Baxi Holdings Limited

Company no: 4921647

Annual Report & Accounts **2006**

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Financial Highlights

	Trading results – continuing businesses		
	12 Months to 31 December 2006 £m	12 Months to 31 December 2005 £m	Annual Growth %
Sales	919 1	772 1	19 0%
Sales (pro-forma) [2]	919 1	859 7	6 9%
Trading profit [1]	108 9	96 1	13 3%
Trading profit (pro-forma) [2]	108 9	100 1	8 8%
Operating profit	58 7	66 3	
Net cash inflow from operations	93 7	90 3	
Depreciation	20 1	17 8	
Capital expenditure	19 3	19 5	

[1] Trading profit is a non-statutory term defined as Group operating profit, including share of associated companies operating profit, stated before exceptional reorganisation costs, impairment charges and goodwill amortisation

[2] The pro-forma figures for 2005 include full year figures for the Roca Heating acquisition in August 2005 to enable comparison with those shown for 2006 These pro-forma figures have not been audited

Chairman's Statement

2006 has been a year of consolidation during which we have seen significant sales and profit growth from our businesses in all of the countries in which we operate with the exception of France On a pro-forma basis, our sales grew 7% to £919 million and generated trading profit of £109 million, 9% above 2005 This is a very creditable performance, reflecting the Group's development as a major European Heating business

The successful integration of Roca acquired in the second half of 2005, the recovery of the UK business following introduction of new building regulations in 2005, and strong growth in Germany Eastern Europe, Turkey and Russia, more than offset the adverse impact of the decline in demand for our core floor standing product range, mainly in France The following charts show how our revenues are now generated by geography (primarily Western Europe) and by product category (primarily boilers and water heaters and their associated service activities)

During the year we continued to make good progress in our plans to pull together the management of our product development and supply chain operations, whilst retaining the benefits of local accountability for sales, marketing and service Martyn Coffey (UK CEO), Roman Trawicki (Group Operations Director) and John Tierney (Group HR Director), have all had a successful first year with the Group, and were joined towards the end of the year by Neil Randon as Group IT Director These new appointments have strengthened our commercial and operational expertise, and joined Mark Edwards (Group CEO) and his colleagues Salvatore Basile (International CEO) and Adrian Darling (Group CFO) in delivering our growth plans

Outlook

We believe that the prospects for volume growth in our West European markets have improved and we expect to see continued strong growth in the emerging markets of Eastern Europe, Russia and Turkey However, the profit potential of these volume increases is being challenged by the rapid increases in raw material costs, particularly copper and stainless steel, seen over the last 12-15 months, since it will take time for these cost increases to be passed on into the market The changes in the regulations for boilers has resulted in market shares losses in key markets for a number of our smaller competitors which they are seeking to regain through price competition However we are well positioned to continue to grow and gain market share in each of the countries in which we operate and are therefore confident that the Group will achieve sales and profit growth in 2007 We continue to evaluate acquisitions that can both improve our heating market position and enable us to benefit further from the economies of scale that arise from being one of the leading heating groups in Europe

This has been a challenging year for the Group, with the continuing change to building and energy efficiency regulations putting the Group at the forefront of government initiatives to improve energy efficiency and reduced CO_2 emissions In these circumstances, the Group has shown its ability to perform strongly and I would like to express the Board's appreciation for the hard work and initiative of our employees, which has been critical to achieving this performance

JOHN BURGESS
Chairman
2 March 2007

Operating Review

This Review contains forward-looking statements which 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 These statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information

Baxi's business

Products and operations

Baxi's principal products are domestic boilers and water heaters, which aim to satisfy the essential human need for space and water heating We market a comprehensive range of boilers across Europe's most important heating markets - UK, Spain, France, Germany, Italy and Turkey The product range comprises all principal types and applications of predominantly gas-fired boilers, including wall-hung boilers and floor-standing boilers in both heat-only and combination variants and both standard and high efficiencies Specific product offerings are tailored to each geographic market

Baxi has a 19% share in the UK boiler market and has important market positions in Spain 21%, France 9%, Italy 10%, Germany 7% and Turkey 15% Baxi also has a growing presence in emerging and faster growing markets of Eastern Europe, Russia and China In all markets, the Company benefits from well-established and highly regarded brand names, including Baxi, Potterton, Roca Chappée, Ideal Standard and Brötje Heizung, as well as strong pan-European and regional distributor relationships The Company also markets related products such as radiators, gas fires, heat pumps and solar heating systems to enhance its heating offering

Baxi produces 74% of its boilers at Bassano in Italy and in the North-West of England, it also has 12 other plants in Europe where boilers, water heaters and radiators are manufactured

Competitive environment

Baxi is the third largest boiler manufacturer in Europe, with about 11% market share The two leading competitors each have approximately 17-18% share and the market is highly competitive on the basis of quality and functionality of products and services together with price and range Our competitors can be expected to improve the design and performance of their products and to introduce new products at competitive prices with attractive performance and design characteristics Our objective is to maintain and grow our competitive position by anticipating and responding to changes in evolving market demands ahead of the competition

Regulatory environment

The regulatory environment for heating products is being driven by the European Commission Historically legislation has focused on ensuring the safety of gas and oil appliances, but more recently their focus has included improving energy efficiency and reducing emissions, primarily of CO_2 Examples of this are the European Building Products Directive which came into force in January 2006 and the Energy Using Appliances Directive which is expected to come into operation in 2009 or 2010 The latter directive is likely to require consumers to install only high efficiency boilers and heating systems using energy from renewable sources, for example solar power

Economic environment

In the more mature boiler markets in Western Europe (UK, France, Germany Italy) the market for boilers is largely driven by replacement demand, which tends to be relatively stable In Spain, Turkey and the emerging markets there is a greater dependence on new residential construction and first time installation, the demand for which can fluctuate with the level of economic activity

Long Term Strategy and Business Objectives

The Group's strategy is to strengthen continuously its position as one of Europe's leading providers of heating products for residential and commercial markets, and to increase profitability through a combination of organic growth, acquisition growth and continued operational improvement

Strengthen Pan-European Integration

Baxi benefits from a pan-European footprint and a comprehensive product range The Company's regional product offerings are being strengthened and integrated into a pan-European range with the development of new product component platforms with multi-country applications A successful example of this strategy is the Luna combi boiler produced in Italy and sold in many of the Company's main markets The benefits of Europe-wide products will enable Baxi to extract economies of scale in product development, purchasing, manufacturing and marketing The Company will further benefit from the current trend of internationalisation of the heating market and increasing pan-European regulatory harmonisation

Focus on High Growth Product Segments

Baxi expects to grow its market share in the high efficiency boiler markets and the new renewable technology market sectors solar, solid fuel/biomass and heat pumps primarily in the UK, Germany, France and Spain but also in the emerging markets, while protecting margin and market share in more mature segments such as floor standing boilers In the UK, Megaflo is expected to maintain an above average rate of growth in the unvented cylinder water heating market

Leverage Existing Distributor Relationships

Baxi will continue to develop its strong distributor relationships in order to grow market share We aim to broaden the range of our products sold and to encourage customer migration to higher value-added products Baxi will also develop and take advantage of cross-selling opportunities with pan-European customers In addition, Baxi will work closely with distributors and installers to achieve sales of system solutions comprising multiple Baxi products specifically configured to meet local functional, regulatory and design requirements

Expand in High Growth Markets

Baxi is focused on building significant market share in high growth markets such as Eastern Europe, Russia Turkey and China Benefiting from its strong brand portfolios, Baxi builds share primarily through local distributors while aggressively providing product and marketing support

Invest in Technological Innovation

Baxi will apply its accumulated knowledge and industry know-how to improve existing products as well as to introduce new products based on new renewable heating technologies such as solar, heat pumps and combined heat and power (CHP) In entering new product markets, Baxi's strategy is to establish itself as a market leader through introducing innovative products and systems and creating value-added solutions for its customers based on its extensive technology and product knowledge

