of the business will improve in future periods, partly as a consequence of the restructuring that has been undertaken in the UK, French, Spanish and Danish businesses.

As highlighted in the Chief Executive's Review the Group remains exposed to a number of risks relating to the markets in which it operates, including general economic conditions, competitor activity, raw material prices and currency movements which could adversely impact on the results in the future.

However the directors believe that given their current expectations of the forecast results of the business, they have a reasonable basis on which to continue to prepare the financial statements on a going concern basis.

### Basis of consolidation

The Group financial statements comprise the financial statements of Baxi Holdings Limited and all its subsidiaries and associates all drawn up to 31 December. The results of associated undertakings are included using the equity method of accounting. The results of businesses acquired are accounted for on an acquisition basis. Businesses acquired or disposed of during the period are consolidated for the period of ownership.

### Accounting for acquisitions and goodwill

On acquisition, the book value of acquired assets and liabilities is adjusted to bring the accounting policies of businesses acquired into alignment with those of the Group.

Goodwill, being the difference between the fair value of the purchase consideration and the fair value of the separable acquired net assets and liabilities, is capitalised as an intangible asset in accordance with FRS10 and written off through the consolidated profit and loss account over the estimated useful life of the goodwill. Goodwill relating to overseas businesses is calculated with reference to the currency with which it is acquired. Where the acquisition currency is not Sterling, the carrying value of goodwill is retranslated to Sterling at the exchange rate ruling at the balance sheet date, unless hedged, and the exchange differences arising are taken to reserves.

### Turnover

Turnover is the invoiced value of goods and services supplied net of rebates and credit notes. It excludes sales between group companies, VAT and similar sales-based taxes.

### Research and development

Expenditure on research and development is charged to the profit and loss account in the period in which it is incurred.

### Provisions

Provisions are made for obligations of uncertain timing or amount arising from a past event where a reliable estimate can be made of the probable cost.

### Warranties

Provision is made for the estimated liability relating to products sold still under warranty, and is calculated based on historical claims information.

### Tangible fixed assets

Group policy is to carry tangible fixed assets at historic cost less depreciation and impairment. Depreciation is charged on a straight line basis to write-off the cost less the estimated residual value of tangible fixed assets over their expected useful lives as follows:

Freehold land	not depreciated
Freehold buildings	2% per annum (unless expected life is deemed to be less than 50 years, in which case over the expected life of the building)
Leasehold land and buildings	over the period of the lease
Plant and equipment	10% to 33% per annum

### Impairment

Assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value in use.

### Investments

Investments in associated companies are stated at the Group's share of the net assets of those companies including goodwill less provision for any impairment. The consolidated profit and loss account includes the relevant share of those companies' profits less losses. Fixed asset investments are held at cost less provision for any impairment.

### Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes attributable overheads where appropriate. Net realisable value is the estimated selling price reduced by all costs of completion, marketing, selling and distribution.

**1 Accounting Policies (continued)****Capital instruments**

In accordance with FRS4 Capital Instruments, term debt is stated in the accounts at the gross amount at issue less the costs incurred in connection with its issue. Costs which have been capitalised in the balance sheet are amortised in the profit and loss account over the term of the debt to which they relate, or to the expected redemption date, if early redemption is reasonably certain.

**Deferred tax**

Deferred taxation is accounted for to recognise timing differences between the recognition of gains and losses in the financial statements and their recognition for taxation purposes. A deferred tax liability is recognised if transactions or events result in the Company having an obligation to pay more tax in future periods. A deferred tax asset is only recognised where transactions or events that have occurred before the balance sheet date give the Company the right to pay less tax in future, and it is considered to be more likely than not that the asset will be recovered. Deferred tax balances are not discounted.

**Post-retirement benefits**

The Group operates defined benefit and defined contribution pension schemes covering the majority of employees. The assets of the UK defined benefit schemes are invested separately from the Group's assets and no pension scheme funds are invested in the Company. Overseas schemes are funded out of assets of the Companies.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income.

Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

The costs of defined contribution schemes are charged to the profit and loss account as incurred.

Pension costs and other post-retirement benefits have been calculated in accordance with FRS17 revised.

**Financial instruments**

Costs in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the swap contracts. The interest payable is recalculated under the terms of the interest rate swap. The gains and losses on forward foreign exchange contracts are deferred until the date that the underlying hedged transaction is recognised. Changes in the instruments' fair value are not recognised.

**Foreign exchange**

Assets and liabilities denominated in overseas currencies are translated into Sterling at the rates ruling at the balance sheet date unless hedged. Exchange differences arising in respect of revenue transactions in the accounting period are included in the Group profit and loss account.

The trading results of overseas subsidiaries are translated into sterling at the average rate of exchange during the period. Foreign exchange differences arising on the re-translation of opening net assets in foreign subsidiary undertakings and any associated borrowings used to hedge such movements are taken to reserves.

**Operating leases**

Operating lease rentals are charged against profit on a straight line basis over the term of the lease.

for the year ended 31 December 2008

**2 Business analysis**

All continuing businesses are in the area of domestic and commercial heating products.

	2008			2007		
	Turnover £ '000	Operating profit/(loss) £ '000	Net assets £ '000	Turnover £ '000	Operating profit/(loss) £ '000	Net assets £ '000
<b>By geographical origin:</b>						
UK	334,694	52,790	195,723	331,751	40,766	214,126
Italy	221,481	13,163	103,995	197,509	18,942	110,114
Iberia	154,413	13,802	162,092	156,004	13,920	127,384
Germany	165,655	14,843	75,452	118,205	9,345	81,508
France	110,775	(7,239)	46,174	96,983	(15,526)	41,980
Rest of Europe	49,598	2,586	21,829	41,160	1,883	21,414
Inter regional turnover	(97,300)	-	-	(94,879)	-	-
Exceptional reorganisation costs	-	(18,628)	-	-	(16,071)	-
Goodwill and fixed asset impairment	-	(1,000)	-	-	(9,425)	-
Goodwill amortisation	-	(25,067)	-	-	(24,975)	-
Tax	-	-	18,655	-	-	17,792
Net debt	-	-	(630,553)	-	-	(598,837)
Pension liability	-	-	(26,784)	-	-	(31,104)
Associated companies' share of net assets	-	-	35,620	-	-	31,033
<b>Continuing businesses</b>	<b>939,316</b>	<b>45,250</b>	<b>2,203</b>	<b>846,733</b>	<b>18,859</b>	<b>15,410</b>

The above analysis of turnover shows the geographical segments by origin of products supplied.

