

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 USD96 million, a 20.1% increase over the first half of 2011. Basic earnings per share was US5.69 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 USD49 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 USD1.4 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.