Grow After Sales Revenues

Baxi aims to increase its leading presence in the aftermarket for boilers and related heating appliances by offering products and solutions for owners and installers seeking to repair or upgrade existing products Due to the increasing sophistication of new high efficiency boilers and heating products Baxi expects that demand for aftermarket sales and support of boilers will increase Therefore, service demand is expected to grow as newer high efficiency products become an increasingly significant part of the installed base of boilers, as these products require more frequent servicing By further increasing its brand-building efforts in the after sales markets, Baxi seeks to solidify its position with consumers and end-users, and gain greater visibility with potential new customers

Expand Market Positions through Opportunistic Acquisitions

Baxi evaluates opportunities to acquire businesses that could enable it to strengthen its market positions in key product areas, expand into new geographic markets add complementary products to its existing product lines, gain access to new technology and further develop the potential of its product and services in exploiting cross-selling opportunities In considering these opportunities, Baxi focuses on extracting synergies in production, marketing, sales and distribution

Optimise Operational Efficiency

By further optimising sourcing, manufacturing activities and its distribution network, Baxi expects to reduce its product costs and improve overall operational efficiency In addition, Baxi plans to extract further gains through regional cost reduction measures and increased economies of scale following the integration and rationalisation of acquired companies

Implement Country Specific Strategies

Building on its extensive local experience, the Company intends to optimise its regional activities further in terms of product offering, manufacturing network and distribution strategy

- **UK**

  In its core UK market, the Company intends to leverage its strong position by growing share in the market for High Efficiency wall hung boilers, unvented storage cylinders and decorative gas and electric fires In addition, the Company seeks to expand its service and parts business and grow its after sales revenues, which serve as a partial hedge against fluctuations in the demand for new boilers

- **France**

  Baxi's objective in France continues to be growth through strong marketing efforts aimed at creating demand for our products with installers and end-users, and through providing a comprehensive service offer to the major distributors of our products We will increase market share by increasing distribution with wholesalers who currently stock and sell our floor standing boilers with the faster growing wall-hung and renewable energy products However, the accelerated decline in demand for floor standing boilers and radiators requires us to address the overcapacity and cost base of the French operations in order to restore profitability

- **Germany**

  Baxi's strategy in the German market is primarily focused on growing market share with its exclusive distributor, the GC Gruppe Baxi is developing a strong position in the market for high efficiency boilers and has introduced a full range of heating systems based on renewable energy – solar, solid fuel/biomass and heat pumps We also market and sell the leading range of mini combined heat and power products (mini CHP) Given the highly developed and high specification nature of the German boiler market, the Company is also investing in its after sales service offering

- **Italy**

  The Italian market strategy is aimed at growing the Company's current position through continued focus on key distributor relationships We will strengthen our position in the market through improved brand awareness and continuing to offer a range of high quality, competitive products Baxi Italy will also continue to develop its highly successful international export business and use its efficient low-cost manufacturing base to supply sister companies in our other European markets

- **Spain**

  Following the reorganisation of both the production facilities and product ranges, the focus has now turned to re-establishing Baxi Roca as the leading heating products business in Spain The benefits of being part of a pan-European heating business in terms of product development, purchasing, manufacturing and marketing are enhancing the competitiveness of our Spanish operations

- **Baxi International**

  Baxi International's strategy is focused on penetrating regional markets with significant volume growth potential, such as Eastern Europe Russia, Turkey, China and Romania In entering a new region, the Company will use a similar model to the one used in Turkey by entering into agreements with local distributors and providing aggressive marketing and product support

Results for 2006 Financial Year

Group sales and trading profits both registered strong increases in 2006 at 19% and 13% respectively, or 7% and 9% on a pro-forma basis including the results of the Roca business for a full year in 2005

Growth was achieved in the UK Germany Italy, Denmark, Turkey, Spain and the new markets of Eastern Europe In France high oil prices squeezed demand for the oil-fired floor standing boilers which have been one of the Group's principal products in that market, so that sales there fell notwithstanding growth in sales and market share with wall hung boilers

Total sales of boilers across the Group increased by 7% to 999,000 units in 2006

Changes in sales by country were

	£m	Growth
UK	17 2	5 2%
Italy	25 7	15 5%
France	(6 3)	(5 1)%
Germany	11 8	9 6%

£87 6 million of the increase in the Group's revenues was attributable to the incorporation of a full year's results of the Roca Heating business, which was acquired in August 2005 Sales of the Roca business increased by 2 3% year on year on a pro-forma basis

Changes in operating profit in 2006 by geography were

	£m	Growth
UK	2 1	4%
Italy	2 5	13%
France	(9 1)	-
Germany	5 2	37%
Spain/Portugal	6 9	81%
Others	2 5	56%
Group operating profit before exceptional reorganisation costs, impairment charges and goodwill amortisation	10 1	11%

Operating profits of the Roca business increased by 23% year on year on a pro-forma basis

On a pro-forma basis including the results of the Roca business for all of 2005, and including £6 7 million (2005 £3 9 million) in respect of share of operating profits of associated companies, earnings before exceptional reorganisation costs, interest, tax, depreciation, impairment charges and amortisation increased by 9% to £129 0 million

Review by Division

UK

The boiler market in the UK grew by 3-4% in 2006 and we grew volumes by a similar percentage as we increased sales and market share of High Efficiency wall hung boilers Following the introduction of new building regulations for boilers in April 2005, the market for standard efficiency boiler products has fallen to less than 10% of the market A number of major Social Housing contracts for delivery over the next few years were won with the new HE range in 2006

Strong performances in Heateam, our after sales service operation, and Interpart, our spare parts business, contributed to our UK performance, and Valor Fires grew its market share in the gas and electric sectors to register increased sales and profits

Heatrae Sadia achieved sales and profit growth despite strong competition with our electric waterheater products, and continued to increase sales of Megaflo unvented cylinders

In 2006, the business relocated its administrative and marketing centre to Warwick, allowing the consolidation of four back offices into one This successful relocation will now allow the business to move onto a single platform ensuring easier trading for all our customers The relocation has also allowed the business to recruit and build a strong boilers sales force across the three boiler brands Baxi Potterton and Main

Italy

After increasing in the first half of the year, the heating market in Italy declined and was flat overall for the year This mainly reflects a reduction of the new building market in the northern regions of the country Baxi recorded another year of growth with a 6% increase in wall hung boiler volumes on 2005, reaching almost 110,000 units and more than 10% market share From a small base, the HE/condensing boiler market segment increased by 45% while Baxi increased its condensing unit sales by c 100%

Spain

The Wall Hung Boiler market in Spain grew by 4% while Roca grew its volumes by almost 13% This growth has been supported by the introduction of Baxi products into the Roca range in Spain In the aluminium radiator market our share increased from 24% in 2005 to 27% in 2006 The Floor Standing Boiler market segment decreased by 9%, and we lost market share in the face of very strong price competition The downturn of the Portuguese economy and construction market resulted in a contraction of the heating market there Significant progress was made in 2006 in the rationalisation of the Roca business and its integration into the Baxi Group infrastructure, which in turn has yielded significant cost savings

Germany

As in several European markets, the rapid increase in oil and gas prices resulted in significant moves towards renewable energy products, such as heat pumps, solar collectors and biomass boilers The market for conventional standard efficiency gas and oil products declined, whereas High Efficiency products again saw a small positive growth Baxi's German boiler business, August Brötje, added heat pumps and pellet (biomass) boilers to the solar collectors in its renewable energy products range in the last quarter of 2006 Brötje increased unit sales with our key customer the GC Gruppe, by 3%

