Chairman's statement

Overall

At the time of the Interim Results for 2008 which was issued on 29 August, I commented that the Board was "confident that 2008 will demonstrate another year of significant progress". I also remarked that "the overall business environment at present is challenging". I believe these latest results from Brammer bear out those thoughts at the time.

The group has indeed delivered another year of significant progress as demonstrated in the reported figures. However, after a very strong first six months, the second six months, in particular the final two months of the year, became increasingly challenging as economic recession became a reality. This Report addresses the progress made in 2008 and how we are meeting the challenges that are now evident in 2009.

Trading performance

Sales increased by 26% in 2008 to £478.4 million. As is the case throughout this Report and Accounts, currency was a significant factor contributing £50.3 million to sales representing approximately half of the increase. The other 13% comprised organic growth of 9% and 4% from acquisitions made in 2008. Sales to Key Accounts grew by 27.6% overall and now represent 29.3% of total sales (2007 29%).

Reflecting sales growth operating profit before amortisation grew by 31.6% to £26.2 million; this includes 12.5% of currency benefit. Profit before tax and amortisation totalled £19.7 million, an increase of 27.9% over 2007. Basic earnings per share, on profit before amortisation, were 25.7p, up 22.4%. It is interesting to note that in the five years to 31 December 2008 the compound annual increase in earnings per share has been 27%.

Two important metrics within this trading performance are the gross and operating margin percentages. Gross margins were broadly neutral with the 2007 performance at 30%. Net margins (operating profit before amortisation) increased to 5.5% representing a pleasing continuation of the trend in recent years.

As at 31 December 2008 net debt amounted to £84.0 million. As previously stated currency movements have had a significant bearing on this result. The currency movement between the year ends accounted for £22.6 million of the £24.6 million debt increase. On the positive side Brammer's euro assets comfortably exceeded its net debt thereby providing a fully hedged balance sheet position. Group operating cash flows remained robust in the period at £29.2 million, up 75% on 2007 (£16.7 million). Importantly, in view of the banking crisis, during 2008 Brammer was able to renegotiate with its key banks committed, secure facilities until 2012 totalling €165 million (£159 million at year end exchange rates).

Review of costs

Given the rapidly deteriorating economic conditions the Board tested various scenarios for Brammer as we entered 2009. The Board concludes that the group is well spread across Europe, has no significant dependence on any individual customer, and serves a wide variety of business sectors. We are convinced that we have a sound, durable, and winning strategy which is working well, and a first class management team. Nonetheless, in the current circumstances the business will inevitably be impacted by reduced economic activity.

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The Board have reacted to this prognosis by reviewing costs across all countries, slowing the acquisition process, increasing the focus on working capital, and minimising capital expenditure. Regrettably this will result in some redundancies and restructuring costs. The payback will be short and effective and will serve to protect the business going forward.

Strategy and acquisitions

Present circumstances have not lessened the Board's conviction that the group's strategy is the correct one. Clear benefits are evident in the results achieved since the strategy was first introduced in 2004 and we firmly believe there is much more to come. Whilst I have referred to a slowing of the acquisition process in the short term, we did add six businesses to the group in 2008 for an initial consideration of £8.3 million (with up to a maximum consideration of £20 million dependent on performance).

In our interim statement I referred to four of these, namely CBS in the UK, Tecnoforniture in Italy, and two bolt on businesses in Holland and Austria. In the second half we have acquired another business in Poland, Masterpol, and a bolt on in the UK. On a fully annualised basis these will add over £25 million to sales and are expected to be earnings enhancing.

People

In our Interim Statement I welcomed Bill Whiteley to the Board as a non executive director following the retirement of Svante Adde. Bill's extensive business career, latterly as Chief Executive of Rotork PLC, is of great value to Brammer and we welcome the contribution he is already making.

The focus on training and development has continued apace in 2008, and we believe the capabilities of our employees have again improved. Our people are our key resource and we have appreciated their contribution in the year, most especially as economic conditions have and will continue to change.

Dividend

The interim dividend announced at the half year was 2.6p, an increase of 24%. In the light of uncertain economic outlook, the Board has decided to recommend a maintained final dividend at 5.1p (2007 5.1p) giving a total for the year of 7.7p (2007 7.2p) an increase of 6.9%. The Board believe this to be a prudent course of action consistent with our approach to cost and cash management and ensures the dividend continues to be well covered by earnings.

Prospects

Without question 2009 will be challenging. With a changing economic backdrop visibility is limited. We are taking and will continue to take appropriate action to protect the medium and long term future for the business and the Board remains confident in the business model for Brammer and its prospects.

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David Dunn Chairman

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