

Baxi Group (Heating Finance plc) reports significant progress in the first half of 2008

*UK market steady, good performance in Germany
France recovering after restructuring
Spain and Italy businesses perform well in weak markets*

Derby, UK - Tuesday, 29th July 2008 - Heating Finance plc has reported encouraging Q2 figures for its parent, Baxi Group, with consolidated group sales up 6% (at constant exchange rates) compared to 2007 levels for Q2. Profits before exceptional items, impairment charges and goodwill amortisation were up £8.8 million in Q2 with the Group recording an underlying operating profit of £13.8 million in the quarter. For the first half of the year, underlying operating profits of £28.3 million are 51% above the prior year, and net cash flow from operating activities was £20 million higher than in 2007.

The Group achieved significant volume growth in the UK and in Germany during the Q2 period. In France, the Group is seeing the cost-saving benefits from last year's restructuring, while in Spain profits held up despite weaker markets which have resulted in lower sales. In Italy, profits improved as a result of increased exports and inter-group sales, in spite of a subdued domestic market.

In the UK turnover increased from £141.5 million in YTD 2007 to £145.9 million in YTD 2008, providing a comparative 4% increase (after taking a 2007 disposal into consideration) and operating profits for Q2 were £5.5 million, £0.5 higher than Q2 2007, notwithstanding the significant adverse impact on component costs of the weakening of sterling against the Euro since last year.

Turnover in France and Germany increased by £19.7 million (45%) from £44 million in Q2 2007 to £63.7 million in Q2 08 (17% of the increase was due to the stronger Euro on translation into sterling), with profits in the region at £0.7million in Q2 2008 compared to losses of £6.1 million in Q2 2007. This improvement was driven by cost savings from the restructuring of the French business and the growth of the business in Germany.

Turnover of the Iberian businesses in Q2 2008 of £37.6 million was £0.5 million above the £37.1 million in Q2 2007 reflecting a 16% decline in sales volumes in weaker markets, offset by the effect of the stronger Euro. Operating profits of the Iberian businesses of £3.5 million in Q2 2008 were marginally lower than the £3.6 million earned in Q2 2007.

In Italy, in local currency terms, sales into the domestic market were down 10% due to the weaker market conditions. Operating profits were £4.3 million, £1.5 million above the £2.8 million earned in Q2 2007, as a result of growth of sales into Eastern European markets and inter-group sales, together with the translation effect of the stronger Euro.

In other international markets aggregate turnover increased by £3.7 million from £8.4 million in Q2 2007 to £12.1 million in Q2 2008.

Group Chief Executive Martyn Coffey commented; "These results are encouraging and demonstrate that the Group is starting to see the benefits of the restructuring that it has undertaken over the past 18 months, with major changes in the UK boiler manufacturing operations and the French business. We are particularly pleased with the UK business which has held up well in spite of the significant increase in its component costs resulting from the strengthening of the Euro, and Germany where we put in a good performance in a market which is recovering from the significant contraction seen last year. In both the UK and Germany we are growing our market share. There is no doubt that Spain and Italy will continue to be challenging, although our Italian business is benefiting from a stronger market in Central and Eastern Europe which is served from our facility in Italy.

"We are also pleased that we have been able to maintain our gross margins despite significant rises in raw material costs."

A major development for the Group in the UK later this year will be the launch of its new domestic micro-CHP boiler Ecogen. This will be the first commercially available domestic wall hung gas boiler that will also generate 1 kW of electricity for use in the home while providing heating and hot water.

Martyn Coffey commented; "New renewable technologies are an increasing part of our portfolio. In Germany we believe the new government incentives for CHP appliances, for instance, will be very helpful for our Senertec CHP business."

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About Baxi Group

Baxi Group is one of Europe's biggest manufacturers and distributors of domestic and commercial water and space heating systems, operating in a market worth over £5.5 billion a year.

It employs more than 5,000 people across Europe with a turnover exceeding €1.2 billion. The Group has significant market shares across all major Continental territories and in the UK. It is also expanding into new markets such as Romania and Argentina and already has a direct presence in Russia, China and the Czech Republic, and joint venture partnerships in developing locations such as Turkey.

Baxi Group owns and sells some of the leading brands in the European market for heating products. These include the Baxi brand in the UK, Italy, Turkey, Russia and a number of East European markets, Potterton in the UK, Chappée and Ideal Standard in France, Roca in Spain and Broetje in Germany.

In addition to manufacturing high efficiency condensing boilers, Baxi Group is committed to new heating technologies that will play a role in tackling climate change. It already sells the world's leading mini combined heat and power (CHP) unit and has a well developed range of domestic biomass and solid fuel boilers, solar and heat pump products and is developing micro-CHP boilers for domestic installations. New technology and innovation is so important to the Group that it is also investing in the development of a micro-CHP unit powered by a fuel cell which will be small enough for domestic use.