Our SenerTec business is the leading European supplier of mini CHP oil and gas fired appliances These products deliver complete energy solutions for large residential and commercial premises providing space and water heating and electricity SenerTec is the only business in Europe which has succeeded in manufacturing and marketing such products on any scale Sales mix improved such that revenues increased 13% in 2006

European Fuel Cell renamed Baxi Innotech early in 2007, is developing fuel-cell based micro CHP appliances from its base in Hamburg It delivered and installed 12 Beta prototype units for its partners in the UK and Germany during 2006

France

The rapid increase in oil prices during 2005/6 significantly affected demand for our core Floor Standing Boiler products in 2006 The oil FSB segment of the market is estimated to have decreased by 24% and the gas segment by 7% Additionally, for the first time in recent years, the market for Wall Hung Boilers registered a small decrease (by 1%), as aggressive promotions by the electricity industry squeezed the boiler share in the provision of heating systems to new housing Although we maintained or gained market share in all sectors, the change in product mix, driven by the decline in our core market segment, resulted in lower sales and a significant deterioration in profitability During 2006 we commenced the closure of our steel boiler and steel tanks facility at Crouy and we sold our spare parts retail distribution business Ditac SAS

Scandinavia

Baxi's Danish business manufactures solid fuel boilers including those fuelled by biomass (wood pellets or grain) Sales of solid fuel/Biomass boilers grew strongly in 2006, being the primary beneficiary of the increased price of oil and gas during 2005/6

Turkey

The Turkish market for heating products grew rapidly in 2006 as the availability of mains gas continued to spread through the country Our associated company Baymak increased its sales of Wall Hung Boilers by 17% to 108,000 and radiators by 21% to 603,000, confirming our leading position in this fast growing and challenging market

International sales

Sales of boilers into other countries increased in 2006 by 18% to 180,000, with particularly strong growth in Russia, where we have market leadership, and in the Ukraine

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 11% 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

Commercial

- **Customers**

  In the UK, France and Germany Baxi's direct customer base of builders merchants and distributors is concentrated During the year ended 31 December 2006 approximately 37% of Group sales were transacted through four customers, and in Germany we have granted exclusivity to one customer for the distribution of our major brand in Germany Baxi works very closely with these key pan-European customers to ensure that the relationships are maintained at an optimal level, these relationships are dependent upon the demand by our distributors' customers for products supplied by us, which in turn will depend upon their satisfaction with the price, quality, range and functionality of our products We seek to strengthen the loyalty of these installers to our products by various incentive programs

- **Suppliers**

  We operate in an industry that has a number of strong suppliers who produce components with attributes best suited for use in our products While alternative suppliers are available, the attributes of these components mean that certain components may only be available from a limited number of sources In addition, we have reduced the number of our suppliers to optimise benefits of scale through the rationalisation of our purchasing of components and raw materials During the period ended 31 December 2006 our purchases of components amounted to 76% of our cost of sales 21% of these materials were purchased from our top five suppliers We monitor and manage these relationships carefully ensuring that we maintain dual sources of supply where appropriate

- **Manufacturing**

  Business continuity plans and insurance are in place in the event of any loss of capacity of any of the Group's manufacturing plants

- **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_2 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 2009 or 2010 and is likely to require newly installed appliances to be High Efficiency

- **Resources**

  Our business is significantly dependant on our people in product development, sales and marketing, operations and other functions We have policies designed to recruit and retain the high calibre employees necessary to maintain the success of the business and achieve our objectives

  The business is not protected by any proprietary or patented intellectual property

- **Foreign currencies**

  We generate a significant proportion of our profits in Euros, which is partly offset by sales in the United Kingdom of products that are sourced from our Italian operations with Euro denominated costs As a result our operating profits and cash flows are partly 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

MARK EDWARDS
Chief Executive
2 March 2007

Financial Review

Group Profit and Loss Account

Revenues

Sales revenues achieved by the Group in 2006 were £919 1 million, an increase of 19% over the prior year, the country analysis of this increase is shown in *Results for 2006 Financial Year* above

Operating profits

Gross profits in 2006 were 30 4% of sales, a reduction of 2 7% on the level of 2005 as a result of increased raw material and component costs and a less favourable product mix in sales

Distribution costs as a percentage of sales fell by 0 4% to 12 0% and administrative costs fell by 0 1% to 12 4%

Excluding goodwill amortisation, impairment charges, and exceptional costs, administrative expenses fell from 9 1% of sales to 8 1% Operating profit, before exceptional reorganisation costs, impairment and goodwill amortisation, of £102 2 million was 11% ahead of the previous year

Changes in operating profit in 2006 by geography are shown in *Results for 2006 Financial Year* above

Earnings before exceptional reorganisation costs, interest, tax, depreciation, impairment, and amortisation in 2006 was £122 3 million (2005 £109 9 million)

Share of operating profit of associated companies

The Group's share of operating profits of associated companies before goodwill amortisation increased from £4 0 million to £6 7 million, excluding the share of a gain on sale of a property, an increase of 68% This increase largely arose in the Group's 50% owned associate in Turkey

Profit on disposal of fixed assets

A profit of £3 7 million was realised on the sale and leaseback of the Group's facility at Erdington, Birmingham, and £1 9 million was our share of the profit realised on the disposal of a property in Turkey

Net interest costs

Net interest payable and similar charges increased by £2 7 million to £55 1 million The principal factors underlying this increase were increased accrued interest on the rolled-up Unsecured Loan Notes, increased amortisation of financing costs following the increase in facilities to finance the acquisition of Roca in 2005, and reduced share of interest income of associated companies

Taxation

Income tax charges decreased from £13 9 million to £12 2 million in 2006

Dividends

No dividends are proposed to be paid in respect of 2006

Group Balance Sheet and Cash Flows

Total operating assets decreased from £682 8 million to £649 8 million, but were substantially unchanged at £224 8 million excluding intangible fixed assets

Net cash flow from operating activities increased from £90 3 million to £93 7 million after working capital increases of £17 0 million and £14 8 million respectively

Interest paid increased marginally to £40 6 million, reflecting the full year financing costs of the Roca acquisition in 2005

Tax paid increased from £10 3 million to £17 7 million as a result of increased profitability in Germany, Italy and Denmark over the past two years

Purchases of fixed assets fell from £19 5 million to £19 3 million in 2006, while £8 3 million was realised on the sale of assets, primarily on the sale and leaseback of the facility at Erdington, Birmingham, so that net capital expenditure amounted to £11 0 million in comparison to £19 3 million in 2005

£5 5 million was recovered by way of adjustment to the 2005 consideration paid for the Roca acquisition, as was £11 3 million of VAT paid on that transaction

£3 6 million was realised on the sale of minor business activities (2005 £6 9 million)

The Group generated a net cash inflow before financing of £49 3 million, of which £40 8 million was utilised to repay senior debt, at the end of 2006, net debt amounted to £565 7 million in comparison with £603 7 million at the beginning of the year Excluding the Unsecured Loan Notes and Debt Finance Costs, net debt fell from £555 5 million to £504 1 million

Key Performance Indicators

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

	2006	2005	Growth
Sales (£million)	919 1	859 7	7%
Boiler volume sold (000's)	999	930	7%
EBITDA* (£million)	129 0	119 8	8%

*EBITDA is trading profit (as defined in the financial highlights on page 1) before depreciation

The Group has achieved significant sales and profit growth as a result of increasing volumes particularly selling into new growing international markets

MARK EDWARDS
Chief Executive
2 March 2007

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2006

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 third year of operations the Group performed to expectations

The Directors' Report should be read in conjunction with the Chairman's Statement, the Operating Review and the Financial Review on pages 2 to 13

Results

The Group's profit for the year is £3,151,000 (2005 £3,227,000)

The directors do not recommend the payment of a dividend (2005 £nil)

Directors

The following were directors of the Company during the year

Executive directors

Mr M J Edwards, Chief Executive
Mr A E Darling, Group Finance Director
Mr S E Basile

