Management's Discussion and Analysis

Record Sales and Profit

TTI delivered record sales, record profit, and margin improvement for the period. This strong performance was a result of our ability to generate organic growth in existing and new markets, with powerful brands that connect with end-users, innovative new products with leading-edge technologies, and continuous improvement through operational efficiency and procurement.

Net profit attributable to shareholders was USD 96 million, a 20.1% increase over the first half of 2011. Basic earnings per share was US 5.69 cents, an increase of 13.8% compared to the same period last year. Total organic Group sales were up 5.2% before foreign currency impact. Foreign currency negatively impacted revenue by 1.2%. Our ongoing strategic focus on developing exciting new products contributed to the Group's growth and comprised one third of sales. We continued to drive our geographic expansion programs aggressively, generating rest-of-world organic sales growth of 8.5% before currency adjustments.

Operational Efficiencies Deliver Margin Improvements

Gross margin increased to 33.5% for the first half of 2012 from 32.9% for the first half of 2011. The improvement was achieved through productivity gains, including value engineering, lean manufacturing and supply chain efficiency programs, all of which have helped offset inflationary pressures. We were able to reduce headcount by 4.3% while growing sales 5.2%.

We continued investing in R&D and marketing to drive new product introductions and brand-building in global markets.

The Company continued to improve its working capital position. In the first six months of 2012, working capital as a percentage of sales improved to 18.9% as compared to 22.1% for the same period of 2011. Inventory was reduced by USD 49 million, a 6.1% decrease compared to the same period last year.

Business Review

Power Equipment Business Review

The Power Equipment business, which includes Power Tools, Hand Tools, Outdoor Products and Accessories, delivered USD 1.4 billion in sales, 10.1% higher than the same period last year before adjustments for currency. The business accounted for 75.9% of overall Group sales.

Industrial

MILWAUKEE® recorded double-digit sales growth across all geographic regions in the first half of 2012. Growth was driven by the introduction of new products using MILWAUKEE®'s advanced technology, like the powerful M18® FUEL™ range of lithium ion cordless tools, further expansion of innovative hand tools and continued penetration of the distribution network, driving gains in market share. MILWAUKEE® Power Tool Accessories likewise continued to deliver market gains, posting robust double-digit sales growth. This was partly driven by the expansion of the SHOCKWAVE™ range of drilling and fastening accessories and aggressive conversion programs in key markets, which have helped expand our presence in the home center, construction, industrial and hardware channels.

Consumer, Trade and Professional

For the first half of 2012, the North American Consumer Power Tools Division posted mid single-digit gains within the home improvement marketplace while improving our market position. Driving the expansion was the ongoing launch of innovative new products backed by marketing activities to communicate benefits to end-users, the underlying strength of lithium cordless tool demand, the successful RIDGID® JobMax® lithium ion cordless multi-tools for professionals, and the continuing success of the RYOBI® 18-volt ONE+ System® of cordless tools.

Outdoor Products & Accessories

Outdoor Products performed well despite second quarter weather-related challenges in our largest markets. This growth was supported by the robust sales of new RYOBI® lithium cordless outdoor products, expansion of the RYOBI® and HOMELITE® gas products, and growth in accessories.

RYOBI® lithium cordless products are rapidly gaining popularity among a growing segment of end-users who are adopting lithium cordless technology. As a result, lithium cordless outdoor products represent the fastest-growing segment in the outdoor category. The new RYOBI® outdoor lithium 40-volt products have been launched globally. This more powerful, higher-voltage lithium platform further strengthens the RYOBI® cordless offering, which includes 24-volt and the well-known, consumer market-leading RYOBI® 18-volt ONE+ System®.

Floor Care and Appliances Business Review

The Floor Care and Appliance business, reported USD 0.5 billion in sales, 7.9% lower than the same period last year before adjustments for currency. The business accounted for 24.1% of overall Group sales.

Sales of our branded floor care business declined 1.4% before currency adjustment, with Europe and rest-of-world growing double-digit while our OEM business contracted. The business in North America faced a challenging environment. Sales increased in Europe as we continued to expand distribution and sales in core categories. Australia and New Zealand achieved significantly higher sales as VAX® products gained market share.

Outlook

The Group enters the second half with strong momentum across our businesses and is firmly positioned to build on the positive first half performance.

We are excited about the new products, such as the expanding range of new cordless lithium tools and innovative accessories, which will be launched. Also, as part of our aggressive strategy to continue achieving progress in operational excellence, we will drive further gains in efficiency across our manufacturing operations, supporting further margin improvement.

In Power Equipment, the MILWAUKEE®'s M12® and M18® cordless platforms and the RYOBI®'s 18-volt ONE+ System® will continue to see expansion as we add to the ranges and more end-users adopt our highly advanced lithium technology. In Outdoor Products, we will be expanding our lithium cordless product range to capture the growing demand for cordless.

Profitability for Floor Care has shown improvement when compared to the second half of last year. We anticipate that the improvements will continue, supported by a stream of innovative new products and first half operational changes.

With our stable of powerful brands and pipeline of new products, we are confident of delivering another period of record sales and profit.

Financial Review

Financial Results

Turnover for the period under review amounted to USD 1,855 million, 4.0% higher than the USD 1,784 million reported for the same period last year. Profit attributable to Owners of the Company amounted to USD 96 million as compared to USD 80 million reported last year, an increase of 20.1%. Basic earnings per share was at US 5.69 cents (2011: US 5.00 cents).

EBITDA amounted to USD 188 million, an increase of 10.4% as compared to the USD 170 million reported in the same period last year.

EBIT amounted to USD 127 million, an increase of 10.4% as compared to the USD 115 million reported in the same period last year.

Result Analysis

Gross Margin

Gross margin improved to 33.5% as compared to 32.9% in the same period last year. The margin improvement was the result of new product introduction, category expansion all with higher margin, efficient production in the new PRC facilities, effective supply chain management and volume leverage on our economies of scale.

Operating Expenses

Total operating expenses for the period amounted to USD 498 million as compared to USD 474 million reported for the same period last year, representing 26.8% of turnover (2011: 26.6%). The Group continued to control non-strategic SG&A expenses and reinvested into strategic SG&A as planned.