The segmental analysis above excludes the impact of the associated companies, and the profit on disposal of fixed assets. The Group's share of the associated companies results is operating profit of £4,688,000 (2007 £4,894,000), with £91,000 in Italy (2007 £612,000) and £4,597,000 in Rest of Europe (2007 £4,282,000) before goodwill amortisation of £726,000 (2007 £701,000).

The loss on disposal of business operation in 2008 was £9,853,000 in France.

The turnover of continuing activities by geographical destination was: UK £325,682,000 (2007 £327,246,000); Italy £62,406,000 (2007 £59,113,000); Iberia £136,066,000 (2007 £142,601,000); Germany £146,443,000 (2007 £102,770,000); France £88,362,000 (2007 £76,937,000); Rest of Europe £150,649,000 (2007 £113,974,000); and Rest of the World £29,708,000 (2007 £24,092,000).

Operating profit of continuing activities by geographical origin has been shown above before allocating exceptional reorganisation costs, impairment charges and goodwill amortisation to facilitate comparison of the underlying performance. After allocating these costs the geographical split of operating profit was:

	2008 £ '000	2007 £ '000
UK	36,675	20,548
Italy	7,850	13,765
Iberia	6,937	8,717
Germany	10,375	5,132
France	(13,923)	(27,505)
Rest of Europe	(2,664)	(1,798)
	<b>45,250</b>	<b>18,859</b>

**3 Group operating profit**

	2008 £ '000	2007* £ '000
Turnover	939,316	846,733
Cost of sales	(690,809)	(629,626)
Gross profit	248,507	217,107
Distribution costs	(115,453)	(105,778)
Administrative expenses	(89,485)	(95,659)
Other operating income	1,681	3,189
<b>Group operating profit</b>	<b>45,250</b>	<b>18,859</b>

\* During 2008 certain group operating costs have been reclassified between cost headings. Group operating costs of £831,063,000 for 2007 above have been restated on the same basis as 2008. These costs were reported in 2007 as follows:

	2007* restated	2007 original
Cost of sales	(629,626)	(606,452)
Distribution costs	(105,778)	(108,988)
Administrative expenses	(95,659)	(115,623)
<b>Group operating costs</b>	<b>(831,063)</b>	<b>(831,063)</b>

Of the £18,628,000 (2007 £16,071,000) exceptional reorganisation costs, £13,279,000 (2007 £1,345,000) are included within cost of sales and £5,349,000 (2007 £14,726,000) are included within administrative expenses. Amortisation of goodwill of £25,067,000 (2007 £24,975,000) is included within administrative expenses. Of the impairment of goodwill and fixed assets of £1,000,000 (2007 £9,425,000), £nil (2007 £7,201,000) is included within cost of sales and £1,000,000 (2007 £2,224,000) is included within administrative expenses in the analysis of operating profit above.

Exceptional reorganisation costs in 2008 include £19,528,000 relating to costs of restructuring/rationalising facilities in the UK, France, Denmark and Spain, less a curtailment gain of £900,000 in relation to the French retirement indemnity plan scheme. The tax impact of these costs was a tax credit of £2,120,000. Exceptional reorganisation costs in 2007 include £18,971,000 relating to costs of restructuring/rationalising facilities in the UK, France, Denmark and Spain, less a curtailment gain of £2,900,000 in relation to the UK defined benefit pension scheme. The tax impact of these costs was a tax credit of £3,944,000.

**4 Loss on ordinary activities before tax is stated after charging**

	2008 £ '000	2007 £ '000
Fees payable to Company auditor for the audit of the Company's annual financial statements	80	77
Fees paid to the Company's auditors and its associates for other services:		
Audit of the Company's subsidiaries	557	565
Tax services	131	264
Services in relation to corporate finance transactions	99	92
Litigation services	76	80
IT related services	-	20
Other services	85	136
Fees in respect of Baxi pension schemes - Audit	37	26
Depreciation	18,535	19,973
Impairment of tangible fixed assets	1,000	7,201
Amortisation of goodwill	25,067	24,975
Impairment of goodwill	-	2,224
Research and development	11,431	9,668
Operating lease rentals		
plant and machinery	5,607	5,361
land and buildings	3,680	3,469

**5 Net interest payable and similar charges**

	2008 £ '000	2007 £ '000
Interest payable and similar charges:		
Bank overdrafts and loans	44,117	42,583
Unsecured loan notes	17,233	10,987
Accreted interest on mezzanine notes	865	792
Amortisation of financing costs	3,958	4,288
Net return on financing of pension provision (note 19)	1,500	600
Associated companies interest receivable	67,673 (357)	59,250 (210)
	<b>67,316</b>	<b>59,040</b>

**6 Tax**

	2008 £ '000	2007 £ '000
Current tax:		
UK corporation tax on profits for the year at 28.5%	-	-
Overseas tax on profits for the year	11,401	10,574
Share of tax of associated companies	610	599
Adjustments in respect of previous periods:		
UK corporation tax	-	(246)
Overseas tax	90	553
Total current tax	12,101	11,480
Deferred tax:		
Origination and reversal of timing differences	(2,183)	(81)
Change in tax rate	12	1,414
Change in tax rate - pension asset	(41)	(346)
Pension asset movement	2,950	3,600
Adjustments in respect of previous periods	239	(1,481)
Total deferred tax	977	3,106
<b>Tax on profit on ordinary activities</b>	<b>13,078</b>	<b>14,586</b>

The tax charge for the period is higher than the standard rate of corporation tax in the UK (28.5%). The differences are stated below:-

	2008 £ '000	2007 £ '000
Loss on ordinary activities before tax	(27,957)	(35,988)
Loss on ordinary activities multiplied by standard rate of corporation tax in UK of 28.5% (2007: 30%)	(7,968)	(10,796)
Effects of:		
Expenses/income not deductible/chargeable for tax purposes	1,924	8,321
Capital allowances in excess of depreciation and origination and reversal of timing differences	(1,149)	81
Pension asset movement	(2,950)	(3,600)
Current period tax losses not recognised	23,898	15,926
Different tax rate on overseas earnings	(1,744)	1,241
Adjustments to tax charge in respect of previous periods	90	307
<b>Current tax charge for the period</b>	<b>12,101</b>	<b>11,480</b>

A £280,000 tax credit (2007 £6,254,000 tax charge) on the actuarial gain has been taken to the Group Statement of Total Recognised Gains and Losses.

The average effective rate of overseas tax is forecast to be approximately 29% in the next accounting period. Based on the forecast tax position for the UK operations the current UK tax charge in the next accounting period is forecast to be £nil.