Non-executive directors

Mr J D Burgess, Chairman
Mr M T Davies (resigned 25 January 2006)
Mr A J T Newington
Mr F Loredan
Mr H A L H Mumford
Mr J Bateman (appointed 22 February 2006)

The interests of the directors in the share capital of the Company were as follows

	Number of shares			
	31 December 2006		31 December 2005	
Executive	Ordinary shares	A shares	Ordinary shares	A shares
M J Edwards	112,500	45,862	112,500	45,862
A E Darling	65,625	8,190	65,625	8,190
S E Basile	65,625	1 638	65,625	1,638

There were no changes to the directors' interests shown above from 31 December 2006 to 2 March 2007

None of the directors has a beneficial interest in the shares of any subsidiary undertaking

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

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 2006 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 3%
Kingsway Nominees Limited (note 2)	9 8%

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 £9,905,000 (2005 £11,739,000) in respect of research and development

Donations

The Company and Group made no payments for political purposes and made charitable donations totalling £15,000 (2005 £15 000)

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 2006, the Company had no outstanding trade creditors (2005 £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

M Stratton
Company Secretary
2 March 2007

Independent Auditors' Report to the members of Baxi Holdings Limited

We have audited the Group and parent Company financial statements (the "financial statements") of Baxi Holdings Limited for the year ended 31 December 2006 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 Chairman's Statement, the Operating Review and the Financial 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 Financial Highlights, the Chairman's Statement, the Operating Review, and the Financial Review 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 2006 and of the Group's profit 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

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Birmingham
2 March 2007

Group Profit and Loss Account
for the year ended 31 December 2006

	Notes	Year ended 31 December 2006 Continuing £ '000	Year ended 31 December 2005 Continuing £ '000
Turnover	2	919,140	772,065
Group operating profit before exceptional items, impairment charges and goodwill amortisation		102,206	92,107
Exceptional reorganisation costs	3	(8,627)	-
Goodwill amortisation	9	(24,962)	(25 817)
Impairment of goodwill and fixed assets	9,10	(9,887)	-
Group operating profit	2,3	58,730	66,290
Share of operating profit of associated companies before exceptional items and goodwill amortisation		6 668	3,965
Goodwill amortisation of associated companies		(687)	(687)
Share of operating profit of associated companies		5,981	3,278
Total operating profit including share of associated companies		64,711	69,568
Profit on disposal of fixed assets		3,740	-
Share of profit on disposal of fixed assets of associated companies		1,918	-
Profit on ordinary activities before interest		70 369	69,568
Net interest payable and similar charges	5	(55,060)	(52,396)
Profit on ordinary activities before taxation	4	15,309	17,172
Tax on profit on ordinary activities	6	(12,235)	(13,927)
Profit on ordinary activities after taxation		3,074	3,245
Equity minority interest	21	77	(18)
Profit for the year	21	3,151	3,227

Balance Sheets
at 31 December 2006

	Notes	2006 Group £ '000	2006 Company £ '000	2005 Group £ '000	2005 Company £ '000
Fixed assets					
Intangible assets	9	425,043	-	455,935	-
Tangible assets	10	109,450	-	120,179	-
Investments	11	25,244	11 244	25 042	11,244
		559,737	11,244	601 156	11,244
Current assets					
Stocks	12	104,966	-	99,391	-
Debtors	13	282,054	251	272 754	240
Cash at bank and in hand		24,752	365	22 250	14
		411,772	616	394,395	254
Creditors Amounts falling due within one year					
Borrowings	14	(32,285)	-	(39,902)	-
Other	14	(259,154)	(351)	(244,814)	(3)
		(291,439)	(351)	(284,716)	(3)
Net current assets		120,333	265	109,679	251
Total assets less current liabilities		680,070	11,509	710,835	11,495
Creditors Amounts falling due after more than one year					
Borrowings	15	(558 150)	-	(586 072)	-
Provision for liabilities and charges	17	(25,508)	-	(24,407)	-
Net assets excluding pension liabilities		96,412	11 509	100,356	11,495
Pension liabilities	19	(49,910)	-	(70,560)	-
Net assets including pension liabilities		46,502	11,509	29,796	11,495
Capital and reserves					
Called up share capital	20	100	100	100	100
Share premium account	21	11,387	11,387	11,387	11,387
Profit and loss account	21	34 009	22	17,206	8
Total equity shareholders' funds		45,496	11,509	28,693	11,495
Equity minority interest	21	1,006	-	1,103	-
Capital employed		46,502	11,509	29,796	11,495

The financial statements on pages 18 to 46 were approved by the Board of Directors on 2 March 2007 and signed on its behalf by

M J Edwards
Director

A E Darling
Director

Group Statement of Cash Flows
for the year ended 31 December 2006

	Notes	2006 £ '000	2005 £ '000
Net cash inflow from operating activities	24	93,721	90,340
Dividends from associated companies	11	4 538	1,665
Returns on investments and servicing of finance			
Interest paid		(40,579)	(39,683)
Debt finance costs		-	(8,831)
Net cash outflow from returns on investments and servicing of finance		(40 579)	(48,514)
Taxation		(17,711)	(10,296)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(19,283)	(19,498)
Sale of tangible assets		8,255	242
Net cash outflow for capital expenditure and financial investment		(11,028)	(19,256)
Acquisitions and disposals			
Purchase of subsidiary undertakings	23	5,491	(139,621)
Less net cash balances acquired		-	846
VAT on acquisition		-	(16,174)
Acquisition VAT recovered		11,259	4,608
Realisation of assets		3,648	6,912
Net cash inflow/(outflow) for acquisitions and disposals		20,398	(143,429)
Net cash inflow/(outflow) before financing		49,339	(129,490)
Financing			
Issue of ordinary share capital (net of costs)	20	-	243
Purchase of own shares	21	(75)	(466)
Sale of own shares	21	386	469
Loans issued		-	122,903
Loans repaid	25	(40,772)	(24,610)
Net cash (outflow)/inflow from financing		(40,461)	98,539
Increase/(decrease) in net cash	25	8,878	(30,951)

Group Statement of Total Recognised Gains and Losses
for the year ended 31 December 2006

	2006 £ '000	2005 £ '000
Profit for the year	3,151	3,227
Exchange adjustments on foreign currency net assets	(3,879)	(2,274)
Actuarial gain on pension liabilities (note 19)	24 600	7,950
Deferred taxation on actuarial gain	(7,380)	(2,385)
Total recognised gains for the year	16,492	6,518

Reconciliation of Movements in Group Shareholders' Funds
for the year ended 31 December 2006

	2006 £ '000	2005 £ '000
Profit for the year	3,151	3,227
Purchase of own shares	(75)	(466)
Sale of own shares	386	469
Exchange adjustments on foreign currency net assets	(3 879)	(2 274)
Actuarial gain on pension liabilities	24,600	7,950
Deferred taxation on actuarial gain	(7,380)	(2,385)
New share capital issued	-	243
Net change in shareholders' funds	16,803	6,764
Opening shareholders' funds	28 693	21,929
Closing shareholders' funds	45,496	28,693

Notes to the Financial Statements
for the year ended 31 December 2006

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 The Group has chosen to adopt the amendments to FRS17 early, the effect of this being a change in the disclosures made in the financial statements

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 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
Freehold land	not depreciated

Impairment

Assets that are subject to amortisation 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 fair value less costs to sell 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