**7 Employees and directors**

	2008 £ '000	2007 £ '000
Employment costs:		
Wages and salaries	125,346	122,521
Social security costs	26,094	25,782
Post retirement benefits:		
Defined benefit pension costs	2,300	3,800
Curtailment gain	(900)	(2,900)
Defined contribution pension costs	1,482	1,581
	<b>154,322</b>	<b>150,784</b>
Average number of employees by activity	Number	Number
Production	2,899	3,502
Selling and Distribution	923	929
Administration	526	542
<b>Continuing activities</b>	<b>4,348</b>	<b>4,973</b>

The company has no employees other than its directors. Their emoluments are paid by a subsidiary company.

**8 Directors' emoluments**

	2008 £ '000	2007 £ '000
Aggregate emoluments	2,249	1,321
Compensation for loss of office	554	-
Amount paid into money purchase pension scheme	15	-
	<b>2,818</b>	<b>1,321</b>
Retirement benefits are accruing to no directors (2007 one) under a defined benefit scheme, and two directors (2007 nil) under a money purchase scheme.		
<b>Highest paid director</b>		
Aggregate emoluments	778	489
Amount of accrued defined benefit pension at year end	-	178
Amounts paid into money purchase pension scheme	9	-

**9 Intangible assets**

<b>Group</b>	Goodwill £ '000
Cost:	
At 1 January 2008	508,314
Foreign exchange	27,063
<b>At 31 December 2008</b>	<b>535,377</b>
Amortisation:	
At 1 January 2008	103,736
Charge for the year	25,067
Foreign exchange	4,197
<b>At 31 December 2008</b>	<b>133,000</b>
Net book value:	
<b>At 31 December 2008</b>	<b>402,377</b>
At 31 December 2007	404,578

The goodwill is being amortised on a straight-line basis over 20 years. The directors estimate that this is the period over which the value of the underlying businesses acquired is expected to exceed the value of the underlying assets.

The Company has no intangible fixed assets.

**10 Tangible fixed assets**

Group	Land and buildings			Plant and equipment £ '000	Total £ '000
	Freehold £ '000	Long leasehold £ '000	Short leasehold £ '000		
Cost:					
At 1 January 2008	58,059	3,040	2,085	118,087	181,271
Exchange adjustments	10,429	-	649	19,321	30,399
Additions	1,011	-	-	16,752	17,763
Disposals	(1,093)	(284)	-	(2,918)	(4,295)
Reclassification	(4,674)	-	-	-	(4,674)
<b>At 31 December 2008</b>	63,732	2,756	2,734	151,242	220,464
Depreciation:					
At 1 January 2008	9,849	686	1,024	67,165	78,724
Exchange adjustments	1,481	-	464	9,889	11,834
Charge for the year	1,787	160	664	15,924	18,535
Impairment	1,000	-	-	-	1,000
Disposals	(22)	(23)	-	(1,998)	(2,043)
Reclassification	(1,135)	-	-	-	(1,135)
<b>At 31 December 2008</b>	12,960	823	2,152	90,980	106,915
Net book value:					
<b>At 31 December 2008</b>	50,772	1,933	582	60,262	113,549
At 31 December 2007	48,210	2,354	1,061	50,922	102,547

Freehold land which is included above and amounts to £19,711,000 (2007 £15,839,000) is not depreciated.

The reclassification above relates to the transfer of a group property held for resale and included in other debtors.

The Company has no tangible fixed assets.

**11 Fixed asset investments**

Group	2008 £ '000	2007 £ '000
<b>Interests in associated companies:</b>		
Turkey	33,838	29,458
Italy	1,782	1,575
	<b>35,620</b>	<b>31,033</b>

	Share of net assets £ '000	Goodwill £ '000	Total £ '000
<b>Associated companies - Baymak in Turkey:</b>			
At 1 January 2008	18,694	10,764	29,458
Share of profits retained	4,596	-	4,596
Foreign exchange	1,219	510	1,729
Dividend	(1,219)	-	(1,219)
Amortisation of goodwill	-	(726)	(726)
<b>At 31 December 2008</b>	<b>23,290</b>	<b>10,548</b>	<b>33,838</b>

The Group owns 50% of the ordinary share capital of Baymak Makina Sanayi ve Ticaret A.S. , Inmak Dis Ticaret A.S., and Baypa Uluslararası Isitma, Sogutma, Su Teknolojisi Sistemleri Sanayi ve Ticaret A.S., (together "Baymak") a major distributor of heating products, incorporated and operating in Turkey.

The goodwill arising on the acquisition of Baymak is being amortised on a straight-line basis over 20 years. The directors estimate that this is the period over which the value of the share of underlying businesses acquired is expected to exceed the value of the share of underlying assets.

	Share of net assets £ '000	Goodwill £ '000	Total £ '000
<b>Associated companies - Lomet in Italy:</b>			
At 1 January 2008	1,575	-	1,575
Share of losses	(161)	-	(161)
Foreign exchange	448	-	448
Dividend	(80)	-	(80)
<b>At 31 December 2008</b>	<b>1,782</b>	<b>-</b>	<b>1,782</b>

As a part of the Roca acquisition in 2005, the Group acquired a 25% interest in Lomet Loreto Metallî SpA, a manufacturer of radiators, incorporated and operating in Italy.

Company	Shares in Group undertakings £ '000
<b>At 1 January 2008 and 31 December 2008</b>	<b>11,244</b>

Details of the principal operating companies are given in note 30 on page 36. Baxi Holdings Limited owns 100% of the issued ordinary share capital of GHP Midco Limited which in turn owns 100% of the issued ordinary share capital of the operating companies through intermediate holding companies.

**12 Stocks**

	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
Raw materials	43,656	34,982	-	-
Work in progress	3,746	4,726	-	-
Finished goods	78,780	64,609	-	-
	126,182	104,317	-	-

**13 Debtors**

	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
<b>Amounts falling due within one year</b>				
Trade debtors	284,990	242,701	-	-
Amounts owed by associated companies	7,404	4,011	-	-
Corporation tax	355	1,454	-	-
Other debtors	15,272	7,979	194	182
Prepayments and accrued income	7,183	4,998	-	-
Deferred tax asset	4,526	4,486	-	-
	319,730	265,629	194	182
<b>Amounts falling due after more than one year</b>				
Deferred tax asset	16,341	12,139	-	-
<b>Total debtors</b>	336,071	277,768	194	182

The deferred tax asset recognised in the accounts is as follows:

	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
<b>Recognised</b>				
Accelerated capital allowances	5,882	8,373	-	-
Short term timing differences	7,106	2,966	-	-
Losses carried forward	7,879	5,286	-	-
	20,867	16,625	-	-
<b>Unrecognised</b>				
Accelerated capital allowances	-	-	-	-
Losses carried forward	52,293	29,428	-	-
	52,293	29,428	-	-

Despite losses in the year resulting from poor trading conditions and major reorganisation expenses, the Group is expected to return to profitability and the deferred tax asset has been recognised based on the expected future financial performance of the Group.