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

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

2 Business analysis

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

	2006			2005		
	Turnover £ '000	Operating profit/ (loss) £ '000	Net operating assets £ '000	Turnover £ '000	Operating profit/ (loss) £ '000	Net operating assets £ '000
By geographical origin						
UK	342,891	49,824	253,708	325 702	47,719	257 681
Italy	191,433	21,459	107,223	165,736	18,937	118,717
Spain/Portugal	163,344	15,464	130,716	73,166	8,526	135,834
Germany	134,793	18,995	89,454	122 957	13,816	87,877
France	118,447	(10,369)	48,579	124,787	(1,263)	62,766
Rest of Europe	51,691	6,833	20,137	40 623	4,372	19 919
Inter regional turnover	(83,459)	-	-	(80,906)	-	-
Exceptional reorganisation costs	-	(8,627)	-	-	-	-
Goodwill amortisation	-	(24,962)	-	-	(25 817)	-
Goodwill and fixed asset impairment	-	(9,887)	-	-	-	-
Continuing businesses	919,140	58,730	649,817	772,065	66,290	682,794

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 £6,668,000 (2005 £3,965,000), with £594,000 in Italy (2005 £48,000) and £6,074,000 in Rest of Europe (2005 £3,917,000) before goodwill amortisation of £687,000 (2005 £687,000) The analysis of profit on disposal of fixed assets is £3,740,000 in the UK and £1,918,000 in Rest of Europe

The turnover of continuing activities by geographical destination was UK £332,960,000 (2005 £316,535,000), Italy £54,645,000 (2005 £48,742,000), Spain/Portugal £153,383,000 (2005 £74,803,000), Germany £126,064,000 (2005 £110,804,000), France £101,342,000 (2005 £104,242,000), Rest of Europe £127,353,000 (2005 £94,878,000), and Rest of the World £23,393,000 (2005 £22,061,000)

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

	2006 £ '000	2005 £ '000
UK	37 831	33,916
Italy	16,546	14,024
Spain/Portugal	6,198	6 891
Germany	14,782	9,565
France	(22,867)	(1,875)
Rest of Europe	6,240	3,769
	58,730	66,290

Net operating assets reconciliation

	2006 £ '000	2005 £ '000
Net assets	46,502	29,796
Pension liability	49,910	70,560
Provision for liabilities and charges	25,508	24,407
Acquisition VAT recoverable	-	(11,484)
Purchase consideration	-	(4,811)
Associated companies' share of net assets	(25,244)	(25,042)
Tax	(12,542)	(4,356)
Net debt	565,683	603,724
Net operating assets	649,817	682,794

3 Operating profit

	2006 £ '000	2005 £ '000
Turnover	919,140	772 065
Cost of sales	(639,333)	(516 633)
Gross profit	279,807	255,432
Distribution costs	(110,660)	(95,974)
Administration expenses	(114,213)	(96,161)
Other operating income	3,796	2,993
Operating profit	58,730	66,290

Of the £8,627,000 exceptional reorganisation costs, £470,000 are included within cost of sales and £8,157 000 are included within administration expenses Amortisation of goodwill of £24,962,000 (2005 £25,817,000) is included within administration expenses and of the impairment of goodwill and fixed assets of £9,887,000, £3,609,000 is included within cost of sales and £6,278,000 is included within administration expenses in the analysis of operating profit above

Exceptional reorganisation costs relate to costs of restructuring/rationalising facilities in the UK, Spain and France

4 Profit on ordinary activities before tax is stated after charging

	2006 £ '000	2005 £ '000
Fees payable to Company auditor for the audit of the Company's annual financial statements	75	70
Non-audit services		
Fees paid to the Company's auditors and its associates for other services		
Audit of the Company's subsidiaries	505	484
Tax services	508	381
Services in relation to corporate finance transactions	161	576
Other services	157	163
Fees in respect of Baxi Pension schemes - Audit	31	30
Depreciation	20,123	17,780
Impairment of tangible fixed assets	3,609	-
Amortisation of goodwill	24,962	25,817
Impairment of goodwill	6,278	-
Research and development	9,905	11,739
Operating lease rentals		
plant and machinery	5,912	5,331
land and buildings	3,497	3 969

5 Net interest payable and similar charges

	2006 £ '000	2005 £ '000
Interest payable and similar charges		
Bank overdrafts and loans	40,961	39,672
Unsecured loan notes	8,746	7,809
Accreted interest on mezzanine notes	721	658
Amortisation of financing costs	4,697	3,720
Net return on financing of pension provision	100	2,600
	55,225	54,459
Associated companies interest receivable	(165)	(2,063)
	55,060	52,396

6 Tax

	2006 £ '000	2005 £ '000
Current tax		
UK corporation tax on profits for the year at 30%	-	-
Overseas tax on profits for the year	16,797	13,300
Share of tax of associated companies	958	208
Adjustments in respect of previous periods		
UK corporation tax	250	(128)
Overseas tax	(215)	(77)
Total current tax	17 790	13,303
Deferred tax		
Origination and reversal of timing differences	1,295	(598)
Pension asset movement	1,381	304
Adjustments in respect of previous periods	(8 231)	918
Total deferred tax	(5,555)	624
Tax on profit on ordinary activities	12,235	13,927

The tax charge for the period is higher than the standard rate of corporation tax in the UK (30%) The differences are stated below -

	2006 £ '000	2005 £ '000
Profit on ordinary activities before tax	15,309	17,172
Profit on ordinary activities multiplied by standard rate of corporation tax in UK of 30%	4 593	5,152
Effects of		
Expenses/income not deductible/chargeable for tax purposes	7,945	4,136
Capital allowances in excess of depreciation and origination and reversal of timing differences	(1,295)	598
Pension asset movement	(1,381)	(304)
Current period tax losses not recognised	7,220	3,122
Higher tax rate on overseas earnings	673	804
Adjustments to tax charge in respect of previous periods	35	(205)
Current tax charge for the period	17,790	13 303

A £7,380,000 tax charge (2005 £2,385,000 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 33% 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

	2006 £ '000	2005 £ '000
Employment costs		
Wages and salaries	128,956	117,280
Social security costs	25,872	23,652
Post retirement benefits		
Defined benefit pension costs	6,650	6,400
Curtailment gain	(1,100)	-
Defined contribution pension costs	1,579	1,570
	161,957	148 902
Average number of employees by activity	Number	Number
Continuing activities	5 414	5,162

8 Directors' emoluments

	2006 £ '000	2005 £ '000
Aggregate emoluments	1,825	1,666
Retirement benefits are accruing to one director (2005 one) under a defined benefit scheme		
Highest paid director		
Aggregate emoluments	719	539
Defined benefit pension scheme		
Amount of accrued pension at year end	172	-

9 Intangible assets

Group	Goodwill £ '000
Cost	
At 1 January 2006	500,570
Adjustments to fair values (note 23)	1,810
Foreign exchange	(1,536)
At 31 December 2006	500,844
Amortisation	
At 1 January 2006	44,635
Charge for the year	24,962
Foreign exchange	(74)
Impairment during the year	6,278
At 31 December 2006	75,801
Net book value	
At 31 December 2006	425,043
At 31 December 2005	455,935

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

Following the continued losses in the French business a net realisable value impairment review was carried out to establish if the goodwill attributable to the French business was recoverable Following this review an impairment of £6,278,000 has been recognised through administration expenses reflecting a reduction in the value of the business

In line with FRS11, the goodwill generated on the acquisition of Roca Heating has been tested for impairment The results of that review were that the business has performed as forecast and therefore no impairment is required

The Company has no intangible fixed assets

10 Tangible fixed assets

Group	Land and buildings Freehold £ '000	Long leasehold £ '000	Short leasehold £ '000	Plant and equipment £ '000	Total £ '000
Cost					
At 1 January 2006	51,686	6,147	5,405	88,499	151,737
Reclassification	4,870	(2,959)	(1,911)	-	-
Fair value adjustments	698	-	-	-	698
Exchange adjustments	(522)	(39)	(67)	(921)	(1,549)
Additions	1,094	425	4	17,760	19,283
Disposals	(5,641)	(34)	-	(4,746)	(10,421)
At 31 December 2006	52,185	3,540	3,431	100,592	159,748
Depreciation					
At 1 January 2006	3,391	556	317	27 294	31,558
Reclassifications	-	(331)	(61)	392	-
Exchange adjustments	(57)	(1)	(4)	(331)	(393)
Charge for the year	1,474	140	524	17,985	20,123
Impairment of assets	-	-	-	3 609	3,609
Disposals	(616)	(11)	-	(3,972)	(4,599)
At 31 December 2006	4,192	353	776	44,977	50,298
Net book value					
At 31 December 2006	47,993	3,187	2,655	55,615	109,450
At 31 December 2005	48,295	5,591	5,088	61,205	120 179

Freehold land which is included above and amounts to £16,719,000 (2005 £16,724,000) is not depreciated

The Company has no tangible fixed assets

Following the continued losses in the French business a net realisable value impairment review was carried out to establish if the book values of the tangible fixed assets of the French business were recoverable Following this review an impairment of £3,609,000 has been recognised through cost of sales reflecting a reduction in the net realisable value of the assets

11 Fixed asset investments

Group	2006 £ '000	2005 £ '000
Interests in associated companies		
Turkey	23 848	23 736
Italy	1,396	1,306
	25,244	25 042

Associated companies - Baymak in Turkey	Share of net assets £ '000	Goodwill £ '000	Total £ '000
At 1 January 2006	12,280	11 456	23,736
Share of profits retained	7,505	-	7,505
Foreign exchange	(2,122)	(216)	(2 338)
Dividend	(4,368)	-	(4,368)
Amortisation of goodwill	-	(687)	(687)
At 31 December 2006	13,295	10,553	23,848

The Group owns 50% of the ordinary share capital of Baymak Makina Sanayi ve Ticaret A S and Baypa Uluslararasi 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

Associated companies - Lomet in Italy	Share of net assets £ '000	Goodwill £ '000	Total £ '000
At 1 January 2006	1,306	-	1,306
Share of profits retained	288	-	288
Foreign exchange	(28)	-	(28)
Dividend	(170)	-	(170)
At 31 December 2006	1,396	-	1,396

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

Company	Shares in Group undertakings £ '000
At 1 January 2006 and 31 December 2006	11,244

Details of the principal operating companies are given in note 30 on page 46 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	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
Raw materials	33,663	30 258	-	-
Work in progress	6,593	5,770	-	-
Finished goods	64,710	63,363	-	-
	104,966	99,391	-	-

13 Debtors

	Group		Company	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
Amounts falling due within one year				
Trade debtors	242,986	228,574	-	-
Amounts owed by associated companies	5,792	7,439	-	-
Amounts owed by subsidiary companies	-	-	-	8
Corporation tax	1,445	1,445	-	-
Acquisition VAT recoverable	-	11,484	-	-
Purchase consideration	-	4 811	-	-
Other debtors	9,668	4,813	251	232
Prepayments and accrued income	6,049	4,972	-	-
Deferred tax asset	4,533	4,060	-	-
	270,473	267,598	251	240
Amounts falling due after more than one year				
Deferred tax asset	11,581	5,156	-	-
Total debtors	282,054	272,754	251	240

The deferred tax asset recognised in the accounts is as follows

	Group		Company	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
Recognised				
Accelerated capital allowances	6,425	358	-	-
Short term timing differences	2,160	2,445	-	-
Losses carried forward	7,529	6,413	-	-
	16,114	9,216	-	-
Unrecognised				
Accelerated capital allowances	6	6,117	-	-
Losses carried forward	13,171	8,675	-	-
	13,177	14,792	-	-

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 £21,390,000 (2005 £30,240,000) in respect of the pension scheme deficit has been recognised, see note 19

13 Debtors (continued)

	Deferred tax asset			
	Group		Company	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
At 1 January 2006	9 216	11 598	-	-
Fair value adjustment	-	(2,074)	-	-
Exchange adjustments	(38)	12	-	-
Credited/(charged) to profit and loss account	6,936	(320)	-	-
At 31 December 2006	16 114	9,216	-	-

14 Creditors amounts falling due within one year

	Group		Company	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
Bank overdrafts	688	6,665	-	-
Loans (note 16)	31,597	33,237	-	-
	32,285	39,902	-	-
Trade creditors	138,210	135,142	-	-
Amounts owed to associated companies	10,742	7,590	-	-
Amounts owed to subsidiary companies	-	-	345	-
Corporation tax	5,017	6,305	6	3
Other taxes and social security costs	25,499	24,430	-	-
Other creditors	34,562	30,875	-	-
Accruals and deferred income	45,124	40,472	-	-
	259,154	244,814	351	3

15 Creditors amounts falling due after more than one year

	Group		Company	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
Loans (note 16)	476,524	513,192	-	-
Unsecured Loan Notes	81,626	72,880	-	-
	558,150	586,072	-	-

On 12 March 2004 £4,681,010,196 unsecured loan notes were issued at a discount These loan notes attract rolled up interest at a rate of 12 0% on the subscription price of £131,756,000 and are redeemable on 12 September 2035, or on an earlier listing or sale

16 Loans

	Group		Company	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
Loans or instalments thereof are repayable as follows				
Within one year	35,858	37,790	-	-
Less debt finance costs	(4,261)	(4,553)	-	-
	31,597	33,237	-	-
Between one and two years	38,548	35 874	-	-
Between two and five years	225,224	131,470	-	-
In more than five years	228 485	365 986	-	-
	492,257	533,330	-	-
Less debt finance costs	(15,733)	(20,138)	-	-
	476,524	513,192	-	-
Total loans	508,121	546,429	-	-

Loans repayable after more than five years represents instalments due on the original funding loan of £390,000,000 in 2004 and the new 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 £92,237,000 which attract 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 2006	24,407
Fair value adjustment (note 23)	1,900
Exchange adjustments	(314)
Charge to profit and loss account	26,202
Utilised	(26,687)
At 31 December 2006	25,508
Company	
At 1 January 2006 and 31 December 2006	-

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

18 Financial Instruments

The Group's policy is to fund its operations mainly through the use of debt instruments At 31 December 2006 the Group had the following debt instruments

£81,626,000 of Unsecured Loan Notes, due for redemption 12 September 2035,
£92,237,000 of Mezzanine Notes, due for repayment 31 March 2014,
£435,464 000 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,
£414,000 of other loans with varying maturity,
£24,752,000 of cash

At 31 December 2006, £7 655 000 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 April 2004 the effect of which was to convert 2/3rds of the floating interest charged on the syndicated loan at that date into fixed interest Following the Roca acquisition on 1 August 2005, further interest rate swaps were entered into on 9 September 2005 the effect of which was to convert 2/3rds of the floating interest charged on the incremental syndicated loan into fixed interest

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 2006, the Group had £2,146,000 (2005 £1,660,000) of forward foreign exchange contracts, to buy forward USD4,200,000 (2005 USD2,850,000) to use for purchase of goods during 2007

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

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 2006, forward contracts totalling £5,742,000 (2005 £4,333,000) were in place for purchases during 2007

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 2006 comprise cash balances as follows

	2006 £ '000	2005 £ '000
Sterling	-	13,336
Euro	19,673	5,919
Other	5 079	2,995
Total	24 752	22,250

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 2006, after taking account of the interest rate swaps used to manage the interest profile was

At 31 December 2006	Total £ '000	Floating rate £ '000	Fixed rate £ '000	Fixed rate liabilities: Weighted average interest rate %	Fixed rate liabilities: Fixed period Years
Sterling					
- Unsecured Loan Notes	81,626	-	81,626	12 000	28 75
- Mezzanine Notes	92,237	-	92,237	9 375	7 25
- Term loans	312,175	101,229	210 946	7 4095	0 5
Sterling Total	486,038	101,229	384,809	8 8544	-
Euro					
- Term loans	123,289	38,325	84,964	4 8897	0 5
- Overdrafts	688	688	-	-	-
- Other loans	414	414	-	-	-
Euro Total	124,391	39,427	84,964	4 8897	0 5
	610,429	140,656	469,773		