In addition to the above, a deferred tax asset of £10,416,000 (2007 £12,096,000) in respect of the pension scheme deficit has been recognised, see note 19.

**13 Debtors (continued)**

	Deferred tax asset			
	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
At 1 January	16,625	16,114	-	-
Exchange adjustments	2,310	363	-	-
Credited to profit and loss account	1,932	148	-	-
<b>At 31 December</b>	<b>20,867</b>	<b>16,625</b>	<b>-</b>	<b>-</b>

**14 Creditors: amounts falling due within one year**

	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
Bank overdrafts	11,578	1,242	-	-
Loans (note 16)	41,355	35,336	-	-
	<b>52,933</b>	<b>36,578</b>	<b>-</b>	<b>-</b>
Trade creditors	185,749	133,234	-	-
Amounts owed to associated companies	12,785	10,728	-	-
Amounts owed to subsidiary companies	-	-	221	209
Corporation tax	2,567	287	-	-
Other taxes and social security costs	21,539	23,387	-	-
Other creditors	50,098	36,263	-	-
Accruals and deferred income	54,380	45,376	-	-
	<b>327,118</b>	<b>249,275</b>	<b>221</b>	<b>209</b>

**15 Creditors: amounts falling due after more than one year**

	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
Loans (note 16)	447,199	451,996	-	-
Unsecured Loan Notes	102,391	91,421	-	-
Series II Unsecured Loan Notes	44,400	38,027	-	-
Series III Unsecured Loan Notes	8,020	-	-	-
Total Shareholder Loans	154,811	129,448	-	-
	<b>602,010</b>	<b>581,444</b>	<b>-</b>	<b>-</b>

The Unsecured Loan Notes attract rolled up interest at a rate of 12.0%. The Series II Unsecured Loan Notes attract rolled up interest at a rate of 15.0%. These notes are shown net of debt finance costs of £3,343,000 (2007 £3,473,000). On 30 December 2008 £162,868,350,792 Series III Unsecured Loan Notes were issued at a discount. These loan notes attract rolled up interest at a rate of 45.0% on the subscription price of £8,000,000. All Unsecured Loan Notes are held by shareholders and are redeemable on 12 September 2035, or on an earlier listing or sale.

**16 Loans**

	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
Loans or instalments thereof are repayable as follows:				
Within one year	44,890	39,293	-	-
Less debt finance costs	(3,535)	(3,957)	-	-
	41,355	35,336	-	-
Between one and two years	51,489	43,676	-	-
Between two and five years	310,185	327,066	-	-
In more than five years	93,894	93,029	-	-
	455,568	463,771	-	-
Less debt finance costs	(8,369)	(11,775)	-	-
	447,199	451,996	-	-
<b>Total loans</b>	<b>488,554</b>	<b>487,332</b>	<b>-</b>	<b>-</b>

Loans repayable after more than five years represents instalments due on the original funding loan of £390,000,000 in 2004 and the loan of €154,500,000 taken out to fund the Roca Heating acquisition in 2005, which attract interest at rates of between 2.25% and 3.00% above LIBOR and EURIBOR respectively. Loans are shown net of debt finance costs in accordance with FRS4. Debt finance costs are written off over the period of the loans to give an equal rate of charge on the balance outstanding. Loans not repayable by instalments over five years represent the Mezzanine Notes of £93,894,000 which attract cash interest at 7.875%. Details of the security over the bank overdraft and loans have been given in note 27.

**17 Provisions for liabilities and charges**

Group	Warranty £ '000
At 1 January 2008	25,617
Exchange adjustments	6,086
Charge to profit and loss account	25,048
Utilised	(29,610)
<b>At 31 December 2008</b>	<b>27,141</b>
<b>Company</b>	
<b>At 1 January 2008 and 31 December 2008</b>	<b>-</b>

The warranty provision is to cover potential liabilities relating to products sold and is dependent on guarantee periods on individual products. The provision has been recognised based on historical claims information and the level of sales. It is expected that most of the expenditure will be incurred in the next financial year. Provisions have not been discounted as the effects of discounting are not material.

for the year ended 31 December 2008

**18 Financial instruments**

The Group's policy is to fund its operations mainly through the use of debt instruments. At 31 December 2008 the Group had the following debt instruments:

£102,391,000 of Unsecured Loan Notes, due for redemption 12 September 2035;  
 £47,743,000 of Series II Unsecured Loan Notes, due for redemption 12 September 2035;  
 £8,020,000 of Series III Unsecured Loan Notes, due for redemption 12 September 2035;  
 £93,894,000 of Mezzanine Notes, due for repayment 31 March 2014;  
 £406,056,000 of syndicated bank loan facility, due for final repayment on 27 December 2012;  
 £75,000,000 of syndicated overdraft and working capital facility, maturing on 27 December 2010;  
 £508,000 of other loans with varying maturity;  
 £24,390,000 of cash.

At 31 December 2008, £15,168,000 of the £75,000,000 syndicated overdraft and working capital facility was utilised as overdraft, letters of credit, bank guarantees and foreign exchange contracts.

**Interest rate risk**

The Group's policy to minimise interest risk exposure is to have 2/3rds of the syndicated loans on fixed interest rate. Interest rate swaps were executed in December 2007 for £294,416,000 the effect of which was to convert 2/3rds of the floating interest charged on the syndicated loan at that date into fixed interest. This reduced to £258,897,000 on 29 December 2008.

**Foreign exchange risk**

The Group's policy to minimise the risk of fluctuations due to movements in the Sterling/USD exchange rates is to forward cover USD requirements for the following twelve months. At 31 December 2008, the Group had £4,381,000 (2007 £2,996,000) of forward foreign exchange contracts, to buy forward USD6,300,000 (2007 USD5,990,000) to use for purchase of goods during 2009.

The Group's policy to minimise the risk of fluctuations due to movements in the Sterling/Euro exchange rate is to use its Euro denominated profits in its European subsidiaries to provide a natural hedge against the Euro cash requirements of its UK subsidiaries.

The Group has Euro denominated borrowings to hedge its overseas assets. The net impact is recognised in reserves.

**Credit risk**

The Group regularly reviews its operations to ensure there is no significant concentration of credit risk.

The Group policy requires group companies to carry out appropriate credit checks on potential customers prior to trading, and to regularly review existing customers. Group companies must operate within set credit limits.

Financial instruments are undertaken with counterparties with high credit ratings assigned by credit rating agencies, principally one of the main UK high street banks, or members of the Group's banking syndicate.

**Liquidity risk**

The Group maintains a mixture of medium-term committed facilities to ensure a sufficient level of funds are available for its business operations.

**Commodity price risk**

The Group buys forward some of its steel requirements for the following twelve months. At 31 December 2008, forward contracts totalling £3,512,000 (2007 £3,289,000) were in place for purchases during 2009.

The Group does not enter into any form of derivative financial instruments for speculative purposes.

As permitted by FRS13 'Derivatives and Other Financial Instruments', short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

**Currency and interest rate risk profile of financial assets and liabilities**

The financial assets at 31 December 2008 comprise cash balances as follows:

	2008 £ '000	2007 £ '000
Sterling	-	4,854
Euro	22,250	13,678
Others	2,140	653
<b>Total</b>	<b>24,390</b>	<b>19,185</b>

Available cash is transmitted to the UK, where it earns interest at LIBOR less 0.25%. Where Euro cash is transmitted to the UK, the Group uses short-term swaps to convert to Sterling to manage its interest expense.

**18 Financial instruments (continued)**

The interest rate risk profile of the Group's financial liabilities at 31 December 2008, after taking account of the interest rate swap used to manage the interest profile was:

	Total	Floating rate	Fixed rate	Fixed rate liabilities	
				Weighted average interest rate %	Fixed period Years
<b>At 31 December 2008</b>	£ '000	£ '000	£ '000		
Sterling					
- Unsecured Loan Notes	102,391	-	102,391	12.0000	26.75
- Series II Unsecured Loan Notes	47,743	-	47,743	15.0000	26.75
- Series III Unsecured Loan Notes	8,020	-	8,020	45.0000	26.75
- Mezzanine Notes	93,894	-	93,894	9.3750	5.25
- Term loans	258,897	-	258,897	8.0950	1.00
- Overdraft	11,061	11,061	-	-	-
Sterling Total	522,006	11,061	510,945	10.3372	-
Euro					
- Term loans	147,159	147,159	-	-	-
- Overdrafts	517	517	-	-	-
- Other loans	508	508	-	-	-
Euro Total	148,184	148,184	-	-	-
	670,190	159,245	510,945		

	Total	Floating rate	Fixed rate	Fixed rate liabilities	
				Weighted average interest rate %	Fixed period Years
At 31 December 2007	£ '000	£ '000	£ '000		
Sterling					
- Unsecured Loan Notes	91,421	-	91,421	12.0000	27.75
- Series II Unsecured Loan Notes	41,500	-	41,500	15.0000	27.75
- Mezzanine Notes	93,029	-	93,029	9.3750	6.25
- Term loans	294,416	-	294,416	8.0388	2.00
Sterling Total	520,366	-	520,366	9.5288	-
Euro					
- Term loans	115,148	115,148	-	-	-
- Overdrafts	1,242	1,242	-	-	-
- Other loans	471	471	-	-	-
Euro Total	116,861	116,861	-	-	-
	637,227	116,861	520,366		

for the year ended 31 December 2008

**18 Financial instruments (continued)****Interest rate analysis**

The £93,894,000 of Mezzanine Notes are at a fixed cash interest rate of 7.875% (of nominal value £100 million) plus accreted interest from the day of issue. The combination of cash interest and the accrual of non-cash interest through the increase of accreted value will produce an effective annual interest rate of 9.375% per annum, compounded semi-annually.

The £355,905,000 and €50,000,000 of Senior Term Loans were issued at floating LIBOR and EURIBOR rates (plus the banks' margin ranging from 2.25% to 3.25%). Since issue £97,008,000 and €6,168,000 has been repaid, leaving £258,897,000 and €43,832,000 outstanding at 31 December 2008. Commencing 28 December 2007, using reducing interest rate swaps, £258,897,000 has been hedged until December 2009 at a rate of 5.335% (excluding the banks' margin).

On 1 August 2005 €154,500,000 of new Senior Term Loans were issued at floating EURIBOR rates (plus the banks' margin ranging from 2.25% to 3.00%). Since issue €46,110,000 has been repaid, leaving €108,390,000 outstanding at 31 December 2008.

The effective rate of interest on the Senior Term Loans at 31 December 2008 was 8.095% on the Sterling Term Loans and 6.0203% on the Euro Term Loans.

**Maturity analysis of financial liabilities**

	Payments due by period				
	Total £ '000	Less than one year £ '000	One to two years £ '000	Two to five years £ '000	After five years £ '000
<b>At 31 December 2008</b>					
Overdraft	11,578	11,578	-	-	-
Senior Term Loans	406,056	44,382	51,489	310,185	-
Mezzanine Notes	93,894	-	-	-	93,894
Unsecured Loan Notes	102,391	-	-	-	102,391
Series II Unsecured Loan Notes	47,743	-	-	-	47,743
Series III Unsecured Loan Notes	8,020	-	-	-	8,020
Other loans	508	508	-	-	-
<b>Total debt</b>	<b>670,190</b>	<b>56,468</b>	<b>51,489</b>	<b>310,185</b>	<b>252,048</b>

	Payments due by period				
	Total £ '000	Less than one year £ '000	One to two years £ '000	Two to five years £ '000	After five years £ '000
<b>At 31 December 2007</b>					
Overdraft	1,242	1,242	-	-	-
Senior Term Loans	409,564	38,822	43,676	327,066	-
Mezzanine Notes	93,029	-	-	-	93,029
Unsecured Loan Notes	91,421	-	-	-	91,421
Series II Unsecured Loan Notes	41,500	-	-	-	41,500
Other loans	471	471	-	-	-
<b>Total debt</b>	<b>637,227</b>	<b>40,535</b>	<b>43,676</b>	<b>327,066</b>	<b>225,950</b>

for the year ended 31 December 2008

**18 Financial instruments (continued)**

The book value and fair value of financial assets and liabilities at 31 December 2008 are as detailed in the following tables. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates.