At 31 December 2005	Total £ '000	Floating rate £ '000	Fixed rate £ '000	Fixed rate liabilities: Weighted average interest rate %	Fixed rate liabilities: Fixed period Years
Sterling					
- Unsecured Loan Notes	72 880	-	72,880	12 000	29 75
- Mezzanine Notes	91,516	-	91,516	9 375	8 25
- Term loans	328,454	106,508	221,946	7 398	1 5
Sterling Total	492,850	106,508	386,342	8 735	-
Euro					
- Term loans	139 094	46,059	93 035	4 846	1 5
- VAT loan	11,484	11,484	-	-	-
- Overdrafts	6,665	6,665	-	-	-
- Other loans	572	572	-	-	-
Euro Total	157,815	64,780	93,035	4 846	1 5
	650,665	171,288	479,377		

18 Financial Instruments (continued)

Interest rate analysis

The £92,237,000 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 £43,730,000 and €6,168 000 has been repaid Commencing 21 April 2004, using reducing interest rate swaps, £237,279,000 and €33,333,333 has been hedged until July 2007 at rates of 5 0625% and 2 925% (excluding the banks' margin) At 31 December 2006 the swaps were £210 946,000 and €33,333,333

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 €15 370,000 has been repaid Commencing 26 September 2005 using reducing interest rate swaps €103,000,000 has been hedged until July 2007 at a rate of 2 25% (excluding the banks' margin) At 31 December 2006 the swap was €92 753,333

The remainder of the Term Loans are at floating rates The effective rate of interest on the Senior Term Loans at 31 December 2006 was 7 428% on the Sterling term loans and 5 491% on the Euro term loans

Maturity analysis of financial liabilities

	Payments due by period				
At 31 December 2006	Total £ '000	Less than one year £ '000	One to two years £ '000	Two to five years £ '000	After five years £ '000
Overdraft	688	688	-	-	-
Senior Term Loans	435,464	35,444	38,548	225,224	136,248
Mezzanine Notes	92,237	-	-	-	92,237
Unsecured Loan Notes	81,626	-	-	-	81,626
Other loans	414	414	-	-	-
Total debt	610,429	36,546	38,548	225,224	310,111

	Payments due by period				
At 31 December 2005	Total £ '000	Less than one year £ '000	One to two years £ '000	Two to five years £ '000	After five years £ '000
Overdraft	6,665	6,665	-	-	-
Senior Term Loans	467 548	25,845	35 797	131 436	274,470
VAT loan	11,484	11,484	-	-	-
Mezzanine Notes	91,516	-	-	-	91,516
Unsecured Loan Notes	72,880	-	-	-	72,880
Other loans	572	461	77	34	-
Total debt	650,665	44,455	35,874	131 470	438 866

18 Financial Instruments (continued)

The book value and fair value of financial assets and liabilities at 31 December 2006 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

	2006		2005	
	Book value £ '000	Fair value £ '000	Book value £ '000	Fair value £ '000
Debt instruments				
Overdrafts	(688)	(688)	(6 665)	(6,665)
Unsecured Loan Notes	(81,626)	(81,626)	(72,880)	(72,880)
Syndicated bank loans	(435,464)	(435,464)	(479,032)	(479,032)
Mezzanine Notes	(92,237)	(96,190)	(91,516)	(94,190)
Other loans	(414)	(414)	(572)	(572)
Total financial liabilities	(610,429)	(614,382)	(650,665)	(653,339)
Total financial assets - cash at bank and in hand	24,752	24,752	22,250	22,250
Hedges				
Interest rate swaps	-	817	-	(1,229)
Forward exchange contracts	-	(119)	-	94
Total hedges	-	698	-	(1,135)

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 - since the date of issue, there have been no significant variations on estimates for long term interest rates, and the overall risk profile of the Group remains unchanged, so the fair value approximates to the book value

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) profits in respect of the £698,000 (2005 losses £1,135,000) 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 2006	(1,229)	94	(1,135)
Arising in previous years included in 2006 income	837	(94)	743
Gains and losses not included in 2006 income			
arising before 1 January 2006	(392)	-	(392)
arising in 2006	1,209	(119)	1,090
Gains and losses on hedges at 31 December 2006	817	(119)	698
of which			
gains and losses expected to be included in 2007 income	817	(119)	698

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				
At 31 December 2006	Sterling £ '000	Euro £ '000	US Dollars £ '000	Other £ '000	Total £ '000
Functional currency of Group operation					
Sterling	-	(8,543)	1,133	-	(7 410)
Euro	(77)	-	990	13,295	14,208
Other	-	1,098	-	-	1,098
	(77)	(7,445)	2,123	13,295	7,896

	Net foreign currency monetary assets/liabilities				
At 31 December 2005	Sterling £ '000	Euro £ '000	US Dollars £ '000	Other £ '000	Total £ '000
Functional currency of Group operation					
Sterling	-	(3,418)	836	-	(2,582)
Euro	459	-	1,397	12,280	14,136
Other	-	(133)	-	-	(133)
	459	(3,551)	2,233	12,280	11,421

The £13,295,000 shown in Other (2005 £12,280,000) represents assets denominated in Turkish Lira held through the German investment in the Turkish associates Foreign exchange differences on retranslation of these assets are taken to the reserves of the Group companies and the Group

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

	2006 %	2005 %
Rate of increase in salaries	3 90	3 70
Rate of increase in pensions in payment	2 90	2 70
Discount rate	5 20	4 90
Inflation	2 90	2 70
Expected long-term return on plan assets	6 50	6 60

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

	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 and Ireland

	2006 £ '000	2005 £ '000
Amounts recognised in the balance sheet		
Present value of funded obligations	350,900	359,200
Fair value of plan assets	(292,600)	(272,800)
	58,300	86,400
Present value of unfunded obligations	13,000	14,400
Deficit	71,300	100,800
Related deferred tax asset	(21,390)	(30,240)
Net pension liabilities	49,910	70,560

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

19 Pension liabilities (continued)

	2006 £ '000	2005 £ '000
Components of pension cost		
Current service cost	6 650	6 400
Interest on obligations	17,950	17,940
Expected return on plan assets	(17,850)	(15,340)
Curtailment gain	(1,100)	-
Total pension cost recognised in the profit and loss account	5,650	9,000
Actuarial gains immediately recognised in the STRGL	(24,600)	(7,950)
Cumulative amount of actuarial gains recognised	(25,052)	(452)
Actual return on plan assets	25,050	43,240

The current service costs and curtailment gain are included in administration 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

	2006 £ '000	2005 £ '000
Change in benefit obligation		
Benefit obligation at beginning of year	373,600	340,300
Fair value adjustment	-	350
Current service cost	6,650	6,400
Interest cost	17,950	17 940
Plan participants' contributions	1 100	1,200
Actuarial (gains)/losses	(17,400)	20,500
Curtailments	(1,100)	-
Benefits paid	(16,600)	(12,690)
Effect of exchange rate changes	(300)	(400)
Benefit obligation at end of year	363,900	373,600
Change in plan assets		
Fair value of plan assets at beginning of year	272,800	230,488
Expected return on plan assets	17,850	15,340
Actuarial gains	7,200	28,450
Employer contributions	10,250	10,012
Plan participants' contributions	1,100	1,200
Benefits paid	(16,600)	(12,690)
Fair value of plan assets at end of year	292,600	272,800