	2008		2007	
	Book value £ '000	Fair value £ '000	Book value £ '000	Fair value £ '000
<b>Debt instruments:</b>				
Overdrafts	(11,578)	(11,578)	(1,242)	(1,242)
Unsecured Loan Notes	(102,391)	(104)	(91,421)	(89,461)
Series II Unsecured Loan Notes	(47,743)	(98)	(41,500)	(43,733)
Series III Unsecured Loan Notes	(8,020)	(8,020)	-	-
Syndicated bank loans	(406,056)	(406,056)	(409,564)	(409,564)
Mezzanine Notes	(93,894)	(23,000)	(93,029)	(61,500)
Other loans	(508)	(508)	(471)	(471)
<b>Total financial liabilities</b>	<b>(670,190)</b>	<b>(449,364)</b>	<b>(637,227)</b>	<b>(605,971)</b>
<b>Total financial assets - cash at bank and in hand</b>	<b>24,390</b>	<b>24,390</b>	<b>19,185</b>	<b>19,185</b>
<b>Hedges:</b>				
Interest rate swaps	-	(5,589)	-	3,191
Forward exchange contracts	-	792	-	-
<b>Total hedges</b>	<b>-</b>	<b>(4,797)</b>	<b>-</b>	<b>3,191</b>

The assumptions for the calculation of the fair values are as follows:

Cash, overdrafts, short-term borrowings and other loans – fair value of cash, overdrafts, short-term borrowings and other loans approximates to the carrying amount because of the short maturity of these instruments.

Unsecured Loan Notes – fair value of unsecured loan notes is based on discounting the final redemption value at a market rate for a comparable instrument adjusting for the inherent risk premium, as indicated by the Series III Unsecured Loan Notes issued on 30 December 2008.

Syndicated bank loans – fair value of syndicated bank loans approximates to the carrying amount because of the floating interest rates applied.

Mezzanine Notes – fair value of Mezzanine Notes has been estimated using quoted market price.

Interest rate swap and forward foreign currency contracts – fair value is based on market price of comparable instruments at the balance sheet date.

**18 Financial instruments (continued)****Hedges (continued)**

The table below shows the extent to which the Group's off-balance sheet (unrecognised) losses in respect of the £4,797,000 (2007 profits £3,191,000) of financial instruments used as hedges are expected to be included in subsequent year's profit and loss accounts:

	Interest rate risk £ '000	USD currency rate risk £ '000	Total risk £ '000
Gains and losses on hedges at 1 January 2008	3,191	-	3,191
Arising in previous years included in 2008 income	(1,749)	-	(1,749)
Gains and losses not included in 2008 income:			
arising before 1 January 2008	1,442	-	1,442
arising in 2008	(7,031)	792	(6,239)
Gains and losses on hedges at 31 December 2008	(5,589)	792	(4,797)
of which:			
gains and losses expected to be included in 2009 income	(5,589)	792	(4,797)

**Currency exposures**

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local functional currencies. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

	Net foreign currency monetary assets/(liabilities)				
	Sterling £ '000	Euro £ '000	US Dollars £ '000	Other £ '000	Total £ '000
<b>At 31 December 2008</b>					
Functional currency of Group operation					
Sterling	-	21,619	3,055	-	24,674
Euro	(43)	-	2,049	(60)	1,946
Other	-	135	-	190	325
	(43)	21,754	5,104	130	26,945

	Net foreign currency monetary assets/(liabilities)				
	Sterling £ '000	Euro £ '000	US Dollars £ '000	Other £ '000	Total £ '000
<b>At 31 December 2007</b>					
Functional currency of Group operation					
Sterling	-	(35,511)	3,031	(1,654)	(34,134)
Euro	(32)	-	1,525	-	1,493
Other	-	-	-	-	-
	(32)	(35,511)	4,556	(1,654)	(32,641)

for the year ended 31 December 2008

**19 Pension liabilities**

The Group operates various defined benefit and defined contribution pension arrangements in the UK and overseas. In the UK the Group operates two defined benefit pension schemes, the Baxi Group Pension Scheme and the Newmond Pension Plan for certain residual liabilities. The UK defined benefit schemes are funded by the payment of contributions to separately administered trust funds. Liabilities and future funding rates of the plans are assessed in accordance with the advice of independent qualified actuaries using the projected unit method.

The Baxi Group Pension Scheme has closed to new entrants, and hence the average age of the members of the schemes will rise in the future. This means that, under the projected unit method of calculation, the current service cost (as a percentage of pensionable payroll for active members) will increase as the members of the scheme approach retirement. The Newmond Pension Plan has no active members and therefore there will be no further accrual of benefits to members.

The principal actuarial assumptions at the balance sheet date used for the UK defined benefit pension schemes are:

	2008 %	2007 %
Rate of increase in salaries	3.80	4.40
Rate of increase in pensions in payment	2.70	3.30
Discount rate	6.25	5.90
Inflation	2.80	3.40
Expected long-term return on plan assets	6.20	6.70

To develop the expected long-term return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily Government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Weighted average life expectancy for mortality tables used to determine benefit obligations (current and previous year):

	Male	Female
Member age 65 (current life expectancy)	19.7 years	22.6 years
Member age 45 (life expectancy at age 65)	21.3 years	24.1 years

Weighted average assumptions for the whole Group do not differ from the assumptions given above due to the relative size of the UK and overseas schemes. Overseas schemes include post retirement obligations in Italy, Germany, France, Ireland and Spain.

	2008 £ '000	2007 £ '000
<b>Amounts recognised in the balance sheet</b>		
Present value of funded obligations	277,700	335,400
Fair value of plan assets	(253,800)	(303,500)
Present value of unfunded obligations	23,900	31,900
	13,300	11,300
Deficit	37,200	43,200
Related deferred tax asset	(10,416)	(12,096)
<b>Net pension liabilities</b>	<b>26,784</b>	<b>31,104</b>

The Company has no employees and has therefore not been allocated any share of the pension deficit.

**19 Pension liabilities (continued)**

	2008 £ '000	2007 £ '000
<b>Components of pension cost</b>		
Current service cost	2,300	3,800
Interest on obligations	20,100	18,450
Expected return on plan assets	(18,600)	(17,850)
Curtailement gain	(900)	(2,900)
Total pension cost recognised in the profit and loss account	2,900	1,500
Actuarial loss/(gains) immediately recognised in the STRGL	1,000	(16,820)
Cumulative amount of actuarial gains recognised	(40,872)	(41,872)
Actual return on plan assets	(48,800)	14,600

The current service costs and curtailment gain are included in administrative expenses in the profit and loss account. The interest on obligations and expected returns on plan assets are charged to interest in the profit and loss account. The actuarial gains in respect of the schemes are dealt with in the statement of total recognised gains and losses.

	2008 £ '000	2007 £ '000
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	346,700	363,900
Current service cost	2,300	3,800
Interest cost	20,100	18,450
Plan participants' contributions	900	1,100
Actuarial gains	(66,400)	(20,070)
Curtailements	(900)	(2,900)
Benefits paid	(15,400)	(18,400)
Effect of exchange rate changes	3,700	820
<b>Benefit obligation at end of year</b>	<b>291,000</b>	<b>346,700</b>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	303,500	292,600
Expected return on plan assets	18,600	17,850
Actuarial losses	(67,400)	(3,250)
Employer contributions	13,300	13,500
Plan participants' contributions	900	1,100
Benefits paid	(15,400)	(18,400)
Effect of exchange rate changes	300	100
<b>Fair value of plan assets at end of year</b>	<b>253,800</b>	<b>303,500</b>

**Plan assets**

The weighted average asset allocation at the year end was as follows:

	2008	2007
<b>Asset category</b>		
Equities	40.6%	48.5%
Bonds	50.7%	47.7%
Other	8.7%	3.8%

**19 Pension liabilities (continued)****History of experience gains and losses**

	2008 £ '000	2007 £ '000	2006 £ '000	2005 £ '000	2004 £ '000
Benefit obligation at end of year	291,000	346,700	363,900	373,600	340,300
Fair value of plan assets at end of year	253,800	303,500	292,600	272,800	230,488
<b>Deficit</b>	<b>37,200</b>	<b>43,200</b>	<b>71,300</b>	<b>100,800</b>	<b>109,812</b>
Difference between the expected and actual return on plan assets Amount	(67,400)	(3,250)	7,200	27,900	4,932
Experience gains and losses on plan liabilities Amount	(100)	400	(1,100)	3,300	(2,396)
Total amount recognised in the Statement of Total Recognised Gains and Losses Amount	(720)	10,566	17,220	5,565	(5,248)

The most recent independent actuarial valuations were; for the Newmond Pension Plan 31 March 2006, and for the Baxi Group Pension Scheme 5 April 2006.

For the Group's defined contribution schemes the charge in the year was £1,482,000 (2007 £1,581,000).

The contribution expected to be paid by the Group to the defined benefit schemes during 2009 is £9.9 million.

**20 Share capital**

	31 December 2008		31 December 2007	
	Number	£	Number	£
<b>Authorised</b>				
Ordinary Shares of 1p each	750,000	7,500	750,000	7,500
'A1' Ordinary Shares of 1p each ("A1 Shares")	9,250,000	92,500	9,250,000	92,500
'A2' Ordinary Shares of 1p each ("A2 Shares")	2,150,000	21,500	2,150,000	21,500
		121,500		121,500
<b>Allotted, called up and fully paid</b>				
Ordinary Shares of 1p each	750,000	7,500	750,000	7,500
'A1' Ordinary Shares of 1p each ("A1 Shares")	9,250,000	92,500	9,250,000	92,500
'A2' Ordinary Shares of 1p each ("A2 Shares")	1,718,395	17,184	1,718,395	17,184
		117,184		117,184

**Rights**

The principal rights and restrictions attaching to each class of share in the Company are as follows:

The Ordinary Shares and the A Shares rank *pari passu* as regards dividends and other distributions.

The Ordinary Shares and A Shares are voting shares, carrying equal voting rights. On a show of hands every holder of Ordinary Shares or A Shares shall have one vote and on a poll every member holding Ordinary Shares or A Shares shall have one vote for every such share of which he is a holder.

The capital and assets of the Company on a winding-up or other return of capital available for distribution to the shareholders shall be distributed amongst the holders of the Ordinary Shares and the A Shares *pro rata* in relation to the amount paid up on such shares (disregarding any premium).

On a sale, listing or liquidation of the Company, the A Shares shall be converted into a number of Ordinary Shares and Deferred Shares determined in accordance with the Articles.

Other than as required by law or as expressly set out in the Articles, the A Shares and the Ordinary Shares shall constitute one class of shares.

**21 Reserves**

	Share premium account £ '000	Profit and loss account £ '000	Equity minority interest £ '000
<b>Group</b>			
At 1 January 2008	11,387	2,553	1,353
Foreign exchange - overseas net assets	-	28,199	461
Actuarial loss on pension liabilities net of deferred tax	-	(720)	-
(Loss)/profit for the year	-	(41,313)	278
Dividend to minority	-	-	(112)
<b>At 31 December 2008</b>	<b>11,387</b>	<b>(11,281)</b>	<b>1,980</b>
<b>Company</b>			
At 1 January 2008	11,387	18	-
Loss for the year	-	-	-
<b>At 31 December 2008</b>	<b>11,387</b>	<b>18</b>	<b>-</b>

In accordance with the exemption allowed by section 230 of the Companies Act 1985, the parent company has not presented its own profit and loss account. The result of the Company for the year on ordinary activities after taxation dealt with in the accounts of the Company amounts to £nil (2007 Loss £4,000).

At the year end 58,629 (2007 58,629) of the Company's own 1p Ordinary Shares are held by the Baxi Holdings Employees' Share Trust. No shares have been purchased from employees leaving the Group (2007 29,101 purchased at between £2.67 and £7.10), and no shares have been sold to new or existing employees (2007 700 sold at £15.00). The purchase of the shares was funded by a loan from Baxi Holdings Limited. All expenses incurred by the trust are settled by Baxi Group Limited and are charged in the accounts as incurred. The distribution of shares to employees is at the recommendation of the Board.

Included in net exchange adjustments are exchange losses of £39,793,000 (2007 losses £12,180,000) arising on borrowings denominated in foreign currencies designated as hedges of net investments overseas.

The Group profit and loss account includes a £44,196,000 surplus (2007 £39,876,000 surplus) stated after deferred tax of £20,004,000 (2007 £18,324,000) in respect of pension scheme liabilities of the Group.

**22 Commitments**

	Group		Company	
	2008 £ '000	2007 £ '000	2008 £ '000	2007 £ '000
<b>Capital</b>				
Amounts contracted for but not provided for in the accounts	891	909	-	-

**Operating leases**

The annual commitments under non-cancellable operating leases were:

	2008		2007	
	Land & buildings £ '000	Other £ '000	Land & buildings £ '000	Other £ '000
<b>Group</b>				
Expiring within one year	136	1,203	233	1,301
Expiring between two and five years	1,616	3,880	1,227	2,922
Expiring after five years	2,138	78	1,781	78
	3,890	5,161	3,241	4,301

The Company has no operating lease obligations.

**23 Acquisitions / Disposals**

In 2008 the Group disposed of its foundry operations in France for a cash cost of €10.5 million with an associated stock write off of €1.8 million. There was no tax impact.

On 5 July 2007 the Group acquired 60% of the share capital of Baxi Heating (Czech Republic) s.r.o. for £537,000 taking its shareholding to 80%, and made other acquisitions of £53,000. The fair value of net assets acquired was £231,000, resulting in goodwill of £359,000.