Plan assets

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

	2006	2005
Asset category		
Equities	60 9%	65 0%
Bonds	36 7%	35 0%
Other	2 4%	-

19 Pension liabilities (continued)

History of experience gains and losses

	2006 £ '000	2005 £ '000	2004 £ '000
Benefit obligation at end of year	363,900	373,600	340,300
Fair value of plan assets at end of year	292,600	272,800	230,488
Deficit	71,300	100,800	109,812
Difference between the expected and actual return on plan assets			
Amount	7,200	27,900	4,932
Percentage of schemes' assets	2 5%	10 2%	2 1%
Experience gains and losses on plan liabilities			
Amount	(1,100)	3,300	(2,396)
Percentage of present value of schemes' liabilities	(0 3)%	0 9%	(0 7)%

For the Group's defined contribution schemes the charge in the year was £1,579,000 (2005 £1,570,000)

The contribution expected to be paid by the Group to the defined benefit schemes during 2007 is £9 6 million

20 Share capital

	31 December 2006		31 December 2005	
	Number	£	Number	£
Authorised				
Ordinary Shares of 1p each	750,000	7,500	750 000	7,500
'A' Ordinary Shares of 1p each ("A Shares")	9,250,000	92,500	9,250,000	92,500
		100,000		100,000
Allotted, called up and fully paid				
Ordinary Shares of 1p each	750,000	7,500	750,000	7,500
'A' Ordinary Shares of 1p each ("A Shares")	9,250,000	92,500	9,250,000	92,500
		100,000		100,000

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 £ '000	Profit and loss account £ '000	Equity minority interest £ '000
Group			
At 1 January 2006	11,387	17,206	1,103
Purchase of own shares	-	(75)	-
Sale of own shares	-	386	-
Foreign exchange - overseas net assets	-	(3,879)	(20)
Actuarial gain on pension liabilities net of deferred tax	-	17 220	-
Profit/(loss) for the year	-	3,151	(77)
At 31 December 2006	11 387	34,009	1 006
Company			
At 1 January 2006	11,387	8	-
Profit for the year	-	14	-
At 31 December 2006	11,387	22	-

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 Profit on ordinary activities after taxation dealt with in the accounts of the Company amounts to £14 000 (2005 £8,000)

At the year end 30,228 (2005 71,548) of the Company's own 1p Ordinary Shares are held by the Baxi Holdings Employees' Share Trust 22,980 (2005 152,000) shares have been purchased at between £3 24 and £3 35 (2005 £2 67 and £3 09) from employees leaving the Group, and 64,300 (2005 84,277) shares have been sold to new and existing employees at £6 00 (2005 between £3 50 and £6 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 £460,000 (2005 gains £2,043,000) arising on borrowings denominated in foreign currencies designated as hedges of net investments overseas

The Group profit and loss account includes a £21,070,000 surplus (2005 £420,000 surplus) stated after deferred tax of £9,030,000 (2005 £180,000) in respect of pension scheme liabilities of the Group

22 Commitments

Capital	Group 2006 £ '000	Group 2005 £ '000	Company 2006 £ '000	Company 2005 £ '000
Amounts contracted for but not provided for in the accounts	1,263	698	-	-

Operating leases

The annual commitments under non-cancellable operating leases were

Group	2006 Land & buildings £ '000	2006 Other £ '000	2005 Land & buildings £ '000	2005 Other £ '000
Expiring within one year	187	719	67	970
Expiring between two and five years	1,111	3,699	1,392	3,382
Expiring after five years	1,772	82	1,398	201
	3,070	4 500	2 857	4,553

The Company has no operating lease obligations

23 Acquisitions

On 1 August 2005 the Group acquired the Roca Heating businesses This acquisition resulted in provisional goodwill of £78,868,000 which was capitalised in accordance with FRS10 The fair values attributed have been refined as more information has become available leading to an increase in goodwill of £1,810,000 as a result of the following adjustments, a valuation at acquisition of the properties resulted in an increase in freehold property of £698,000 and a consequent decrease in goodwill, an alignment of the methodology of stock valuation and provisioning resulted in a decrease in stock of £1,288,000 and a consequent increase in goodwill, a reassessment of the warranty provision resulted in an increase in provisions of £1,900,000 and a consequent increase in goodwill, finalisation of the consideration derived from the working capital adjustment has decreased goodwill by £680 000

The adjustment to the working capital along with the settlement of the brought forward debtor resulted in a cash inflow of £5,491,000

24 Analysis of cash inflow from operating activities

	2006 £ '000	2005 £ '000
Operating profit	58,730	66 290
Depreciation	20,123	17,780
Amortisation of goodwill	24,962	25,817
Impairment of goodwill	6,278	-
Impairment of fixed assets	3,609	-
(Increase)/decrease in stocks	(12,169)	10,396
(Increase) in debtors	(23,237)	(21,667)
Increase/(decrease) in creditors	20,610	(5,739)
(Decrease)/increase in provisions	(485)	1,075
Net pension costs less contributions	(4,700)	(3,612)
Net cash flow from operating activities	93,721	90,340

During the year the Group has realised cash through the disposal of a minor business unit, Ditac SAS

Within operating profit are exceptional cash outflows for reorganisation costs of £8,157,000

25 Analysis of net debt

	At 1 January 2006 £ '000	Cash flow £ '000	Exchange differences £ '000	Other changes £ '000	At 31 December 2006 £ '000
Cash at bank and in hand	22,250	2,924	(422)	-	24,752
Overdrafts	(6,665)	5,954	23	-	(688)
	15,585	8,878	(399)	-	24,064
Loans due within one year	(33,237)	36,956	420	(35 736)	(31,597)
Loans due after more than one year	(586,072)	3,816	2,534	21,572	(558,150)
	(619,309)	40,772	2,954	(14,164)	(589,747)
Total	(603,724)	49,650	2,555	(14,164)	(565,683)

Other changes are as detailed in note 26

26 Reconciliation of net cash flow to movement in net debt

	2006 £ '000	2005 £ '000
Increase/(decrease) in cash	8,878	(30,951)
New loans for Roca acquisition	-	(106,729)
New loan for Roca VAT	-	(16,174)
Repayment of bank loan	29,365	19,912
Repayment of Roca VAT loan	11,259	4,608
Debt finance costs	-	8,831
Other loans	148	90
Change in net debt resulting from cash flows	49,650	(120,413)
Other non-cash changes		
Amortisation of financing fees	(4,697)	(3,720)
Roll up of interest on Unsecured Loan Notes and Mezzanine Notes	(9,467)	(8,467)
	(14,164)	(12,187)
Exchange differences	2,555	1,315
Movement in net debt	38,041	(131,285)

27 Contingent liabilities

The Company is a guarantor of loans provided by various bankers to Heating Finance plc, a subsidiary company At 31 December 2006 the contingent liability was £527,701,000 (2005 £570,548,000), 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 2006 the borrowings from banks under such guarantees were £688,000 (2005 £6,665,000)

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 £25,317,000 (2005 £18,687,000) of goods in the normal course of business and on an arm's length basis to its associated companies in Turkey

During the year (period 1 August 2005 to 31 December 2005), the Group purchased £36,020,000 (2005 £10,662,000) of goods in the normal course of business and on an arm's length basis from its associated company in Italy

29 Ultimate controlling party

CIE Management II Limited is the ultimate controlling party

30 Principal operating companies

At 31 December 2006 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 and principal operation 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 SenerTec Kraft-Wärme-Energiesysteme GmbH Baxi Innotech GmbH (formerly European Fuel Cell GmbH)	Germany Germany Germany
Baxi SpA	Italy
Baxi Roca Calefaccion SL Baxi Fundicion SL Fabrigas SL	Spain Spain Spain
Baxi Roca Aquecimento Unipessoal Limitada Baxi A/S Baxi AB Baxi BV Baxi Belgium SA/NV Radiateur Industrie (66%)	Portugal Denmark Sweden Netherlands Belgium 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 third 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 5 June 2007 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 2006

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

M Stratton
Company Secretary
2 March 2007

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