#### 24 Analysis of cash inflow from operating activities

	2008 £ '000	2007 £ '000
Operating profit	45,250	18,859
Depreciation	18,535	19,973
Amortisation of goodwill	25,067	24,975
Impairment of goodwill	-	2,224
Impairment of fixed assets	1,000	7,201
Decrease in stocks	1,531	8,323
(Increase)/decrease in debtors	(726)	20,745
Increase/(decrease) in creditors	27,903	(25,229)
Decrease in provisions	(4,562)	(1,519)
Net pension costs less contributions	(11,900)	(12,600)
<b>Net cash flow from operating activities</b>	<b>102,098</b>	<b>62,952</b>

Within operating cash flows are exceptional cash outflows for reorganisation costs of £11,683,000 (2007 £16,649,000) and an additional outflow of £2,322,000 for items charged in 2007.

#### 25 Analysis of net debt

	At 1 January 2008 £ '000	Cash flow £ '000	Exchange differences £ '000	Other changes £ '000	At 31 December 2008 £ '000
Cash at bank and in hand	19,185	5,423	(218)	-	24,390
Overdrafts	(1,242)	(9,944)	(392)	-	(11,578)
	17,943	(4,521)	(610)	-	12,812
Loans due within one year	(35,336)	39,261	(476)	(44,804)	(41,355)
Loans due after more than one year	(581,444)	(8,000)	(35,314)	22,748	(602,010)
	(616,780)	31,261	(35,790)	(22,056)	(643,365)
<b>Total</b>	<b>(598,837)</b>	<b>26,740</b>	<b>(36,400)</b>	<b>(22,056)</b>	<b>(630,553)</b>

Other changes are as detailed in note 26.

**26 Reconciliation of net cash flow to movement in net debt**

	2008 £ '000	2007 £ '000
Decrease in cash	(4,521)	(6,257)
Repayment of bank loan	39,111	35,997
Issue of Unsecured Loan Notes	(8,000)	(40,308)
Repayment of other loans	150	63
Issue of other loans	-	(83)
Debt finance costs	-	3,357
<b>Change in net debt resulting from cash flows</b>	<b>26,740</b>	<b>(7,231)</b>
Other non-cash changes:		
Accrued debt finance costs	-	143
Amortisation of financing fees	(3,958)	(4,288)
Roll up of interest on Unsecured Loan Notes and Mezzanine Notes	(18,098)	(11,779)
	(22,056)	(15,924)
Exchange differences	(36,400)	(9,999)
<b>Movement in net debt</b>	<b>(31,716)</b>	<b>(33,154)</b>

**27 Contingent liabilities**

The Company is a guarantor of loans provided by various bankers to Heating Finance plc, a subsidiary company. At 31 December 2008 the contingent liability was £499,950,000 (2007 £502,593,000), being the net amount drawn down under the facility.

The Company's assets and undertakings are secured by a debenture deed dated 12 March 2004 in respect of the above facilities.

The Company has guaranteed the bank borrowings of its subsidiaries. At 31 December 2008 the borrowings from banks under such guarantees were £10,004,000 (2007 £Nil).

Performance bonds have been entered into by a number of subsidiaries in the normal course of business.

**28 Related party disclosures**

During the year the Group sold £21,988,000 (2007 £16,443,000) of goods in the normal course of business and on an arm's length basis to its associated companies in Turkey.

During the year the Group purchased £31,460,000 (2007 £36,424,000) of goods in the normal course of business and on an arm's length basis from its associated company in Italy.

During the year Unsecured Loan Notes were issued to CIE Management II Limited for £8,000,000 (see note 15).

During 2005 a loan was made by Baxi Holdings Limited to M Coffey of £87,500 on which interest at 8% accrues. The loan is repayable on the earlier of when M Coffey leaves the Group or ceases to be a shareholder. The amount outstanding at 31 December 2008 was £118,113 (2007 £109,364).

The Company has taken exemption as permitted by FRS 8 to not disclose transactions with other group companies.

**29 Ultimate controlling party**

CIE Management II Limited is the ultimate controlling party.

**30 Principal operating companies**

At 31 December 2008 the Company held 100% of the issued share capital of the following operating companies through intermediate holding companies (except where noted below). All these companies are included in the consolidated figures. As permitted by Section 231 (5) of the Companies Act 1985, only principal operating companies have been shown below, together with the country of incorporation. All companies are involved in the manufacture, marketing, selling and distribution of domestic and commercial heating products. A list of all subsidiaries and associated companies will be attached to the Company's annual return filed with the Registrar of Companies.

Baxi Heating UK Limited Potterton Myson (Ireland) Limited	Great Britain Eire
Baxi SA	France
August Brötje GmbH August Brötje Raumheizsysteme GmbH SenerTec Kraft-Wärme-Energiesysteme GmbH Baxi Innotech GmbH	Germany Germany Germany Germany
Baxi SpA	Italy
Baxi Calefacción S.L.U. Baxi Fundicion S.L.U. Fabrigas S.L.U.	Spain Spain Spain
Baxi - Sistemas de Aquecimento, Unipessoal Limitada Baxi A/S Baxi AB Baxi BV Baxi Belgium SA/NV Baxi Heating (Czech Republic) s.r.o. (80%) Radiateur Industrie (66%)	Portugal Denmark Sweden Netherlands Belgium Czech Republic France

**BAXI HOLDINGS LIMITED**

(Registered in England and Wales under the Companies Act 1985)  
Registered no. 4921647

**NOTICE OF MEETING**

Notice is hereby given that the fifth Annual General Meeting of Baxi Holdings Limited will be held at the offices of Baxi Holdings Limited, Stanier Way, The Wyvern Business Park, Derby, DE21 6BF on 29 May 2009 at 9.00am for the following purposes:

**As ordinary business:**

1. To receive the directors' report and the audited financial statements of the Company and Group for the year ended 31 December 2008.
2. To re-appoint PricewaterhouseCoopers LLP as auditors.
3. To authorise the directors to determine the remuneration of PricewaterhouseCoopers LLP.

By order of the Board

**A E Darling**  
Company Secretary  
5 March 2009

Registered Office  
Stanier Way  
The Wyvern Business Park  
Derby DE21 6BF

Notes:

- (1) A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and vote instead of him. The proxy need not be a member of the Company.
- (2) To be effective, the instrument appointing a proxy and any authority under which it is executed (or notarised certified copy of such authority) must be deposited at the registered office of the Company not less than 48 hours before the time for holding the Meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the Meeting.



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